

E. LEARNING AND TEACHING GUIDE

This section provides the ILO and suggests each submodule's teaching and learning outline (Sections E1 and E2). In addition, Users may refer to the sample content notes in Part G Support Materials for developing lecture notes/PPT for learners.

It also gives the suggested learning modes (Section E3), the learning context (Section E4), learning activities, and proposed time allocation (Section E6), which enable learners to achieve the ILO progressively by learning about performance expectations, credit guidelines, theories, practices, skills and attitudes.

Lastly, it describes the recommended format of teaching and learning resources (Section E5) and the suggested learning facilities (Section E6).

1 Module 1

1.1 Submodule 1: Early Warning Signal

1.1.1 ILO

Upon completion of learning, learners would be able to monitor day-to-day loan accounts and portfolios to identify early warning signal.

ILO

Monitor portfolio – theory and practice

- Identify the most appropriate method in risk monitoring
- Understand the bank's credit strategies and portfolio objectives
- Identify early signals of delinquency or system risk
- Identify sources and causes of changes in risk level
- Apply impartial and unbiased judgement

Identify early warning signal

- Monitor and ensure credit administration in compliance
- Track risk indicators or credit quality and detect changes in risk characteristics

Identify the relationship of risk level change with loan provision

- Review approaches and adopt the most reasonable measures

Identify key regulations, report remedy, and make recommendations

- Report to senior management on results of analysis

1.1.2 Content

The training programme designers may refer to the following list for the design of the learning and teaching programme.

Module 1 - Submodule 1 Early Warning Signal	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Monitor portfolio – theory and practice	
Demonstrate proficient knowledge in credit risk management in order to identify the most appropriate method in risk monitoring.	<p>Basics in CRM for identification of appropriate methods</p> <ul style="list-style-type: none"> - Importance of credit risk management in CAMEL Rating - Credit risk - Credit risk management system - Credit risk management governance - Credit risk management scale - Credit process - Credit risk management structure - Constraints and challenges - Technology solutions to overcome constraints and challenges - Analytical approach on risk - Credit default circumstances - Theories/models for credit risk management - Corporate finance theories relevant to credit risk management method
Understand the credit strategies and portfolio objectives of the bank in order to identify crucial areas for monitoring.	<p>Basics in credit strategies for identifying crucial area of monitoring</p> <ul style="list-style-type: none"> - Elements of credit strategy - Portfolio credit risk management objectives
Identify early signals of delinquency or system risk and escalate to appropriate parties for prompt remedial actions.	<p>Basics to identify signals for escalation</p> <ul style="list-style-type: none"> - Credit monitoring process - Signals at account level - Signals at portfolio level - Signals at macro-economic level - Other essential signals
Identify the sources and causes of the changes in risk level, e.g., underwriting standards, economic conditions, personnel issue and recommend appropriate corrective actions.	<p>Basics of sources and causes of changes for remedial actions</p> <ul style="list-style-type: none"> - Knowledge management of all inhouse, external and industry information - Internal, external, and industrial factors
Demonstrate professionalism by applying impartial and unbiased judgment throughout the loan portfolio assessment process.	<p>Exercising unbiased judgment</p> <ul style="list-style-type: none"> - Review and prioritize risk level of external, industrial and internal factors - Review and prioritize contagious effects on portfolio performance

	<ul style="list-style-type: none"> - Assign independent party for risk monitoring
Identify early warning signal	
Monitor and ensure credit administration is compliance with contractual requirements and facility terms.	<p>Overview of Credit Administration Function</p> <ul style="list-style-type: none"> - Compliance with T&C - Operational review
Track risk indicators or credit quality (e.g., delinquency, risk rating trends) and detect changes in risk characteristics of loan portfolios.	<p>Basics to detect changes of risk indicators</p> <ul style="list-style-type: none"> - Key drivers of credit risk - Challenges to estimate credit risk - Suitable method to aggregate risk at portfolio level - Convention of risk rating - Probability of default - External credit rating agency service and precautionary measures - Limitation on use of credit rating agency's service and alternatives - Internal credit rating system – large borrowers - Internal credit rating system – small business borrowers - Benefits of multiple grades - Direct influence of internal credit rating on banks' actions - Benefit of assigning credit rating to borrowing accounts - Relationship between regulatory requirement and internal credit rating - Evaluation on impact of the changes in risk factors
Identify the relationship of the risk level change with loan provision	
Regularly review the advantages and weaknesses of forecasting and reviewing approaches and adopt the most reliable measure.	<p>Regular forecast and review requirements</p> <ul style="list-style-type: none"> - Refer to sources of guidelines for loan provisioning forecast <ul style="list-style-type: none"> • The HKMA guidance • Multiple risk rating • Loan provisioning & expected credit loss • Continual assessment of loan provisioning
Identify key regulations, report remedy, and make recommendations	
Report to senior management about the results of analysis on risk profile of overall loan portfolio.	<p>Risk profile analysis and reporting</p> <ul style="list-style-type: none"> - Standardised and IRB approach and justifications - Regulatory capital versus economic capital - Credit loss absorption - Senior Management's role in credit risk monitoring - Tools for senior management's credit risk oversight

1.2 Submodule 2: Risk Mitigation

1.2.1 ILO

Upon completion of learning, learners would be able to understand the mitigation strategies and apply to different kinds of credit assets in the portfolios.

ILO

Monitor portfolio – theory and practice

- Demonstrate knowledge in credit risk management
- Use different tools for risk mitigation
- Understand the impact of external factor changes
- Construct strategy to diversify concentration risk
- Formulate measures to protect against risk exposure
- Develop policies and procedures with risk mitigation techniques
- Manage the risk mitigation activities

Identify the needs for risk mitigants

- Conduct risk analysis to identify critical factors impacting the risk level

Identify the relationship of risk level change with loan provision

- Develop guidelines and standards when approaching or exceeding portfolio limits

Identify key regulations, report remedy, and make recommendations

- Evaluate credit strategy, risk exposure to construct a suitable approach
- Conduct regular review on result of mitigation instructions and give suggestions

1.2.2 Content

The training programme designers may refer to the following list for the design of the learning and teaching programme.

Module 1 - Submodule 2 Risk Mitigation	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Monitor portfolio – theory and practice	
Demonstrate professional knowledge in credit risk management in order to maintain an optimal risk level for credit portfolio.	<p>Optimal risk level</p> <ul style="list-style-type: none"> - Risk appetite - Importance of defining risk appetite - Process of setting risk appetite
Professional knowledge in credit management by utilizing different tools (e.g., setting exposure limits, credit derivative) in managing credit risk and their performance in different economic scenario.	<p>Utilize risk management tools</p> <ul style="list-style-type: none"> - Ongoing monitoring framework - Risk limits - Risk profiling
Understand the impacts on business environment caused by the changing external factors and apply the knowledge to evaluate current and future economic outlook and regulatory development for the purpose of developing suitable strategies in risk mitigation.	<p>Impacts of external factors</p> <ul style="list-style-type: none"> - Environment scanning - Sources of intelligence
Construct strategies in diversifying concentration risk, e.g., reducing exposures to particular type of loan, broaden customer base, altering product mix, industry etc.	<p>Diversify concentration risk</p> <ul style="list-style-type: none"> - Strategy of portfolio diversification - Risk mitigant definition - Risk mitigant types - Risk mitigant strength
Formulate measures to protect the bank from undue risk exposure by employing suitable techniques, e.g., asset sales, securitization, credit derivatives, etc.	<p>Formulate risk mitigation measures</p> <ul style="list-style-type: none"> - Risk mitigants provided by borrowers or third parties - Risk mitigants proactively managed
Develop policies and procedures for applying different types of credit mitigation techniques.	<p>Credit risk mitigation techniques at right timing</p> <ul style="list-style-type: none"> - Identification of needs for risk mitigants - Strong credit risk culture is essential for identification of risk
Manage the activities of credit risk mitigation strategies to ensure they are applied at the right time and used for their purported purpose.	<ul style="list-style-type: none"> - Implementation of risk limits with comprehensive credit policy - Check and balance on the risk-return

Identify needs for risk mitigants	
Conduct analysis on the trends on risk level of the credit portfolio in order to identify critical factors which can affect the risk level.	<p>Quantified risk level trends for critical factors</p> <ul style="list-style-type: none"> - Quantified risk appetite - Credit risk strategy alignment with credit risk objectives - Credit risk appetite statement translated into credit criteria on loan application and review - Alignment of portfolio performance indicators with risk appetite metric - Portfolio indicators for senior management's reference
Identify the relationship of risk level change with loan provision	
Develop guidelines and standards on reporting to management when the aggregate exposure is approaching or exceeding portfolio limits.	<p>Exposure approaching or exceeding limits</p> <ul style="list-style-type: none"> - Regular review of risk level change - Credit risk mitigation and loan provisioning - IFRS9 management implication in portfolio risk management
Identify key regulations, report remedy, and make recommendations	
Evaluate the credit strategies and existing risk exposure of the bank in order to construct a suitable risk management approach.	<p>Evaluate credit strategy for management approach</p> <ul style="list-style-type: none"> - Large exposure and concentration - Breach on large exposure exceeding regulatory limits
Conduct regular review on the results of the mitigation instructions and provide suggestions on necessary changes.	<p>Review mitigation results for suggestions</p> <ul style="list-style-type: none"> - Balance sheet exposures - Risk weighting

1.3 Submodule 3: Manage and Control the Risks

1.3.1 ILO

Upon completion of learning, learners would be able to manage risk of credit assets and develop risk control measures/remedy.

ILO

Monitor portfolio – theory and practice

- Demonstrate knowledge of evaluating different risk management strategy
- Understand banks' strategies and portfolio objectives
- Design measures to diversify risks into unrelated or less related business
- Manage credit risk with adequate tools
- Identify factors affecting the value of credit assets

Identify the relevant credit risk indicators – portfolio

- Identify the most suitable approach and develop the execution plan

Identify the relationship of risk level change with loan provision

- Evaluate the effectiveness of different approach and develop the execution

Identify the key regulations, report remedy, and make recommendation

- Provide suggestions on improvement

1.3.2 Content

The training programme designers may refer to the following list for the design of the learning and teaching programme.

Module 1 - Submodule 3 Manage and Control the Risks	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Monitor portfolio – theory and practice	
Demonstrate professional knowledge in managing risk of credit assets by applying it to evaluate different risk management strategies for the purpose of designing a most suitable approach for the bank.	<p>Manage risk of credit assets</p> <ul style="list-style-type: none"> - Risk exposure - Concentration risk - Assuming concentration risk - Direct limit - Contagion risk - Concentration risk on collateral - Principles of controlling risk concentration
Understand the credit strategies and portfolio objectives of the bank in order to build an alignment between the selected risk management approach and the bank’s strategies	<p>Align risk management strategies with banks’ strategies on complex products and borrowers’ structure</p> <ul style="list-style-type: none"> - Portfolio risk control - Quality credit risk policy - Keep abreast of regulatory requirement both locally and cross-border-wise
Design risk management measures to diversify risks into different uncorrelated or less correlated business.	<p>Measures to diversify risk</p> <ul style="list-style-type: none"> - Risk diversification approaches – simple versus statistical - Credit risk mitigation – traditional versus portfolio approach - Credit risk diversification has limitation
Mitigate credit risk by acquiring security, insurance, third party guarantee, etc.	<p>Mitigate credit risk</p> <ul style="list-style-type: none"> - Security and third-party guarantee - Insurance - Other risk management measures and their limitations <ul style="list-style-type: none"> • asset sales • asset securitization • credit derivatives - BIS principles on controlling residual risk and hedging maturity mismatch - Credit risk exit strategy - New product launch
Identify factors affecting the value of the credit assets for assessing the purchase or selling price in order to quantify the risks.	<p>Identify risk factors for quantification</p> <ul style="list-style-type: none"> - Acceptance criteria and factors affecting the value of the credit assets for purchasing and selling to quantify the risk - Portfolio control on guarantee

	- Portfolio control on collaterals and risk mitigation
Identify the relevant credit risk indicators	
Assess the situation in order to identify the most suitable approach in risk management and develop the execution plan.	Assess the situation for developing execution plan <ul style="list-style-type: none"> - Assessment of the situation to identify the most suitable approach in risk management and execution - Examples of indicators of the account risk profile - Examples of portfolio indicators computed with conventional methods and statistical tools
Identify the relationship of risk level change with loan provision	
Evaluate effectiveness of different approaches of risk management for the purpose of transferring or mitigating credit risk.	Evaluate effectiveness of mitigation <ul style="list-style-type: none"> - Impact of account risk changes to provisioning - Impact of portfolio risk changes to provisioning
Identify key regulations, report remedy, and make recommendations	
Review current risk management measures and provide suggestions on improvement based on results of evaluation on different approaches for transferring or mitigating credit risks.	Provide suggestions on improvement <ul style="list-style-type: none"> - Reporting prudential limits - Clustering limits - Current risk management review

1.4 Submodule 4: Stress Testing

1.4.1 ILO

Upon completion of learning, learners would be able to understand stress testing and analyse the results to identify vulnerable segments in portfolios.

ILO

Monitor portfolio – theory and practice

- Demonstrate specialized knowledge in stress testing for development of suitable approach
- Understand credit strategies and portfolio objectives of banks
- Understand current macroeconomic environment and trends to identify key factors
- Identify factors that impose effects on risk level of loan portfolio
- Design methodology, analysis framework and tools aligned with objectives of testing
- Develop testing plan and conduct the test by altering assumptions in variables

Identify vulnerable sectors in the portfolio

- Analyse existing performance/risk of the portfolio to determine stress testing objectives
- Analyse performance of assets and liabilities under hypothetical scenarios
- Analyse the results of stress testing and identify vulnerability of different segment of loans

Identify Key Regulations, report remedy, and make recommendations

- Consolidate stress testing results and develop measures
- Develop contingency plans for vulnerable segments

1.4.2 Content

The training programme designers may refer to the following list for the design of the learning and teaching programme.

Module 1 - Submodule 4 Stress Testing	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Monitor portfolio – theory and practice	
Possess specialized knowledge in stress testing and apply it to evaluate different methods of execution in order to develop a suitable approach for the bank.	<p>Suitable approach to stress testing</p> <ul style="list-style-type: none"> - Enterprise collaboration - Normal conditions - Stressful conditions - Planning for stress testing - Limitations of stress testing
Understand the credit strategies and portfolio objectives of the bank and based on that evaluate the existing portfolio of credit assets.	<p>Evaluate existing portfolio</p> <ul style="list-style-type: none"> - Stress testing - Purpose <ul style="list-style-type: none"> • Proactive credit risk management - Functions <ul style="list-style-type: none"> • Remedial credit risk management - Outcomes <ul style="list-style-type: none"> • Stress testing design • Different scale and complexity • Stress events, risk models and potential challenges
Understand the Current macroeconomic environment and trends and consider these as key factors of stress testing.	<p>Key factors for stress testing</p> <ul style="list-style-type: none"> - Stress testing design <ul style="list-style-type: none"> • Macroeconomic and other factors, methodology, analysis framework
Identify factors (e.g., financial data, economic variables) that can impose effects on risk level of loan portfolio and develop financial models to quantify the sensitivity of loan performance to different scenarios.	<p>Quantify sensitivity of the portfolio with design methodology</p> <ul style="list-style-type: none"> - Testing plan and altering assumptions - Testing scenario from lessons learned
Design methodology, analysis framework and tools on stress testing which are aligned with the objectives of the testing.	
Develop testing plan and conduct the test by altering assumptions in different variables and record the effect on portfolio credit quality.	<p>Alter assumptions in different variables</p> <ul style="list-style-type: none"> - Stress testing programme <ul style="list-style-type: none"> • Scenario example (A) domestic economic downturn

	<ul style="list-style-type: none"> • Scenario example (B) decline in the real estate market • Scenario example (C) decline in the value and market liquidity of financial collateral • Scenario example (D) increases in classified loans and provisioning levels • Scenario example (E) rating migration of counterparties • Scenario example (F) default of major counterparties • Scenario example (G) decline in the value of taxi licenses/gross operating income of taxi drivers <ul style="list-style-type: none"> - Hypothetical scenarios - Quality assurance - Compliance
Identify vulnerable sectors in the portfolios	
Analyse existing performance/potential risks of the portfolio in order to determine the objectives for stress testing.	<p>Analyse situations with scenarios to identify vulnerable sectors</p> <ul style="list-style-type: none"> - Analysis accounts and portfolios - Insight from stress testing
Analyse the performance of different assets and liabilities under the various hypothetical scenarios.	
Analyse the results of stress testing and identify the vulnerability of different segments of loan portfolio.	
Identify key regulations, report remedy, and make recommendations	
Consolidate the results of stress testing into the risk management process and develop suitable measures.	<p>Consolidate results to develop suitable measures</p> <ul style="list-style-type: none"> - IFRS9 provisioning implication on planning - Mitigation of potential biases of IFRS9 provisioning
Develop contingency plans for vulnerable segments, e.g., strengthening the supervision process, imposing limits, devising existing strategies.	<p>Develop contingency plan</p> <ul style="list-style-type: none"> - Following up on the portfolio risk mitigation

1.5 Submodule 5: Account Monitoring and Problem Loan

1.5.1 ILO

Upon completion of learning, learners would be able to monitor the risk changes in accounts and portfolios, recovery, and workout of problem loans.

ILO

Monitor portfolio – theory and practice

- Identify method in borrowing account risk monitoring
- Keep up to date clients' current performance and future development
- Analyse the customers to identify risk level
- Track any irregularities
- Evaluate repayment record to identify possible causes of delay in payment
- Review accuracy of past document
- Identify deviation from agreed principles
- Analyse changes in client's financial situation
- Understand causes of problem loans
- Perform on-site inspection and regular due diligence
- Identify causes and sources of risk, report for prompt remedial actions
- Understand Theories and knowledge in banking lending

Identify delinquent payment's root causes

- Monitor and evaluate performance of clients' accounts
- Monitor indicators of credit quality
- Re-assess relationship and follow-up promptly

Identify the relationship of risk level change with loan provision

- Monitor borrowing accounts and advise customers of new or alternative services
- Determine amount of provision for problem accounts

Identify key regulations, report remedy, and make recommendations

- Restructure debts to improve clients' financial stability and solvency
- Classify the unpaid debt customers to make claims

1.5.2 Content

The training programme designers may refer to the following list for the design of the learning and teaching programme.

Module 1 - Submodule 5	
Account Monitoring and Problem Loan Review	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Monitor portfolio – theory and practice	
Demonstrate proficient knowledge in risk management in order to identify the most appropriate method in borrowing account risk monitoring.	Knowledge in borrowing account monitoring <ul style="list-style-type: none"> - Objective of account monitoring - Responsibility of account monitoring - Functional units to perform account monitoring - Following up problem loan
Keep up to date on the future development and current performance of clients' business/ participating industry.	Keeping up to date industry performance <ul style="list-style-type: none"> - Account quality monitoring <ul style="list-style-type: none"> • Pillars of quality
Analyse client's historic information, account profile, account activities/pattern, business outlook, predicted future activity, financial and business data, etc. for identifying risk level.	Reviewing, analyzing, comparing for tracking irregularities to identify risk level and root causes <ul style="list-style-type: none"> - Document review <ul style="list-style-type: none"> • Absolute compliance • Throughout loan term <ul style="list-style-type: none"> ○ Document update ○ Document review to identify risk factors for risk mitigation/remedy - Consolidate information to analyse changes
Analyse the customers, products activity and financial transactions profile of bank clients to track if any irregularities occur.	
Evaluate the repayment record and transaction records of different accounts of the clients in order to identify possible causes for delay in payment.	
Review the accuracy of past documentation (e.g., collateral valuable report, risk assessment, tracking report) and timeliness of problem identification in order to identify possible root causes for problem loans.	
Compare the loan with lending guidelines to identify any deviation from the agreed principles.	

Consolidate information from different sources in order to analyse the changes in financial situations of the clients when compared to the time of loan origination	
Demonstrate professional knowledge in problem loans management (e.g., causes for problem loans, early warning signals) by applying it to identify the root causes of different problem loans.	<p>Identifying early signs of delinquency for problem loan management and prompt remedial actions</p> <ul style="list-style-type: none"> - Early delinquency signals - Causes of delay in payment
Perform on-site inspection and regular due diligence review to identify early signals or delinquency.	
Identify causes and sources of risks and report to appropriate parties for prompt remedial actions.	
Understand theories and knowledge in bank lending in order to analyse the situation in different cases of problem loans.	<p>Theories and knowledge of lending</p> <ul style="list-style-type: none"> - Comprehensive external factor reviews to arrive at recommended account actions - Management attention - Problem loan impact - Principles of problem loan management and examples of some best practices
Identify delinquent payment's root causes	
Understand the process of credit monitoring and evaluate the performance of client's accounts to compare with the credit strategies and portfolio objectives of the bank to identify critical areas for further follow-up actions.	<p>Identifying critical area and changes for follow up</p> <ul style="list-style-type: none"> - Information generated from credit indicators - Principle of portfolio credit risk management and monitoring - Portfolio level credit indicators
Monitor indicators of credit quality (e.g., delinquency, risk rating trends) and identify changes in risk characteristics of loan portfolio.	
Evaluate information related to current and projected financial status of applicants, hence, to re-assess the bank/client relationship and carry-on necessary follow-up actions promptly.	<p>Evaluating current and projected financial status</p> <ul style="list-style-type: none"> - The migration of individual credits through various grades with automatic/judgmental credit rating system
Identify the relationship of risk level change with loan provision	
Monitor clients' borrowing accounts and advise them of new or alternative services to meet their changing needs.	<p>Monitoring accounts for advising alternative services</p> <ul style="list-style-type: none"> - Loan provisioning purpose - Motivation for improvement - Loan provisioning

	<ul style="list-style-type: none"> • General and specific • By loan and portfolio basis • Per loan classification
Determine the amount of provision for problem accounts and assess the impact on the bank's credit portfolio.	<p>Determining provision amount</p> <ul style="list-style-type: none"> - Quality of loan provisioning and credit operations accuracy
Identify key regulations, report remedy, and make recommendations	
Be able to restructure debts of clients to improve clients' financial stability and solvency, when it is necessary.	<p>Debt restructuring</p> <ul style="list-style-type: none"> - Credit risk management process in compliance with operational risk management - IFRS9 management application in pricing and product design
Classify the unpaid debt customers to make claims and provide necessary information to relevant parties, if warranted.	<p>Classifying unpaid debt customers for making claims</p> <ul style="list-style-type: none"> - Judgment on loan classification

2 Module 2

2.1 Submodule 1: Financial Analysis

2.1.1 ILO

Upon completion of learning, learners would be able to apply financial and non-financial analysis to assess clients' financial positions, needs and credit worthiness.

ILO

Accounting Concept

- Demonstrate knowledge on company financial analysis to develop a suitable approach for assessing application

Financial Ratios

- Demonstrate knowledge in the client industry for analysis to identify focus and scope of company analysis

Financial Ratios

- Identify information useful for understanding the business and employ approaches to obtain relevant information for account planning

Key Business Drivers

- Analyse financial statements and relevant documents
- Identify future potential challenges and opportunities of the companies
- Identify factors that have effects on company earning and cost structures
- Assess the risk of potential financial loss of doing business with client
- Identify key forces shaping the industry of clients' business
- Analyse value chain of the business and adopt a holistic consideration
- Compare performance, business model and operations of clients with companies of similar size in the same industry to produce a fair judgement

2.1.2 Content

The training programme designers may refer to the following list for the design of the learning and teaching programme.

Module 2 – Submodule 1	
Financial Analysis to Identify Customer’s Needs	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Accounting concepts	
Demonstrate in-depth knowledge on company financial analysis by applying it to evaluate different common methodologies within the bank’s framework in analyzing company performance and to develop a suitable approach for assessing the current banking facility application.	<ul style="list-style-type: none"> - Accounting is a science - Dual transactions basics - Values of financial statements - Financial statements tailored for stakeholders - Quality of financial statements - Financial accounting standards - Accounting standards for listed companies in Hong Kong - Accounting policy - Information to look for in financial statements - Relation between income statement and balance sheet - Investigative approach of credit risk management - Sample of financial statements
Financial ratios	
Demonstrate professional knowledge in the client’s industry, e.g., key terms and terminology, performance indicators for analysis, business cycle, competitive landscape, latest development, etc. in order to identify focus and scope of company analysis.	<ul style="list-style-type: none"> - Sample financial statements to retrieve financial ratios for analysis, e.g., <ul style="list-style-type: none"> • Current ratio • Quick ratio • Gross profit ratio • Operating profit • Net profit margin • Inventory turnover • Receivable days • Payable turnover • Return on equity • Return on assets • Debt equity ratio - Steps to prepare for financial analysis - Bank product types affects the selection of critical financial ratios

Limitation of financial statements	
Identify information useful for understanding the business and employ different approaches to obtain the relevant information for account planning purpose (e.g., send request to clients, industry practitioners, and etc.).	<ul style="list-style-type: none"> - Scenarios on initial overall impression of the financial statements - Limitation of financial statements - Consequence of ignoring the limitations
Key business drivers	
Consolidate relevant financial data and evaluate financial position of client by analyzing financial statements, business contracts, ageing reports, etc.	<ul style="list-style-type: none"> Steps to identify and ascertain business drivers - Key business drivers - Analyzing strategic direction - Expression of the business model - Evaluation of the business model - Assessing risk of potential financial loss on doing business with the borrower - Identifying the key forces shaping the industry of the client's business - Analyzing value chain of the business to adopt a holistic consideration to assess risk and opportunities
Analyse the strategic direction and major business initiatives to identify the future potential, challenges and opportunities of the company.	
Evaluate the business models and identify factors that may impose significant effect on their earnings and cost structures hence to predict the prospect of the business.	
Assess the risk of potential financial loss that doing business with the client, ultimately determining whether to offer the credit facilities.	
Identify key forces shaping the industry of the clients' businesses and learn from the accuracy of historical forecasts to make adjustments to the assessment methods.	
Analyse the value chain of the business and adopt a holistic consideration to assess opportunities and risks associated with the client's operations.	
Compare performance, business model and operations of the clients with companies of similar size in the same industry hence to produce a fair judgement.	

2.2 Submodule 2: Financial Strength Assessment

2.2.1 ILO

Upon completion of learning, learners would be able to analyse clients' operational, financial, business, and internal factors to assess its financial strength and review clients' credit rating

ILO

Critical Analysis of Financial Statements (Internal Factors)

- Understand different credit products
- Identify factors affecting default risks and assess the impact on loan applications
- Understand corporate finance theories and concepts
- Understand special knowledge in corporate finance
- Evaluate and compare liquidity, profitability, and credit histories of companies
- Identify discrepancies or suspicious statements/reports
- Analysis comprehensively of financial standing of the borrower
- Conduct site visit to verify authenticity of documentation

Critical Analysis of Financial Statements (External Factors)

- Research on factors affecting default risks and assess the probability and impacts of default
- Interpret research findings on macroeconomic environment and industry
- Understand the business outlook of the applicants' business

Critical Analysis of Financial Statements (Business Models)

- Interpret financial statements to determine the financial standing of borrowers

Cash Analysis and Financial Strength

- Apply suitable methods to calculate the value of businesses or projects

2.2.2 Content

The training programme designers may refer to the following list for the design of the learning and teaching programme.

Module 2 – Submodule 2 Financial Strength Assessment	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Critical Analysis of Financial Statements (Internal Factors)	
Understand the characteristics of different credit products offered by the bank and apply the knowledge to compare and contrast features of them in order to judge the suitability of loan applicants.	<ul style="list-style-type: none"> - Knowing bank products - Examples of bank products - Loans with competitors
Have in-depth understanding of credit management in order to identify factors which might affect default risks and assess the impact on loan applications.	<p>Examples:</p> <ul style="list-style-type: none"> - Prudent procedures for approving credit - Credit approval, review and records
Demonstrate expert knowledge in theories and concepts across different areas of corporate finance in order to assess the risks of loan application.	<ul style="list-style-type: none"> - Generally accepted accounting principles - Corporate theories - Corporate finance theories - Examples of applications of corporate finance theories in credit risk management - Cases
Familiarize with special knowledge related to corporate finance in order to assess the risks of loan application.	
Understand liquidity, profitability, and credit histories of establishments being evaluated with those of similar establishments in the same industries and geographical locations.	<p>Critical analysis on</p> <ul style="list-style-type: none"> - Financial ratios - Financial ratios deviated from industry norms - Authentication of documents - The borrower's cash flows and credit repayments - The borrower's operational risk - The borrower's financial leveraging - Implications from cash flow analysis - Default scenarios other than cash flow issues - Constraints on cash flow analysis
Evaluate liquidity, profitability, and credit histories of establishments being evaluated with those of similar establishments in the same industries and geographical locations in order to identify discrepancies or suspicious statements/reports.	
Evaluate financial statements and identify incomplete information in order to have an accurate and comprehensive analysis on the financial standing of borrower (need for securities).	<ul style="list-style-type: none"> - Knowledge on industry cycles - Values of site visits - Checklist for site visits - Powerful site visits to authenticate documents

Conduct site visit to verify the authenticity of documentation submitted and obtain additional information for assessment	
Critical Analysis of Financial Statements (External Factors)	
Possess knowledge on the bank's business portfolio and conduct research on factors affecting default risks and assess the probability and impacts of default.	<ul style="list-style-type: none"> - External risk factors - Articulation of external risk factors - Interpreting research findings
Interpret research findings or other information on macroeconomic environment and industry analysis in order to assess business outlook and possible risks of the applicants' business.	
Interprets research findings on macroeconomic environment and industry analysis in order to understand the business outlook of the applicants' businesses.	
Critical Analysis of Financial Statements (Business Model)	
Interpret financial statements to determine financial standing of borrower.	<ul style="list-style-type: none"> - Limitation on financial statement analysis - Analysis of business models to supplement Financial Analysis
Apply suitable methods (e.g., net present value based on present market values, discounted cash flow valuation, etc.) to calculate the value of businesses or projects.	<ul style="list-style-type: none"> - Quantitative analysis to supplement business model analysis

2.3 Submodule 3: Credit Risk Assessment and Structure Credit Facility

2.3.1 ILO

Upon completion of learning, learners would be able to perform quantitative analysis about repayment capability, calculate potential losses, estimate risk-return, propose credit structure for eligible client.

ILO

Budget and Pro-Forma Analysis

- Calculate the value of the business or projects
- Compute the client's ability to repay a loan
- Determine the financial standing of applicants
- Determine the expected profitability of the company hence repayment ability
- Assessment of specific projects or assets for more accurate risk assessment

Quantitative Analysis and Risk Assessment

- Evaluate business risk, financial risk, and total corporate risk
- Conduct preliminary credit risk assessment
- Calculate the cost of offering the loan
- Calculate the amount allocated to loan loss reserve and capital charges
- Recommend regarding affordability of the client and solutions
- Determine pricing to ensure the returns are commensurate with the risk level
- Select suitable collateral or guarantee

Corporate Finance Knowledge and Structure Credit Facility

- Comprehend theories and concepts related to Credit Risk Management
- Evaluate factors affecting default risk
- Knowledge of different enterprise banking loan products and judging suitability of loan applicants
- Estimate the degree of risk involved
- Provide recommendations with consolidation of information from various analysis
- Make recommendation on approval (conditional approval)/rejection of application
- Recommend if assessment methods satisfy the changing lending criteria
- Recommend revised assessment criteria and approaches for determination of approval
- Specify revised principles for justification of support on applications which are violating credit risk policies
- Identify the client's purpose and objectives
- Develop a loan repayment plan
- Develop proposals to specify financing options and present terms and explanations in clear manner
- Develop a tailor-made financial package option

2.3.1 Content

The training programme designers may refer to the list below for the design of the learning and teaching programme:

Module 2 – Submodule 3	
Credit Risk Assessment and Structure Credit Facility	
UoC Performance Requirements (Exact stipulation in the UoC)	Suggested Learning/Teaching
Budget and Pro-Forma Analysis	
Evaluate and select the most suitable methods (e.g., net present value based on present market values, discounted cash flow valuation, etc.) to calculate the value of the businesses or projects.	<ul style="list-style-type: none"> - Basic cash budget analysis <ul style="list-style-type: none"> • Analysis to help clients to identify clients’ purpose and objectives for loan demands • Suitable method for budget and pro-forma analysis • Monitoring of cash generation/preservation capability • Cash budget and SMEs • Purpose of a cash budget • Sample format of a cash budget • Non-cash items • Preparing cash budget - Advanced budget and pro-forma analysis <ul style="list-style-type: none"> • Preparing advanced budget and pro-forma analysis • Quality budget and pro-forma analysis for key stakeholders - Limitation with pro-forma financial statement analysis
Compute clients’ ability to repay loan, estimate time for debt repayment given amount of debt, interest rates, and available funds.	
Interpret and analyse financial information submitted (e.g., financial statements) to determine financial standing of applicants.	
Conduct financial analysis on the business such as income growth, quality competence of management and market share to determine expected profitability of the business thus the repayment abilities of applicants.	
Perform assessment on the specific projects or assets which require financing, analyse cash flow to be generated and valuation of assets in order to have a more accurate assessment on the risks involved.	
	<ul style="list-style-type: none"> - Verifying the quality of cash flow - Estimating cash flow gaps without the loan - Quantifying the time uncertainty of repayments - Estimating the achievability of the cash flow drivers

Quantitative Analysis and Risk Assessment	
Conduct credit risk assessment by evaluating the business risk, financial risk and total corporate risk of the businesses/projects in consideration.	- Risk assessment on qualitative risk factors and quantifiable risk factors
Conduct preliminary credit risk assessment by evaluating the business risk, financial risk and total corporate risk of the businesses/projects in consideration.	
Calculate the cost of offering the loan e.g., funding costs, overhead expenses, administrative cost.	- Cost factors of loan offering
Calculate amount to be allocated to loan loss reserve and capital charges based on default probability, loss levels etc.	- Loan loss reserve and capital charge allocation
Provide recommendations regarding the affordability to enterprise clients and propose long-term, mid-term and short-term financing solutions.	- Clients' affordability – factors for consideration
Determine pricing of individual credits to ensure the returns are commensurate with the risk level.	- Credit risk expressed in figures - Internal credit risk rating reflects credit risk
Analyse the risks of repayment and select suitable collateral or guarantee to protect the bank in case of inability to pay.	
Structure Credit Facilities	
Comprehend the theories and concepts related to corporate credit management in order to assess the risks of loan application.	- Cash flow projection - Present values - Net present values - Capital asset pricing model.
Demonstrate professional knowledge in corporate loan financing by applying it to evaluate factors affecting default risks and assess the impact on loan applications.	- Project finance and syndicated loan applicable to various industry such as: <ul style="list-style-type: none"> • shipping industry • petroleum and oil refinery industry • other industries which demand substantial loan amount and long pay-back period.
Possess knowledge in different enterprise banking loan products of the bank and apply it to evaluate and compare the features of them in order to judge the suitability of loan applicants.	
Estimate the degree of risk involved in extending credit or lending money by consolidating information from different analyses e.g., track	- Analytical framework to recommend whether current assessment methods satisfy the

record, business performance, collateral valuation).	<p>changing lending criteria of the banks.</p> <ul style="list-style-type: none"> • Step (1) assess the specific risk of the borrower • Step (2) analyse and interpret the outcomes of critical financial analysis • Step (3) evaluate credit risks • Step (4) estimate the degree of risk involved in the loan (base case, stress case, default case) <p>- Estimating the degree of risk involved in base, stress and default scenarios</p>
Provide recommendations regarding the degree of risk involved in extending credit or lending money by consolidating information from different analyses e.g., track record, business performance, collateral valuation).	
Recommend approval (with or without conditions(s))/rejection on loan application and approved loan size with justification provided.	
Recommendations on whether the current assessment methods satisfy the changing lending criteria of the banks.	<p>- Regular situation to structure credit proposal with sound credit granting process.</p> <p>- Sample credit structure proposal with T&C suggestions for approval</p> <p>- Credit structure with current assessment methods under changing lending criteria.</p> <p>- Credit structure with recommended revised assessment criteria and approaches for determination of approval</p> <p>- Justification for approval on application violating credit risk policy or lending criteria</p>
Recommend revised assessment criteria and approaches for determination of approval (with or without condition(s))/rejection on loan application and approved loan size with justification provided.	
Specify revised principles for justification of approval on application which are violating credit risk policies or general lending criteria	
Provide justification for approval on application violating credit risk policy or lending criteria	
Identify the client's purpose and objectives for the loan by evaluating relevant information.	
Develop loan repayment plan and provide supporting information to substantiate the plan.	<p><u>Examples</u></p> <p>- Justification for approval on application violating credit risk policy or lending criteria</p>
Develop proposals to specify financing options available to applicants and present the terms and explanation in a clear manner.	
Develop tailor-made financial package options for applicants and structure the T&C (e.g., loan amount, repayment timeline, rates, etc.) based on earnings, repayment history, prospective risk level, etc.	

3 Learning Modes and Methods

Three types of learning modes are suggested as follows:

Self-study: learners read the materials provided by the trainer and complete the learning activities to elevate awareness of the content.

Class: learners have contact with the trainer and other RPs for interactive learning/assessment activities to improve knowledge and application of skills to result in desirable behaviors.

Work Case: learners extend learning beyond class with real-life work case agreed with supervisor/named delegate who will score performance outcomes upon case completion.

4. Learning Context

Learners are best to learn in the work case context. Therefore, in all the suggested learning modes, learners are encouraged to refer to work cases to understand the knowledge, apply the skills, and arrive at the required behaviors to complete learning activities.

In some situations where sharing with peer learners on work cases might be inappropriate (e.g., when the training programme is open to enrolment to RPs from different commercial banks), Users may consider providing cases with simulated situations.

5. Format of Teaching and Learning Resources Suggested

For self-study, it is suggested that learners schedule completion of learning tasks at their paces within defined time frame.

For class, it is suggested to be workshop format to allow maximum learners' proactive learning.

For on-the-job learning, it is suggested that learners schedule completion of the work case at their paces within defined time frame.

6. Learning Activities, Time Allocation and Reference Sources

6.1 Learning Activities and Time Allocation

The Training Package suggests that both learning, and assessment activities are for learning and sharing to improve knowledge, application of skills, and achievement of behaviours.

Users may also refer to assessment activities in Part F to arrive at an overall picture of all learning opportunities created for learners.

The following table lists out the suggested learning activities by learning modes and time allocation.

Learning Activities (Trainers assign self-study 1, 2, 3, and 4 of each submodule for completion before class.)		NLH Module 1				NLH Module 2			
Description	Administration Details	Self- Study	Class		Work- Case	Self- Study	Class		Work- Case
			Inter- active	Assess- ment			Inter- active	Assess- ment	
1.Reading The learner reads the materials or accesses to internet information assigned by the trainer.	Section G 3	36	-	-	-	22	-	-	-
2.Self-assessment on UoC required performance outcomes The learner reflects on competency based on past work cases handled.	Section E 6.3.1	12	-	-	-	8	-	-	-
3.Suggestion on credit guideline The learner reflects on the existing credit guidelines and makes suggestions on improvement area(s) which might enhance CRM.	Section E 6.3.2	22	-	-	-	9	-	-	-
4.Preparation of the “Best Credit Case Handled” Presentation The learner selects the best credit case handled and prepares a presentation deck for sharing in the class.	Section E 6.3.3	45	-	-	-	27	-	-	-
5.Newsroom The learner raises awareness of the importance of the subject credit risk management with current and past credit cases with valuable lessons learned.	Section E 6.3.4	-	3	-	-	-	1.5	-	-
6.Interactive learning (lecture) The trainer gives lecture or invites questions from the learners.	Not applicable	-	8	-	-	-	5	-	-
7.Practice – “Best Credit Case Handled” presentation The learner presents relevant work cases prepared above for sharing.	Section E 6.3.5	-	5	-	-	-	3	-	-
8.Practice - case drill The learner shares the experience about external factors and internal factors affecting the credit qualities of chosen cases from presentations.	Section E 6.3.6	-	3	-	-	-	1.5	-	-
9.Seminar on updates and case experience on operational risk and regulatory risk The trainer/guest shares updates and work case experience.	Section E 6.4.2	-	6	-	-	-	-	-	-
10.Practice - real life work case (to be completed in 4 weeks after class) The learner agrees with the supervisor/named delegate on work case to be completed by the learner and scored by the supervisor/named delegate	Section E 6.3.7	-	-	-	105	-	-	-	63
11.Assessment		-	-	15	-	-	-	10	-
Total		115	25	15	105	66	11	10	63

6.2 Reference Sources for Learning Activities

Trainers may refer to the table below for developing the materials for the suggested learning activities.

Learning Activities	Materials
Reading	Example sources of materials <ul style="list-style-type: none"> - UoC - SPM - The HKMA Research - The HKMA Circulars - Banks' Credit Guidelines - Books on Credit Risk Management - The Basel Principles - Current Development in CRM technology - Content Notes for Reference
Self-assessment on UoC required performance outcomes	One self-assessment form per submodule for each learner to conduct self-assessment on performance outcomes
Suggestion on credit guideline	One credit guideline suggestion form per submodule for each learner to put down improvement suggestions
Preparation of "Best Credit Case Handled" Presentation	One guide per submodule for each learner to follow to prepare the presentation deck on work case analysis
Newsroom	One publicly known credit case per submodule
Interactive learning (lecture)	The learning contents prepared by the trainer
Practice – "Best Credit Case Handled" presentation	One scorecard per submodule
Practice - Case drill	A set of facilitation questions
Seminar on updates and case experience on operational risk and regulatory risk	The trainer arranges sessions to share updates on key regulations, operational risk, compliance and relevant cases
Practice - Real life work case	Work-in-progress/new cases agreed with supervisor/named delegate

The trainer may design an integrated learning progress registration card for learners to register their completed learning activities. A sample is available on the next page.

6.3 Activity Objective, Administering Process and Samples

SAMPLE: Learning progress registration card for learners to monitor the completion status of the learning activities

Learning Activity Completion Status		Module 1					Module 2			
		Sub module 1	Sub module 2	Sub module 3	Sub module 4	Sub module 5	Sub module 1	Sub module 2	Sub module 3	
1.	Reading	Completed the Reading (put a tick ✓)								
2.	Self-assessment on UoC required performance outcomes	Actual Score (self-scored)								
		Maximum Score		Pre-set	Pre-set	Pre-set	Pre-set	Pre-set	Pre-set	Pre-set
3.	Suggestion on credit guideline	Passed to the supervisor (Put a tick ✓)								
4.	Preparation of “Best Credit Case Handled” Presentation	Completed the Reading (put a tick ✓)								
5.	Newsroom	Name of Case Discussed								
6.	Interactive Learning (Lecture)	Attended the Class (Put a tick ✓)								
7.	Practice – “Best Credit Case Handled” Presentation	Actual Score from trainer								
		Maximum Score		Pre-set	Pre-set	Pre-set	Pre-set	Pre-set	Pre-set	Pre-set
8.	Practice - Case Drill	Name of Case Discussed								
9.	Seminar on updates and case experience on operational and regulatory risk	Attended the Seminar (put a tick ✓)								
10.	Practice – Real-life work case	Actual Score from supervisor								
		NLH logged								
		Maximum Score		Pre-set	Pre-set	Pre-set	Pre-set	Pre-set	Pre-set	Pre-set

Note: The maximum scores are pre-set by the trainer

6.3.1 Self-Assessment

Objective of this Suggested Learning Activity

This suggested learning activity enables learners to have a head start on the required performance outcomes of the submodule. For example, while referring to past credit cases handled for completion of the self-assessment form, the learner gets an overall idea of the performance outcomes to improve so as to enhance his awareness to extract relevant learnings from peer learners when he attends the class.

Suggested Administering Process

- It is a self-paced learning task during self-study methodology
- The training programme designer prepares one self-assessment form for each submodule
- The trainer provides the self-assessment forms to learners at the beginning of the training programme
- The learner shares the self-assessment form with the direct supervisor/named delegate and registers the completion of the learning activity

Sample

A sample self-assessment form is provided on the next page.

Sample

Sample - Self-Assessment Form
on UoC Required Performance Outcomes
Module 1 submodule 1 – Early Warning Signal

Note to learners:

Please refer to the credit cases during the last 12 months in which you have successfully identified (or failed to identify) early warning signals of loan accounts/loan portfolios to complete the following self-assessment form. Please share the completed self-assessment form with your direct supervisor/named delegate, then register completion in your integrated scorecard for Module 1 submodule 1 under “Self-Assessment.”

Instructions:

- *Please answer top of mind response – that which comes first to your mind*
- *Put a tick in the box that is most representative of you at this point in time*

Required Performance Outcomes	5	4	3	2	1
Monitoring of portfolio – theory and practice					
• Demonstrate proficient knowledge in credit risk management in order to identify the most appropriate method in risk monitoring					
• Understand the credit strategies and portfolio objectives of the bank in order to identify crucial areas for monitoring					
• Identify early signals of delinquency or system risk and escalate to appropriate parties for prompt remedial actions					
• Identify sources and causes of the changes in risk level, e.g., underwriting standards, economic conditions, personnel issue and recommendation					
• Demonstrate professionalism by applying impartial and unbiased judgment throughout the loan portfolio assessment process					
Identify credit indicators – account and portfolio					
• Monitor and ensure credit administration in compliance with contractual requirements and facility terms					
• Track risk indicators or credit quality (e.g., delinquency, risk rating trends) and detect changes in risk characteristics of loan portfolios					
Identify relationship between risk level change and loan provision					
• Regularly review the advantage and weakness of forecasting, reviewing approaches and adopting the most reliable measures					
Identify key regulations, report remedy to management and make recommendations					
• Report to senior management about the results of analysis on risk profile of overall loan portfolio.					

- 5: Demonstrate daily and continuously
- 4: Demonstrate frequently
- 3: Demonstrate sometimes
- 2: Demonstrate infrequently
- 1: Demonstrate rarely

6.3.2 Suggestion to Improve Credit Guideline

Objective of this Suggested Learning Activity

This suggested learning activity sensitizes learners about banks' credit strategies, key regulations, and the credit operational risk management cascaded and embedded into the credit guidelines.

The learner refers to past credit cases handled to identify root causes of the failures (or success) in detecting early warning signals and to suggest improvements. These to be embedded in credit guidelines to improve the timeliness in identifying early warning signals.

To accomplish this learning activity, the learner reviews relevant past credit cases and credit guidelines. The review and reflection process will increase the learner's awareness of the bank's strategy, key regulations, and credit risk operations.

Suggested Administering Process

- It is a self-paced learning task during self-study
- The trainer prepares one improvement suggestion form for each submodule
- The trainer passes the improvement suggestion forms to learners at the beginning of the training programme
- The learner shares the completed suggestion form with the direct supervisor/named delegate and registers the completion of this learning activity

Sample

A sample suggestion form is provided on the next page.

Sample

Sample – Suggestion Form Suggestion on Credit Guideline Module 1 submodule 1 – Early Warning Signal

Note to learners:

Learners should be familiar with all relevant credit guidelines. This learning activity helps to sensitize yourself about the importance of continuous improvement of credit guidelines in credit risk management.

Step (1) *Please refer to credit cases during the last 12 months in which you have identified (or failed to identify) early warning signals of loan accounts/loan portfolios. Then, reflect on the principal reasons for the success or the failure.*

Step (2) *To help the reflection, you may refer to (1) practices of other local and foreign banks, (2) research papers from the HKMA and the BASEL committee, and (3) research papers from other sources.*

Step (3)

Based on your findings and reflection, make one suggestion to achieve a more timely and effective identification of early warnings, e.g.,

- *Enhanced internal standards*
- *Enhanced practices*
- *Enhanced reporting process*
- *Enhanced escalation process*

Step (4) *To sustain the benefits of the above suggestions, please propose a credit guideline to embed it. The improvement suggestion should be proportionate to the bank's risk exposure level.*

Step (5) *Share the completed suggestion form with your direct supervisor/named delegate and register the completion of this learning activity.*

Credit guideline	Name of the credit guideline
Description of pain points	No pre-set word limit
Improvement suggestion	Suggest in 200 words
Benefits of implementing the suggestion	Describe in 100 words the benefits from the suggestion if it is implemented
Reference	List the credit risk management principles enlisted by BASEL or the HKMA. Key regulations should be considered

Sample analysis for the learner's reference

Pain point

E.g., timely identification of credit rating deterioration. The learner might have observed from several past cases that there has been a long-time gap between the occurrence of a trigger, e.g., utilization of OD exceeds the past six months' average rate and the rating deterioration.

Improvement suggestion

E.g., embed the following improvement in the named credit guideline: "Have the designated committee discuss early warning signals each week on zoom instead of bi-monthly in the meeting rooms".

Benefits of the improvement suggestion

E.g., one of the three quoted past cases would have reduced loss by the estimated amount or percentage.

Relevant BASEL principle

E.g., the learner may quote principle No 8: "Banks should have in place a system for their various credit-risk-bearing portfolios." Banks should ensure the accuracy and timeliness of information provided to management information systems. (Basel Committee Publications - Principles for the Management of Credit Risk - Oct 2000 (bis.org))

6.3.3 Preparation of the Best Credit Case Handled Presentation

Objective of the Suggested Learning Activity

This suggested learning activity requires learners to organize the case information according to the credit risk management process, i.e., identification of risk factors, measurement of risk level, and managing and controlling risk. In addition, the preparation process allows the learner to do a systematic walk-through of the case. The walk-through will increase the learner's confidence and readiness to tell the story via presentation in the class.

If work case sharing is inadequate (e.g., the training programme is open to public enrolment), the trainer may consider providing a simulated case for preparation and presentation.

Suggested Administering Process

- The trainer prepares one presentation scorecard with instructions and scoring criteria for the presentation of each submodule.
- The trainer passes the presentation scorecards to the learners at the beginning of the training programme.
- Each learner prepares a PPT presentation deck for a 5-minute presentation in the class.
- Each learner shares the PPT presentation deck before the class with the direct supervisor/named delegate and registers completion of the learning activity.

Sample

A sample preparation guide is provided on the next page.

Sample

Sample – Preparation Guide For “The Best Credit Case Handled” Presentation Module 1 submodule 1 – Early Warning Signal

Note to earners:

Please refer to credit cases handled during the last 12 months in which you have successfully identified (or failed to identify) early warning signals of loan accounts/loan portfolios to select the one which gives you valuable lessons learned. Please follow the preparation guide below to prepare a PowerPoint deck. You are to provide a 5-minute on-the-stage presentation during the class (or in small groups) for feedback from peer learners/the trainer. Please share the completed PowerPoint deck with your direct supervisor/named delegate before the class.

Step 1	<p>Please select a work case in which you have attempted to demonstrate some or all of the following knowledge, skills and behaviors to identify relevant early warning signals.</p> <p>Monitor portfolio – theory and practice</p> <ul style="list-style-type: none"> - Demonstrate proficient knowledge in credit risk management in order to identify the most appropriate method in risk monitoring - Understand credit strategies and portfolio objectives of the bank in order to identify crucial areas for monitoring - Identify early signals of delinquency or system risk and escalate to appropriate parties for prompt remedial actions - Identify the sources and causes of the changes in risk level, e.g., underwriting standards, economic conditions, personnel issue and recommend - Demonstrate professionalism by applying impartial and unbiased judgment throughout loan portfolio assessment process <p>Identify early warning signals</p> <ul style="list-style-type: none"> - Monitor and ensure credit administration in compliance with contractual requirements and facility terms - Track risk indicators or credit quality (e.g., delinquency, risk rating trends) and detect changes in risk characteristics of loan portfolios <p>Identify relationship between risk level change and loan provision</p> <ul style="list-style-type: none"> - Regularly review the advantage and weakness of forecasting, and reviewing approaches and adopt the most reliable measures <p>Identify key regulations, report remedy to management and make recommendations</p> <ul style="list-style-type: none"> - Report to senior management about the results of analysis on risk profile of overall loan portfolio
Step 2	<p>Prepare a PowerPoint Deck to enhance the organization of your analysis for the presentation in class. The 5-minute presentation should include the following contents:</p> <p><u>Monitoring of portfolio – theory and practice</u></p> <p>For example, one page on “Understanding the Client - Case Background” e.g., describe economic sector, and industry of the client e.g., describe the scale of the client, loan type, and loan size e.g., describe the credit risk assessment upon booking and status as of the preparation date</p> <p>For example, one page on “Identifying the Risk - Critical Risk Factors” e.g., describe the essential economic, industrial, internal risk factors identified at the time of loan booking and the subsequent emergence of risk factors, where applicable e.g., describe whether the emergent risk factors, if applicable, apply to the specific loan or to the portfolio</p>

Identify early warning signals

For example, one page on Identification of credit risk indicators

- describe relevant credit risk indicators for day-to-day monitoring
- describe the detected early warning signals
- describe how the judgment about the early warning signals has taken place

Control the risk - identify the relationship between risk level change, loan provision, and others.

For example, one page on “Estimation of the Potential Impact of the Risk Level Changes” to explain the consequence of early warning signals left undetected (e.g., increased loan provision, increased cost, reputation risk, and others).

Make recommendation - identify key regulations, report remedies to management, and make recommendations.

For example, one page on “The Reporting to Senior Management about the Case Outcomes”

- remedial actions
- suggested future measures
- lessons learned

Please be reminded to exclude company names in the deck

6.3.4 Newsroom

The objective of this Suggested Learning Activity

This suggested learning activity serves both as an ice-breaking tool to kick-start a class and an introduction to the ILO of the submodule. At the beginning, the trainer will select one notorious case with valuable credit risk management lessons learned. After this approximate 30-minute interactive session, the learner is likely to echo the importance of the ILO of the submodule.

Suggested Administering Process

- The trainer will prepare a list of publicly known cases (or cases he has handled) that match with the ILO of the submodule.
- The trainer will select one case for this learning activity.
- The trainer will prepare a set of facilitation questions to enable learners to draw out the critical lessons learned from these cases.
- The trainer may start the session by inviting learners to reveal how much they know about the circumstances and draw out lessons learned.

Sample

A sample set of facilitation questions is provided on the next page

Sample

Sample – Newsroom
Publicly Known Cases
Module 1 submodule 1 – Early Warning Signal

Sample questions from the trainer	Possible discussion points raised by the learners
Introduction	
Have you lately noticed the credit-related news of Country X?	e.g., country X has defaulted for the first time its sovereign bond
Trigger	
What is the trigger of this credit event?	e.g., country X has been unable to pay the interest/principal
Root Causes	
What are the root causes of this trigger?	e.g., possible Root Causes (1) e.g., possible Root Causes (2)
Early Warning Signals	
What early warning signals gives signs of credit quality deterioration and when? What are the means to verify the signals or to estimate the probability of happening?	e.g., credit rating deterioration [may specify changes with time] e.g., government statements [may select content and date] e.g., market news [may select sources and date]

6.3.5 Presentation on The Best Credit Case Handled

Objective of this Suggested Learning Activity

This suggested learning activity requires the learner to present a credit case in class. Peer learners would have the opportunity to raise questions, give feedback, share experience and practices, and make suggestions for better credit risk management. The interactive learning opportunity will elevate learners' knowledge, skills, and behaviours.

If work case sharing is inadequate (e.g., the training programme is open to public enrolment), the trainer may consider providing a simulated case for preparation and presentation.

Suggested Administering Process

- This is a class activity.
- The trainer distributes the sample presentation scorecards to learners at the beginning of the training programme.
- The trainer fills in one scorecard for each presentation performed in the class
- To facilitate the presentation session, the trainer may refer to the following steps.

Step 1: Before the presentation starts

- **Put a flip chart with the names of learners**
 - The trainer invites peer learners to participate in the scoring. The peer learners will come forward to mark scores for all presentations at the end of the session.

Step 2: After each presentation done

- **The trainer completes filling in the scorecard**
 - The trainer invites peer learners to ask questions or to share experience.
 - The trainer invites the peer learners to complete filling in the scorecard.

Step 3: After all presentations done

- **The trainer completes filling in the scorecard**
 - The trainer asks learners to come forward to the flip chart (prepared ahead in Step 1) and give their marks under each presenter.
 - The trainer asks learners to register their marks in their own integrated self-monitoring learning progress tool.

Sample

A sample presentation scorecard is provided on the next page

Sample

Sample – Presentation Scorecard
Presentation on The Best Credit Case Handled
Module 1 submodule 1 – Early Warning Signal

<u>Scorecard</u> <u>Presentation of The Best Credit Case Handled</u> <u>Module 1 submodule 1 – Early Warning Signal</u>							
Notes to learners: <u>Before the Presentation</u> The trainer distributes this scorecard to each learner at the beginning of the programme. <u>During the Presentation</u> Each learner receives marks on the presentation according to the following criteria: 1. To what degree does the presenting learner cover comprehensively the required content 2. To what degree the presenting learner identifies the early warning signals comprehensively 3. To what degree does the presenting learner comprehensively estimate and monitor the risk impacts 4. To what degree does the presenting learner takes effective remedial measures and make a recommendation to the management <u>After the presentation</u> 1.The trainer invites peer learners to ask questions and to share experience 2.The trainer and peer learners will give their marks to each learner after all presentations. 3.Each learner will register the scores in his own integrated self-monitoring learning progress card							
Name of the Presenter:							
To what degree the learner covered comprehensively the required content		To what degree the learner identified comprehensively the early warning signals		To what degree the learner could comprehensively estimate and monitor the risk impacts		To what degree the learner took effective remedial measures and make recommendations to the management	
Please circle the points you give to the presenter		Please circle the points you give to the presenter		Please circle the points you give to the presenter		Please circle the points you give to the presenter	
100%	5 marks	100%	5 marks	100%	5 marks	100%	5 marks
80%	3 marks	80%	3 marks	80%	3 marks	80%	3 marks
60%	1 mark	60%	1 mark	60%	1 mark	60%	1 mark
Insufficient facts	0 mark	Insufficient analysis	0 mark	Not clearly demonstrated	0 mark	Not clearly articulated	0 mark
Please add up the total of all the marks given (Maximum: 20 marks) ⇨							
<u>Recap on the requirements for the presentation deck preparation:</u> Prepare a PowerPoint Deck to enhance the organization of your analysis for the presentation in class. The structure of the 5-minute presentation may include: Please be reminded to exclude company names in the deck							

Monitoring of portfolio – theory and practice

For example, one page on “Understanding the Client - Case Background”

e.g., describe the economic sector, and industry of the client

e.g., describe the scale of the client, loan type, and loan size

e.g., describe the credit risk assessment upon booking and status as of the preparation date

For example, one page on “Identifying the Risk - Critical Risk Factors”

e.g., describe the essential economic, industrial, internal risk factors identified at the time of loan booking and the subsequent emergence of risk factors, where applicable

e.g., describe whether the emergent risk factors, if applicable, apply to the specific loan or to the portfolio

Identify early warning signals

For example, one page on Identification of credit risk indicators

e.g., describe relevant credit risk indicators for day-to-day monitoring

e.g., describe the detected early warning signals

e.g., describe how the judgment about the early warning signals has taken place

Control the risk - identify the relationship between risk level change, loan provision, and others.

For example, one page on “Estimation of the Potential Impact of the Risk Level Changes” to explain the consequence of early warning signals left undetected (e.g., increased loan provision, increased cost, reputation risk, and others).

Make recommendation - identify key regulations, report remedies to management, and make recommendations.

For example, one page on “The Reporting to Senior Management about the Case Outcomes”

- remedial actions
- suggested future measures
- lessons learned

6.3.6 Case Drill

The Objective of the Suggested Learning Activity

The learning activity requires learners to deep dive into the good practices leading to the successful or non-satisfactory outcomes of credit cases. Also, learners will discuss how to sustain the best practices in credit risk management and the enhancement RPs' attitudes and behaviours.

Suggested Administering Process

- After the Best Credit Case Handled presentations, the trainer invites learners to pick one or two cases for the case drill.
- The learners presenting the selected cases would provide necessary information during the case drill. Alternatively, the learners can quickly search for more related information online and raise issues for discussion.
- The trainer also discusses the potential operations risk of these selected cases to alert the learners about the importance of developing, maintaining, and complying with adequate policies and guidelines for quality credit risk management.

Sample

A sample set of facilitation questions is available on the next page

Sample

Sample – Case Drill
Potential Question List
Module 1 submodule 1 – Early Warning Signal

Sample Facilitation Questions About the operations, regulations, and compliance risk of the cases	Possible Discussion Points Raised by the learners
Introduction	
From the Best Case Handled presented by (Learner’s name), the listed Company X does not fulfill the regulatory disclosure requirements, what are some of these disclosure requirements?	Example: disclosure of pro-forma statements
Monitoring of credit quality	
Which department/unit monitors the credit quality? Does it monitor up to this kind of detail? How will the outcomes of the monitoring process reach you? What are other examples of monitoring relevant for early identification of credit quality deterioration?	Example: unit in the back office Example: only when specified in the T&C Example: retrievable from system, monthly report, weekly meeting Example: mention the relevant credit guideline or share the experience on monitoring
Best practices, attitudes, and behaviors	
What is your best practice for revealing early warning signals? What are the attitudes and behaviors to be discouraged?	Example: learners may share their own experiences of those of seniors/seasoned RPs

6.3.7 Real Life Work Case

Objective of the Suggested Learning Activity

The learner must integrate adequate knowledge, applications, and behaviors acquired from self-study and class to complete the case.

Suggested Administering Process

Before the completion of a class on a submodule

- The trainer sends an engagement letter to the learner's direct supervisor/named delegate/delegated approver, with cc to the learner.

One week after class completion of the submodule

- The learner selects a real-life work case and agrees with the direct supervisor/named delegate/delegated approver. Alternatively, the direct supervisor assigns a retrospect real-life work case if the learner cannot identify a case.

Three weeks after class completion of the submodule

- The learner completes the case and invites the direct supervisor/named delegate/delegated approver to complete the "Real-life Work case Feedback Form".

Four weeks after class completion of the submodule

- The supervisor/named delegate/delegated approver shares the completed "Real-life Work case Feedback Form" with the learner and sends a copy to the trainer.
- The learner registers completion and sends the completed "Learning Progress Registration Card" to the trainer as evidence of having completed all learning activities of the submodule
- The trainer files the completed "Learning Progress Registration Card" and the "Real-life Work case Feedback Form" as evidence of the learner's completion of the submodule's learning activities.

Sample

A 2-pager sample letter with assessment form is provided on the next two pages.

Sample (Page 1) – Letter to the Supervisor/named delegate/delegated approver
Guidance on the selection and agreement of real-life work case

[Date]

Dear [name of direct supervisor/named delegate/delegated approver],

Thank you for your keen support of [learner’s name]’s ECF-CRM learning journey. [Learner’s name] will select a real-life work case¹ for completion, as a post-class practice on the knowledge acquired in the submodule [Early Warning Signal]. The case can be an existing credit case managed or participated by [learner’s name]. The selected case should allow the learner to demonstrate the intended learning outcomes below:

(1)	(2)	(3)
Demonstrate proficient knowledge in credit risk management in order to identify the most appropriate method in risk monitoring	Understand the credit strategy and portfolio objectives of the bank in order to identify the crucial areas for monitoring	Identify early signals of delinquency or system risk and escalate to appropriate parties for prompt remedial actions
(4)	(5)	(6)
Identify the sources and causes of the changes in risk level, e.g., underwriting, standards, economic conditions, personnel issue and recommend	Demonstrate professionalism by applying impartial and unbiased judgment throughout the loan portfolio assessment process	Monitor and ensure credit administration in compliance with contractual requirements and facility terms
(7)	(8)	(9)
Track risk indicators or credit quality (e.g., delinquency, risk rating trends) and detect changes in risk characteristics of loan portfolios	Regularly review the advantages and weakness of forecasting, and reviewing approaches and adopt the most reliable measures	Report to senior management about the results of analysis on risk profile of overall loan portfolio

The following are key dates for your reference:

Date	Learner’s Action
[Date: One week after completion of the class on the submodule]	Agree with the direct supervisor/ named delegate/ delegated approver on the case selected
[Date: Three weeks after completion of the class on]	Complete and submit the case to the direct supervisor/named delegate/delegated approver together with information on the logged hours to complete the case
[Date: Four weeks after completion of the class]	Invite the direct supervisor/named delegate/delegated approver to share the completed feedback form (see page 2) with the learner and to send a copy to the trainer

Thank you very much for your enthusiastic support again.

[Signature and title]

cc: learners

[Page 1]

¹ In case the learner does not own a credit case, please assign one retrospective case with which the learner could simulate completion with the case facts.

Sample

Sample (Page 2) – Real-life Work Case Feedback Form
UoC Required Performance Outcomes
Module 1 submodule 1 – Early Warning Signal

*Note to direct supervisor/named delegate/delegated approver:
 [Name of the learner] has completed the classroom training on [name of the submodule].
 Thank you for agreeing with [name of the learner] on the real-life work case to be completed
 and scored for his (or her) performance outcomes. Please score the specific performance
 outcomes (listed in the table below) of {Name of learner} based on the submitted work case.*

Instructions:

- Please answer the top-of-mind response
- Put a tick in the box that is most representative of the learner at this point in time

Required Performance Outcomes	5	4	3	2	1
Monitoring of portfolio – theory and practices					
• Demonstrate proficient knowledge in credit risk management in order to identify the most appropriate method in risk monitoring					
• Understand the credit strategies and portfolio objectives of the bank in order to identify crucial areas for monitoring					
• Identify early signals of delinquency or system risk and escalate to appropriate parties for prompt remedial actions					
• Identify the sources and causes of the changes in risk level, e.g., underwriting standards, economic conditions, personnel issue and recommend					
• Demonstrate professionalism by applying impartial and unbiased judgment throughout the loan portfolio assessment process					
Identify credit indicators – account and portfolio					
• Monitor and ensure credit administration in compliance with contractual requirements and facility terms					
• Track risk indicators or credit quality (e.g., delinquency, risk rating trends) and detect changes in risk characteristics of loan portfolios					
Identify relationship between risk level of risk level change and loan provision					
• Regularly review the advantage and weakness of forecasting, and reviewing approaches and adopt the most reliable measures					
Identify key regulations, report remedy to management and make recommendations					
• Report to senior management about the results of analysis on risk profile of overall loan portfolio.					

Number of hours logged to complete this real-life work case: _____ hours (at least 21 hours)

Initial of the direct supervisor/named delegate/delegated approver: _____ dated _____

- 5: The learner’s specific performance outcomes: outstanding
- 4: The learner’s specific performance outcomes: above average
- 3: The learner’s specific performance outcomes: largely meet the basic requirements
- 2: The learner’s specific performance outcomes: inadequately prepared
- 1: The learner’s specific performance outcomes: not applicable in the selected work case

[Page 2]

6.4 Source Materials for Learning Activities

6.4.1 Sources of Cases for Newsroom

The ice-breaking interactive session sensitizes learners within the 15-minute interactive time on the importance of the competency related to the submodule.

Potential sources of cases/information:

- Experience of trainers
- Experience of learners
- Credible sources, e.g., governments, international organizations

Example Links:

[Sovereign Debt and Financial Crises: An Historical Analysis - IMF F&D Magazine](#)

[Bank for International Settlements \(bis.org\)](#)

- The HKMA publications, e.g., speeches and researches

Examples Links:

[Hong Kong Monetary Authority - The Asian Financial Crisis: What Have We Learnt? \(hkma.gov.hk\)](#)

[Hong Kong Monetary Authority - The Asian Crisis: Lessons for the Future \(hkma.gov.hk\)](#)

[Credit Risk During the Asian Crisis \(hkma.gov.hk\)](#)

[qbsp03e.pdf \(hkma.gov.hk\)](#)

[A framework to monitor vulnerabilities and resilience of EMEAP economies \(hkma.gov.hk\)](#)

Case examples:

Related to sovereign risk

- 1980 & the 1990s – Emerging market crises in Argentina, Brazil, and Mexico
- 2008 - the global crisis
- 2010 - euro area crisis

Related to market risk

- The 1990s – Asian Financial Crisis
- BIS.ORG Research and Publication No. 52 on market changes before and after the financial crisis

Examples of risk appetite conception and risk appetite statement:

- Most of the banks include in their annual reports description of the principles guiding their risk appetite, and a few banks publish the risk appetite conception process and the description of their risk appetite, serving good reference for trainers.

6.4.2 Potential List on Sharing Topics in the Seminar on updates and case experience on operational risk and regulatory risk

Module 1
<p>Guest speakers invited to share topics on:</p> <p>Operational risk for one or several of the following topics in each 60-minute seminar (sharing in live issues attract high level of attention):</p> <ul style="list-style-type: none">• Key regulations• Case related to credit operational risk• Loan classification• Capital adequacy and provisioning• Collateral authentication• Stress testing design overview• Contingency plan overview <p>More topics for the trainer's consideration:</p> <ul style="list-style-type: none">• Project finance overview• Special industry financing overview• Commodity financing overview• ESG financing overview• Start-up technology company- financing overview

6.5 Learning Facilities Suggested

Suggested learning facilities are listed in the following table:

Classroom set up	For trainers	For learners
Laptop (Qty: 1 pcs)	Bring along lap-top	Bring along lap-top for <ul style="list-style-type: none"> - Economic, industry, and company information retrieved from the internet - Assessing data from the internet if internet links provided in the assessment questions - Assessing necessary information for responding to short and long questions - For written response on MCQ, short and long questions.
Projector (Qty: 1 pcs)		
Screen/Wall for Projection		
Flip Chart (Qty: 2 pcs)		
Flip Chart Paper (Qty: 50 pcs)		
A4 Size Blank Paper (Qty: 50 pcs)		
Colour Pens for Flip Chart (Qty: 6)		
Optional candies/drinks		