

Module Outline

ECF on Credit Risk Management (CRM)

Module 1 “Credit Risk Management and Key Regulations”

Benchmarked HKQF Level:	5
No. of Credits:	15
Total Notional Learning Hours:	150
a) Class contact hours:	21 hours (3-hour per session x 7)
b) Self-study hours:	127 hours
c) Assessment hours:	2 hours
Pre-requisite:	NA

Module Objective

This module aims to provide candidates with the fundamental knowledge of the credit risk management framework and also the key regulations. It helps candidates assess the credit risk and apply related strategies to monitor the bank's credit portfolio and minimise the risks.

Module Intended Outcomes (MIOs) & Units of Competencies (UoCs)

Upon completion of the Module 1, learners should be able to:

MIOs	Intended Outcomes / Competence	*Unit of Competencies (UoCs)
MIO-1	Apply risk mitigation strategies for the credit portfolio	109253L5 109266L5 109267L5 109270L5 109273L5
MIO-2	Monitor credit assets portfolio and the recovery and work-out of the problem loans	
MIO-3	Assess various credit risk indicators, portfolio performance indicators and credit risk regulations in order to develop strategies to minimise risks in the bank's credit portfolio	
MIO-4	Examine the credit application in conformity of relevant policies compliance and regulatory requirements	
MIO-5	Conduct the stress testing and analyse the results to identify the vulnerability of different segments of loan portfolio	

**Note: For the details of the UoCs, please refer to the Specification of Competency Standards (SCS) of [Retail Banking](#) and [Corporate & Commercial Banking](#) which were developed by HKCAAVQ.*

Assessment

Examination duration:	2 hours
Examination format:	Multiple Choice Questions (MCQ) with 60 questions
Pass mark:	60%

Syllabus

Chapter 1: Basics of Credit Risk Management	
1.1	Overview of credit risk management
1.1.1	- Definition of credit
1.1.2	- Definition of credit risk
1.1.3	- Financial intermediation
1.1.4	- Credit risk measurement
1.1.5	- Risk weighted assets
1.1.6	- Uses of credit RWA
1.1.7	- Limitation of credit RWA
1.2	Importance of credit risk management to bank management
1.2.1	- Use of credit
1.2.2	- Credit for trade and consumption use
1.2.3	- Credit for investment activities
1.2.4	- Credit for financial market activities
1.2.5	- Importance of credit
1.2.6	- Importance of credit risk management to bank management
1.2.7	- Corporate governance structure for credit risk management
1.3	Cornerstones of credit risk management
1.3.1	- Credit risk management infrastructure
1.3.2	- Credit risk management process
1.3.3	- Credit risk management culture
1.3.4	- Credit risk people and talent
Chapter 2: Credit Risk Management Structure – A Systematic Control Framework	
2.1	Credit risk appetite
2.2	Credit policies

2.2.1	- Coverage of credit policies
2.2.2	- Bottom line vs Principles with flexibilities
2.2.3	- Principles underlying credit policies
2.2.4	- Credit policy update
2.3	Credit risk strategy and planning
2.3.1	- Coverage of credit strategies
2.3.2	- Examples of credit strategies
2.3.3	- Annual update of credit strategies
2.4	Credit portfolio design and selection
2.5	Credit authority system
2.6	Credit risk grading system
2.6.1	- Definition of risk grade system
2.6.2	- Definition of risk grade
2.6.3	- Risk grade distribution
2.6.4	- Risk grade migration
2.6.5	- Credit grade decision is an integral part of the credit decision
2.6.6	- Focus on the long tail of the credit grade distribution
Chapter 3: Credit Risk Management Process	
3.1	Credit risk analysis and initiation
3.1.1	- Know Your Customer (KYC)
3.1.2	- Risk analysis
3.1.3	- Business risk analysis
3.1.4	- Financial risk analysis
3.1.5	- Facility risk analysis and proposition
3.1.6	- Collateral and guarantee assessment
3.1.7	- Other policy requirements
3.1.8	- 5c Principle
3.1.9	- Climate Risk Management
3.2	Credit approval
3.2.1	- Independent review and approval
3.2.2	- Credit approval as a rational process

3.2.3	- Credit approval model
3.2.4	- Informational asymmetric
3.3	Credit documentation and condition fulfilment
3.3.1	- Approval condition fulfilment
3.3.2	- Standard documentation
3.3.3	- Continuous approval condition fulfilment control
3.3.4	- Credit administration function
3.4	Credit monitoring
3.4.1	- Importance of credit monitoring
3.4.2	- Systematic monitoring approach
3.4.3	- Identify the weakest link
3.4.4	- Pre-emptive actions
3.4.5	- Regular credit review system
3.5	Non-performing credit recovery and management
3.5.1	- Diagnosis
3.5.2	- Strategy setting
3.5.3	- Lesson learning and accountability
3.6	Retail credit processes
Chapter 4: Credit Risk Management Culture and People	
4.1	- Credit culture
4.2	- Code of conduct
4.3	- Ways to build and maintain credit culture
4.4	- Attributes of credit skills for credit managers
4.5	- Ways to build credit skills and code of conduct for credit managers
Chapter 5: Credit Risk Portfolio Management and Control	
5.1	Credit portfolio management
5.1.1	- Risk concentration
5.1.2	- Risk identification
5.1.3	- Regular completion checking for strategic plan progress
5.1.4	- Collateral Maintenance Requirement
5.1.5	- Share Margin Financing

5.2	Credit early warning system
5.3	Credit risk stress testing and scenario analysis
5.3.1	- Stress testing
5.3.2	- Scenario analysis
5.3.3	- Remedial action
5.3.4	- Limitations of stress tests and scenario analysis
5.3.5	- Examples of the assumptions used in the stress test and scenario analysis
5.4	Credit MIS and data
5.4.1	- Credit management information system (MIS)
5.4.2	- Credit data
5.5	Credit system
5.5.1	- Electronic credit approval system
5.5.2	- Credit limit system
5.5.3	- Infrastructure for the future internet banking
Chapter 6: Counterparty Credit Risk (CCR)	
6.1	Definition
6.2	Exposure of CCR
6.3	Market risk elements of CCR pre-settlement risk and its contingency nature
6.4	CCR limits and exposure booking
6.4.1	- CCR limits
6.4.2	- CCR exposure booking
6.4.3	- Market driven limit excess
6.4.4	- Leverage effects of CCR exposure
6.5	Risk management for CCR exposure
6.5.1	- Model risk
6.5.2	- How to manage the risk for investment related CCR exposure
6.5.3	- How to manage the risk for hedging related CCR exposure
6.6	General risk mitigation skills for CCR exposure
6.6.1	- CCR control governance and control
6.6.2	- General risk mitigation tools
Chapter 7: Basel Regulatory Requirements on Credit Risk Management	

7.1	Overall framework of Basel capital accords
7.1.1	- Capital requirements
7.1.2	- Three Pillars
7.2	Three approaches for credit risk RWA
7.2.1	- Basic approach
7.2.2	- Standardised approach
7.2.3	- Internal ratings-based (IRB) approach
7.2.4	- Model developments
7.2.5	- Use test
7.3	Probability of default (PD)
7.3.1	- Attributes used as the PD model drivers for the corporate segment
7.3.2	- Attributes used as the PD model drivers for the retail segment
7.3.3	- Statistical correlation building
7.3.4	- An example of a corporate PD model for illustration purpose
7.4	Loss given default (LGD)
7.5	Exposure at default (EAD)
7.6	Credit RWA, regulatory capital and economic capital
7.7	Model validation
7.7.1	- Model building governance structure
7.7.2	- The model expert team
7.7.3	- Model approval
7.7.4	- Technical standard on model validation
7.7.5	- Model validation on an on-going basis
Chapter 8: HKMA Regulatory Requirements on Credit Risk Management	
8.1	Overall regulatory requirements for credit risk management
8.1.1	- Banking ordinance
8.1.2	- Supervisory Policy Manual (SPM)
8.1.3	- Principle-based approach
8.1.4	- Risk-based approach
8.1.5	- Board and senior management responsibilities
8.1.6	- Structure of SPM relating to credit risk management

8.1.7	- Control procedures to ensure full compliance
8.2	Large exposure on credit risk management
8.2.1	- Concentration control
8.2.2	- Limit on single large exposure
8.2.3	- An example of large credit exposure
8.2.4	- Clustering limit: limit on a cluster of large customer groups
8.2.5	- An example of clustering limit exposure
8.2.6	- Control procedures
8.3	Connected lending
8.3.1	- Definition of connected parties
8.3.2	- Statutory limits
8.3.3	- An example of connected party exposure
8.3.4	- Control procedures
Chapter 9: Provisioning Requirements	
9.1	Regulatory requirements on provisioning
9.1.1	- HKMA requirement
9.1.2	- Old International Accounting Standard – IAS 39
9.1.3	- New International Accounting Standard – IFRS 9
9.1.4	- IFRS 9 vs IAS 39
9.2	The provisioning requirements under the framework of IFRS
9.2.1	- Expected credit losses
9.2.2	- An example of estimation of the expected credit losses under IFRS 9
9.3	Three approaches under IFRS 9
9.3.1	- General approach
9.3.2	- An example of estimation of the expected credit losses under general approach of IFRS 9
9.3.3	- Simplified Approach
9.3.4	- The purchased or originated credit-impaired approach
9.3.5	- An example for trading distressed assets under credit impaired approach
9.4	Some major implementation issues
9.4.1	- Maturity
9.4.2	- Significant credit deterioration

9.4.3	- Point-in-time default and thru-the cycle default
9.4.4	- Fluctuation of the expected credit losses
9.4.5	- The standard for the forward -looking approach
9.4.6	- Data issue
9.4.7	- Additional model building works

Recommended Readings

Essential Readings:

1. HKIB Study Guide of ECF-CRM Module 1: Credit Risk Management and Key Regulations. (2025).

Supplementary Readings:

1. Ben, H. & Colin H. (2018). Ashurst Banking Regulation. Hong Kong. Global Legal Insights Group.
2. Deloitte. (2015). Basel III Framework : The Butterfly Effect.
(<https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/financial-services/sea-fsi-basel-III-framework-noexp.pdf>)
3. Hong Kong Monetary Authority. Guidelines on Loan Classification System.
(https://www.hkma.gov.hk/eng/regulatory-resources/regulatory-guides/guidelines/1994/09/guide_57b/)
4. The Hong Kong Institute of Banker. (2012). Credit Risk Management. John Wiley & Sons Singapore Pte Ltd.
5. The Hong Kong Institute of Bankers. (2012). Bank Lending. John Wiley & Sons Singapore Pte Ltd.

Further Readings:

1. Basel Committee on Banking Supervision. (2014). The Standardised Approach for Measuring Counterparty credit Risk Exposures. (<https://www.bis.org/publ/bcbs279.pdf>)
2. Ernest & Young. (2018). Impairment of financial instruments under IFRS 9.
(<https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/technical/ifrs-technical-resources/documents/ey-apply-ifrs-9-fi-impairment-april2018.pdf>)
3. Hong Kong e-Legislation. (2022). The Personal Data (Privacy) Ordinance (PDPO) in Hong Kong. (<https://www.elegislation.gov.hk/hk/cap486>)