ECOBANK

GROUP CREDIT POLICY AND PROCEDURE MANUAL

1999

ECOBANK GROUP

CREDIT POLICY AND PROCEDURE MANUAL

PREFACE

This manual contains the current policies and procedures for the Ecobank Group. The policies outlined herein are minimum requirements under normal conditions and it is the responsibility of the Management of the Operating Units to establish additional controls whenever appropriate, have these approved at Group level, and set them out in a formal manner in Section Six of the Manual.

It is the responsibility of each credit officer to be totally familiar with the provisions of this manual and, additionally, to stay updated on all relevant regulation of a banking, tax and/or accounting nature. Any deviations to the policies and procedures of this Manual and any credit transactions considered unusual for whatever reason must be referred to the Senior Credit Committee and the Board of Directors of ETI as considered necessary.

INTRODUCTION

RISK ASSET PROCESS

The risk asset process is defined as a flow of planned, identifiable and sequential events involved in the booking of individual credit transactions, which in aggregate make up a risk asset portfolio, and the management of those assets to full recovery. The steps and responsibilities of this process are detailed in Section Two of this Manual.

TYPE OF RISK ASSETS

Credit facilities extended to customers may be short term (up to one year) medium term (one to three years) or long term (over three years) in tenor. Additionally, facilities may be of a direct or indirect nature.

DIRECT FACILITIES

Direct facilities are those where the Bank actually disburses funds to a borrower. In the form of a loan or other advance, or creates an arrangement whereby the customer may himself draw funds on credit at his volition up to an agreed limit. Examples of direct facilities are:

- Advances in Current Account
- Demand Loans
- Term Loans
- Bill discounting
- Advances under Letters of Credit
- Temporary Overdrafts.

INDIRECT FACILITIES

Indirect(or contingent) obligations are created when the Bank enters into a contractual obligation to pay a third party at a future date, or upon the occurrence of a certain event, against the indemnity of a customer (who is the direct obligor).

Examples of indirect obligations are:

- Opening and/or confirmation of letters of credit
- Issuance of guarantees (e.g. to customs, immigration)
- Issuance of bid/performance/advance payment bonds
- Issuance of standby letters of credits.

RISK ASSET PORTFOLIO

The Bank's risk asset portfolio comprises the aggregate of all credit facilities extended to customers, both of a direct and indirect nature.

CREDIT APPLICATIONS (CA's)

Prior to extension of any credit facility, whether direct or contingent, it must be recommended and approved by means of a CA. Such CA will incorporate analysis and evaluation of all risk inherent in the transaction. The CA process and its requirements are detailed in section Three of this Manual. There are three types of CA.

- INTIAL REVIEW
  The first CA, proposing a new credit relationship for the Bank, should be particularly comprehensive.

- ANNUAL REVIEW
  Every credit relationship must be reviewed at regular intervals, usually 12 months after the initial review or the last annual review. The interval may be less than 12 months, BUT NEVER MORE. The review should, if possible, be timed to coincide with receipt of borrowers' annual audited financial statements.

- INTERIM REVIEW
  Submitted between annual reviews if facilities need to be increased/decreased or radically changed in some way, such as substitution of security, etc.

CA's must incorporate total exposure to the customer (i.e. all facilities both direct and contingent) and it is this aggregate level of credit risk which determines the level of approval required. Approval rules and requirements are detailed in Section One of this Manual.

SECTION ONE: GROUP CREDIT APPROVAL SYSTEM

B. Exceptions and Delegations

(i) Availments Under Approved Lines of Credit

(ii) Earmarkings / Suballocations

(iii) Temporary Overdrafts / Excess Over Approved Lines

1.4 Branch Operating Limits

1.5 Customer Service Head Limits

1.6 Travellers Cheques

1.7 Cheque Drawings Against Uncleared Effects

1.8 Return of Cheques

1.9 Debits to Cash Collateral

1.10 Debit to Prepaid Expenses and Account Receivable

1.11 APPENDIX 1

SECTION ONE: GROUP CREDIT APPROVAL SYSTEM

1.1 GENERAL

Credit approval authority is delegated to Management by the Board of Directors of ETI, in accordance with Section 1.3 below. Any extension of credit exceeding authority delegated is subject to approval by the Board of Directors of ETI itself, following recommendation to the Board by Management.

1.2 APPROVAL OF CREDIT AT AFFILIATES

Individual approval limit are delegated to the Managing Directors of affiliates ("local Managing Director") by ETI. Any extension of credit at an affiliate exceeding such delegated authority is subject to approval by ETI, following recommendation by the affiliate. Additionally, extension of credit by the affiliate may require further approval of the Board of Directors of the affiliate, following recommendation by management of the affiliate and prior approval by ETI as necessary. This is dependent on the lever of approval authority delegated by the local Board to its Management.

1.3 RULES GOVERNING THE EXTENSION OF CREDIT

A. GENERAL REOUIREMENTS

1. APPROVAL/DOCUMENTATION

Approval for all types of credit extension shall be evidenced on the Credit Application or other authorised approval document by the signatures or initials of each of the credit officers approving the credit. Any written commitment to extend credit must be executed by a Managing Director, unless specific delegated authority has been granted to other credit officers for this purpose. Any deferral of the receipt of documentation required under credit arrangements, or otherwise essential to the granting of credit, requires the approval of the local Managing Director. If such deferral is for more than 90 days, it must be approved at the same lever as originally approved in accordance with Rule 3. Waiver of documentation or any material change in terms conditions or covenants of a credit as originally approved must be approved according to the lever required by Rule 3 as determined by the amount of aggregate facilities.

For the purposes of this rule, "credit extension" is used in its broadest sense and encompasses any transaction which creates an actual or potential liability to pay Ecobank. This includes not only all Risk Assets as defined in the Introduction but also other risks such as placement of Treasury funds and purchase of cheques.

2. <u>THREE INITIAL SYSTEM</u>

Authority for credit extensions must have the joint approval of at least three credit officers (collectively referred to as "Credit Committee"), at least one of whom must have a personal designated credit limit covering the amount of credit extension under consideration. It is not intended that credit be extended on the judgement of one officer alone. A specific title by itself will not be sufficient to allow an officer to approve the extension of credit. Only those officers who have duties and responsibilities that involve the approval of loans and other extensions of credit are "<u>credit officers</u>". Names and specimen initials of all credit officers must be regularly provided to the Group Credit Officer.

Specific personal designated credit limits are delegated to credit officers by the Group Managing Director on the recommendation of the Group Credit Officer, based on rank, experience and proven ability. Such limits will be advised to the ETI Board of Directors.

3. APPROVAL LEVELS

Except as modified in these Rules, the minimum requirement for credit approvals are as follows:

a) If aggregate amount is not in excess of a Managing Director's limit:	Two credit officers and the Managing Director.
b) If aggregate amount Exceeds Managing Director's limit but is not in excess of $1,000,000 :	As for (a) plus an officer with a personal limit of $1,000,000 or higher.
c) If aggregate amount exceeds $1,000,000 but is not in excess of $2,500,000 :	As for (a) plus a Senior Credit Officer.
d) If aggregate amount exceeds $2,500,000 but is not in excess of $5,000,000 :	As for (a) plus a Credit Officer with a personal limit of $1,000,000 and one Senior Credit Officer plus the ETI Board of Directors, or such subcommittee as the Board may appoint for credit approval purposes.
e) If aggregate amount exceeds $5,000,000 :	As for (a) plus two Senior Credit Officers plus the ETI Board of Directors, or such subcommittee as the Board may appoint for credit approval purposes.

All credit approvals in excess of a local Managing Director's limit must be reported to the local Board of Directors. The local Board will decide which such credits require its own approval, by delegating a local credit approval limit to the Managing Director. Such limit need not necessarily be the same as the group limit delegated by ETI.

4. DESIGNATION OF SENIOR CREDIT OF FICERS

A Senior Credit Officer may be designated by the Group Managing Director with the concurrence of the ETI Board of Directors. Only officers of the rank of Managing Director or the Group Credit Officer may be designated as Senior Credit Officers. Collectively, Senior Credit Officers and the Group Credit Officer are referred to as the Senior Credit Committee.

5. TENOR AND REVIEW OF CREDIT FACILITIES

Short term credit extensions, including fines of credit, shall expire one year from date of approval unless an earlier expiration is specially provided. Demand loans not covered under approved fines must be reviewed at least semi-annually and any extension or renewal approved at the lever of authority required for the amount involved as per Rule 3. Term extensions of credit must be reviewed at least annually by three credit officers with direct responsibility for administration of the credit under review, one of whom must be a member of the Senior Credit Committee if the amount is over $1,000,000.

6. CREDIT TO NEWLY ESTABLISHED ENTERPRISES OR TO BORROWERS IN NEW INDUSTRIES

Facilities of $250,000 or more to newly established enterprises or to companies in relatively new industries require approval of the local Managing Director and one Senior Credit Officer. This requirement does not apply where the lending unit holds full cash collateral with good titre for the full principal amount.

7. APPROVAL WITHOUT FINANCIAL STATEMENTS

If credit in excess of $50,000 is extended only on the basis of either the general standing of the borrower or on balance sheets and/or income statements which are not generally available to credit officers and directors, approval is required at the next higher lever than the amount of credit would normally require. If the amount is $250,000 or more, additional approval is required by a Senior Credit Officer. This does not, however, apply where the lending unit holds full cash collateral with good titre for the principal amount.

8. INFERIOR POSITION

All extensions of credit to a borrower in situations where the institution is in an inferior security position to that of other lenders extending similar credit must be approved by one level higher than would otherwise be required by Rule 3.

9. APPROVAL AND REVIEW OF ADVERSELY CLASSIFIED CREDIT FACILITIES

(a) Adversely classified credits inherently involve greater risk than facilities which are current. Therefore, the minimum requirement for all adversely classified credit facilities is approval at the next higher level than would be required if the facilities were not adversely classified. If the aggregate amount exceeds $500,000, approval must be obtained from a Senior Credit Officer.

(b) Availments under credit facilities which are adversely classified and have been previously approved under this Rule 9 may be approved by credit officers as follows:

- if the amount is not over $250,000 by the local Managing Director;

- If the amount is over $250,000 by a member of Senior Credit Committee.

(c) Regardless of the scheduled review date, any credit facility including loans, commitments, lines of credit and contingent liabilities should be referred to the next higher level of credit authority for review and development of future strategy immediately after it has been adversely classified. Thereafter, credits classified II or worse must be reviewed monthly and credits classified IA at least quarterly by a member of the Senior Credit Committee.

(d) A list of these classifications is contained in Section 2 of this Manual.

10. SUBSIDIARIES AND AFFILIATES: INTERNAL CREDIT POLICY

Subsidiaries and affiliates must establish their own Rules governing the extension of Credit substantially in conformity with the present Group Rules governing the **Extension of Credit** and be submitted to ETI for approval. In addition, such Rules and any subsequent changes must be approved by their respective local Board of Directors.

11. LOANS TO PERSONNEL

Loans to any personnel (except under an approved personnel plan) of either ETI or any of its subsidiaries must be approved by a Senior Credit Officer.

12. LOANS TO DIRECTORS

Any loans to Directors of **ETI or to any Directors of its** subsidiaries or affiliates, or to any "Director-related" companies or firms are governed by the policy set out in Appendix I of Section I of this Manual.

13. RULES INTERPRETAION AND CHANGES

The purpose of these Rules is to establish disciplines for the orderly extension of credit. Accordingly, should interpretation be required, a member of the Senior Credit Committee should be consulted. In any case, the Rules should always be interpreted in a conservative manner consistent with their underlying purpose. All credit officers must be thoroughly familiar with these Rules, as well as the credit policies and procedures of the units for which they serve as lending officers. In addition, they should be familiar with all local banking regulations of the countries where these units are located.

Any change in these Rules should be approved by the Board of Directors of ETI based on the recommendation of the Senior Credit Committee.

B. EXCEPTIONS AND DELEGATIONS

(i) **Availment under approved lines of credit**

All approved lines of credit are considered available to the customer**,** once all documentation has been received reviewed and confirmed to be in order by the Credit Administration Unit. In the case of overdrafts, an initial one-off availment1 ticket must be approved by two members of the Credit Committee (including the Managing Director) before the first drawing may be permitted. Subsequent movement over the account does not require approval provided there is room under the overdraft line.

All other availments will be approved by two members of the Credit Committee (including the Managing Director), who will initial the availment ticket before processing. The availment procedure is described in detail in Section 4 of this Manual.

(ii) Sub-Allocations

The Credit Committee may approve excesses over certain lines of credit to be sub-allocated against the unutilized portion of another credit line provided that the shift is to a line of equal or lower risk. Tenor and security are the factors which determine the degree of risk.

As example, an excess over a clean advance line can be covered by a sub-allocation from the unutilized portion of a clean LC line. An excess in a secured LC line (sight credit) can be covered under the unutilized portion of a clean LC line. An excess over a secured term credit line, however, can not be covered against an unsecured overdraft line. Sub-allocations may not occur between different borrowing entities even if they are within the same group and are on the same CA.

(iii) Temporary overdrafts/excesses over approved lines

All extensions of credit should address line adequacy and ensure that as far as possible no excesses or temporary increases will be required during the life of the credit. In situations where temporary excesses are requested, these will require full Credit Committee approval and must not exceed 10% of the customer's credit line or the local Credit Committee's authorised credit limit, whichever is longer. Any excess not regularised within the first seven calendar days will require further approval on an offering ticket. If the excess is still outstanding after 30 days, this will need to be regularised by way of an interim CA or transfer to past due obligation category.

1.4 BRANCH OPERATING LIMITS

Teller limits: Tellers may cash up to limit established by the Senior Country Operations Officer, provided:

1. The account has sufficient funds/or

2. There is room under an approved overdraft line

3. The drawer's signature is verified correctly

4. The payee or beneficiary has acceptable identification and all amounts (in words and figures) on the cheque are filled correctly

5. The account is not classified.

1.5 CUSTOMER SERVICE HEAD LIMITS

An approval limit of up to US $5,000 (or equivalent) may be granted to the Customer Service Head provided conditions 1 to 4 of paragraph 1.4 above have been complied with. Drawings exceeding the Customer Service Head's limit will require approval by the Senior Branch Operations Officer for accounts which are not classified and by two members of the Credit Committee including the Managing Director for accounts which are classified.

If conditions 1 and 2 of paragraph 1.4 are not complied with for any drawing requested, all cheques must be posted on a referral card and Credit Committee approval requested before payment is made**.**

1.6 TRAVELLERS CHEQUES (TC’s)

All travellers cheques must be presented by the original purchaser and any TC’s presented by any other person should be diplomatically declined or referred to the Senior Branch Operations Officer.

1.7 CHEQUE DRAWINGS AGAINST UNCLEARED FUNDS

Payments of cheques will only be made in accordance with paragraph 1.4 above and any deviation from this requirement should be referred to the account officer for Credit Committee approval before payment.

1.8 RETURN OF CHEQUES

All unpaid cheques must be referred to the account officer before being returned.

1.9 DEBITS TO CASH COLLATERAL

All debits to the Cash Collateral account will require the initial of the Account Officer and the approval of the Credit Committee.

1.10 DEBITS TO PREPAID EXPENSES AND ACCOUNTS RECEIVABLE

All debits to Prepaid Expenses and to Accounts Receivable will require the approval of the Senior Country Operations Officer. Amounts exceeding US $5,000 (or equivalent) will require the additional approval of the Managing Director.

ECOBANK TRANSNATIONAL INCORPORATED
GROUP CREDIT AND PROCEDURE MANUAL

APPENDIX I 0F SECTION 1 OF THE CREDIT MANUAL

GROUP POLICY FOR DIRECTOR AND DIRECTOR-RELATED CREDIT FACILITIES

ECOBANK TRANSNATIONAL INCORPORATED

ETI will not lend to its Directors or to the Directors of any of its affiliates.

AFFILIATE BANKS IN THE ECOBANK GROUP

The following rules will apply (unless local banking law is more restrictive):

I FACILITY RESTRICTIONS

1. All Director facilities must be secured.

2. Maximum exposure to any one Director no more than 5% of Bank net worth.

3. Aggregate exposure for all Director exposure no more than 20% of Bank net worth.

II APPROVAL PROCESS

1. Director facilities will not be actively marketed.

2. All Director facilities will be analysed, reviewed and approved under the normal credit approval process of the Bank and require full credit committee sign-off.

3. All Director facilities of any amount will require final approval by the local Board of Directors.

III DEFINITIONS

1. "Director" includes a Director of the local affiliate, of ETI, or of any other affiliate within the ECOBANK Group.

2. Director includes a Director's immediate family relatives i.e. spouse, parent, brother/sister, or child (and their spouses).

3. Policy relates to facilities to Directors and firms/companies in which a Director is a director, manager or principal shareholder/partner. Principal shall be defined to be 20% ownership or effective control.

IV EXCEPTIONS

1. Exceptions are discouraged. Rare exceptions should be of a truly commercial nature.

2. All exceptions will need approval by the ETI Senior Credit Committee and the ETI Board, after approval by the Board of the respective affiliate bank.

V PRECEDENCE

The more restrictive rules of (a) Local Banking Law, and (b) this Group Policy will apply in all circumstances.

SECTION TWO: RISK/CREDIT MANAGEMENT PROCESS CYCLE

2.1 Target Market/Risk asset acceptance criteria

2.2 Credit Initiation

2.3 Documentation/Disbursement

2.4 Credit Administration

2.5 Problem Recognition

2.6 Policy, Practice & Procedure

2.7 Remedial Management

2.8 Organisation/Staffing

SECTION TWO : RISK/CREDIT MANAGEMENT PROCESS CYCLE

2.1 TARGET MARKET/RISK ASSET ACCEPTANCE CRITERIA

2.1.1 GENERAL

The target market and risk asset selection is a continuous process which involves a screening of the entire market, identifying business potential, defining desirable opportunities and adhering to resultant marketing objectives and strategies. An unfocused approach to the market can-lead to unplanned asset concentrations of uneven quality on the books, and it may not be possible for the Bank to easily work out from undesirable relationships even when such a decision has been made.

2.1.2 SURVEYS

This entails a screening of the market and economic sectors to identify key players and potential business for the Bank. This is followed by a short listing of the desirable industries. This list should be supported by a justification as to why only some industries were selected, and why the Bank will not deal with some others.

2.1.3 INDUSTRY STUDIES

These should be carried out on each of the selected industries. This exercise will enable the Branch to understand the importance of each sector to the economy, Gross Domestic Product percentage share, key players in the industry, business cycles and product mix. The information derived above guides the Bank in identifying critical success factors and quantitative/qualitative acceptance parameters by industry.

2.1.4 RISK ASSET ACCEPTANCE CRITERIA (RAAC)

Workable and appropriate Risk Asset Acceptance Criteria (RAAC) have to be developed for each industry, taking into account both quantitative as well as qualitative parameters identified above. Example of these include, net sales, net income, years in business, market reputation, management quality, minimum lending, ... among others.

2.1.5 PRODUCT RISK ACCEPTANCE CRITERIA (PRAC)

Differing financing needs for the different industries often make it necessary to identify the credit products mostly required by each industry. Such products should be supported by a product RAAC which evidences that tenor, documentation requirements and approval process are consistent with the associated transaction risks and that transaction flows are understood and documented.

2.1.6 PROSPECT LISTS

Since each industry study will have brought out a list of all the main players, a customer / prospect list will be developed taking into account the minimum acceptance parameters for the industry as well as each individual customer. The list will indicate a ranking in preference i.e. tier I customers would be the priority names, tier II would be acceptable names and tier III being acceptable if properly structured and secured. All work-away name, personal policy loans and classified accounts will be considered tier IV or exception to the target market.

2.1.7 ACCOUNT ASSIGNMENTS

This is a process of assigning a list of accounts (both customers and prospects) to each Account Officer. The account load must take into consideration the human resources available and their relative experience.

2.1.8 REPORTING

a) Once a year the unit must review the entire portfolio and confirm that all the names are properly tiered against the established risk asset criteria. Names falling out of this tiering should be posted into a Non-Target list and appropriate recommendations made (with time frames) for either pulling them back into acceptable risk assets or working away from the relationship. This list will require annual approval by the Board of Directors.

b) Target Market update: A comprehensive update will be carried out once a year and semi-annual update may be considered if there have been major developments in the market or the economy during the year.

2.1.9 HOUSE-KEEPING CONTROLS

Except for personal or policy loans, all CA's must be accompanied by a duly completed RAAC checklist and any deviations to the minimum requirements must be highlighted for BBC approval. Additionally, each CA face must indicate whether or not the borrower is a target market name and if so, the tiering category.

2.1.10 SAMPLES

Please refer to Section Five of this Manual for samples of:

- TM/RAAC checklist
- Product RAAC
- Credit Administration checklist

2.2 CREDIT INITIATION

This process covers the evaluation, analysis and approval of individual credit facilities. Credit initiation includes new extensions of credit, incremental risk, restructuring and/or annual review of previously approved facilities. The process calls for full information gathering, together with financial and risk analysis leading up to the approval decision.

Analysis and standards vary according to business product, market, transaction characteristics and environmental issues, and good judgement should always be made in ensuring that all relevant issues have been addressed in each situation. The presentation should be in the form of a credit application accompanied by the necessary supporting information as outlined in the CA Package Guidelines in Section Three of this Manual. Other essential steps to be followed in the Credit Initiation Phase are:

2.2.1 CUSTOMER SOLICITATION

The primary source of customers should be the prospect list developed in the Target Market exercise. Contact with potential customers can be by way of our approaching the company directly, referrals from our existing customers or business contacts, referrals from other banks, or customers approaching us directly, either in writing or by visiting the Bank.

2.2.2 NEGOTIATION

Once a customer's credit needs have been gathered, the account officer must obtain the necessary background information on the company, financials for at least the lest three years, and in the case of term loans, project details and projections for the life of the loan. Even before a thorough financial analysis has been undertaken, a quick review, backed by our understanding of the industry and our ranking of the customers on the Target Market list will give the Bank a clear indication of whether this will be an acceptable risk or not. Some considerations in this regard would include risk/reward ratio, documentation and our ability to accommodate the customer's financing needs.

Senior Management must always be consulted before giving firm indications to the customer and all discussions should be documented in a comprehensive initial call memorandum. On a selective basis, letters of interest may be issued. Such letters must be carefully worded and must clearly state that the letter of interest does not constitute a commitment for the Bank at this point. A sample letter of interest is presented in section Five of this Manual. Only the Managing Director or his alternates under specific delegation may sign letters of interest.

2.2.3 PRESENTATION

If the initial screening and discussions with the client reveal that the client fits our target parameters, the Account Officer should then spread all the financial statements and prepare a comprehensive credit package for review and approval. CA preparation guidelines are further discussed in Section Three of this Manual. In addition to the information received from the borrower, the Account Officer should obtain Bank and Trade checkings on the borrower to enable him to independently verify all the information and statements made by the borrower. Note that extreme caution must be taken when conducting initial discussions with the client so that no commitment is made, or received to be made until all the necessary credit approvals are in place.

2.2.4 CREDIT COMMITTEE REVIEW/APPROVAL

Once the draft Credit Package has been put together, the Account Officer should circulate a draft of the package to each Credit Committee member requesting review and comments which may need to be incorporated in the final credit. All reviewing officers should document their comments and pass these to the Account Officer. The Account Officer should then be in a position to finalise the package and obtain the necessary approvals. It should be borne in mind that Risk appraisal is an ongoing process and consideration of the impact of major developments should not be deferred until the next annual review, particularly if adverse developments occur it is important to react in a timely manner so as to protect the bank's interests in the best possible way.

2.2.5 CONTROL AND REPORTING REQUIREMENTS

1. All credit exposures must be accurately reflected in the central liability ledger of the bank.

2. Financial Statements must be obtained and analysed in a timely manner. Ideally statements included in CA packages should be no more than twelve months old.

3. Updated Bank and trade checkings must be submitted with each annual review.

4. Account and/or marketing plans (see Section 5 for examples) must be reviewed on a regular basis (at least annually).

2.2.6 ADVISE TO CUSTOMERS OF APPROVED LINES

Where it is a market practice to advise customers of approved lines in writing, all such advises will be signed by the Managing Director or his alternates under specific delegation.

Such letters must clearly state that the lines of credit are subject to periodic review and modification or cancellation at the Bank's option.

2.3 DOCUMENTATION AND DISBURSEMENT

1. This is a critical phase of the risk management process and requires a thorough understanding of the legal practices both within the borrower’s as well as the lender’s operating environment. All documentation procedures must be tailored to afford the Bank maximum protection and if any doubts exist, Legal

Counsel should be consulted before making any compromises with the customer. As a general rule, all legal expenses relating to a specific credit are for the borrower's account.

2. Wherever possible, documentation must be on standard forms and/or in standard formats which have been reviewed and approved by the Bank's Legal Counsel. Periodic reviews and amendments must be undertaken whenever appropriate to keep the documentation in fine with ever-changing legal systems and practices.

The local Managing Director is directly accountable for all non-standard documentation. Such must be approved by him in all cases and it is his direct decision whether to obtain the approval of legal counsel.

3. Within the Target Market exercise the unit will have identified minimum documentation requirements for each product and a checklist for documentation should already be in place. These minimum requirements should be supplemented by the general documentation requirements for all borrowing customers. Essential steps in documenting credit transactions can therefore be summarized as follows:

2.3.1 UNDERSTANDING OF LEGAL SYSTEMS AND PROCEDURES

Understanding of the local laws/practices. These requirements vary from one country to another and will determine the type of documentation we can request and obtain from our customers. Legal Counsel is usually the best source of information in this connection.

2.3.2 SELECTION OF LEGAL COUNSEL

Reputation and standing will be the major determinants in the choice of local legal counsel. Occasionally, situations arise in which partners in law firms that represent ECOBANK also have dealings with borrowers. While it is expected that attorneys who represent us

adhere to the highest professional and ethical standards, the overriding objective is to make certain that the attorney and his firm are able to apply their unbiased and independent judgement to each client's affairs. In all situations, attorneys will be expected to make a full disclosure of relationships with the Bank's clients and where the bank perceives a potential conflict of interest, the bank should select another legal adviser for these relationships. Each operating unit should maintain an approved list of Notaries and legal counsel.

2.3.3 ADEQUACY OF SECURITY

Care must be taken to ensure that the transaction risk is appropriately covered by the type of security offered. As example, wherever possible, long term lending should be secured by fixed assets and/or other continuing guarantees while short term facilities may be secured by assignment of matching receivables, pledges of inventory or cash collateral deposits pledged to the Bank.

2.3.4 EXECUTION AND PERFECTION OF LEGAL DOCUMENTATION

This involves the execution and proper registration of documentation, independent signature verifications and payment of stamp duty. Where documents are subject to statute of limitations, adequate controls must be put in place to review such documents prior to expiry.

2.3.5 SAFEKEEPING AND CONTROL OF LEGAL DOCUMENTATION

1. Primary responsibility for safekeeping lies with the Credit Department or Legal Officer at the local level. Prior to lodgement, all documents should be reviewed and initialled by both Account Officer and Legal Counsel or Credit Department Head. Where applicable, all signatures should be independently verified by the signature clerk and other documents like guarantees should be properly witnessed. A checklist for reviewing documentation completeness should be used in reviewing each document prior to lodging (sample in Section five). The documentation cabinets should be under dual control of two designated officers.

2. All documents should then be listed in a "Documentation/ Control Card", (sample in Section Five). The form should again be initialled by Account Officer and Credit Department Head. Credit Committee approval for deferral or waiver (as appropriate) of any documents will be highlighted on the longer part of the form.

3. The original documents will then be filed in alphabetical order (by client) in documentation folders and kept in a fire resistant cabinet in the vault. A copy of the document itself and the safekeeping receipt shall be held in the documentation section of the credit folder.

2.3.6 RELEASE/RETURN OF DOCUMENTS

The back side of the Documentation Control Card is designed to allow for listing of documents both for permanent or temporary release. If documents are being released to an Account Officer for day use in the Bank, his or her initial is sufficient on the card but the documentation custodians must ensure that the documents are returned within the same day. Where documents are being released for alteration or modification to the customer, but there are outstandings on the books, full Credit Committee approval must be obtained in a memo justifying the release and every effort must be made to obtain substitute temporary security such as cash collateral. The documentation custodians should initial the card upon such release and subsequent return of documents.

2.3.7 PERIODIC REVIEW

After the initial review and lodgement, both the Account Officer and Credit Department Head or Legal Officer must undertake a documentation review for completeness, a1 least once every year. Where either the Account Officer or the Legal Officer change, the outgoing and the incoming officers must jointly review all documents to confirm that they have verified existing documentation and found it in order. Additionally, Legal Counsel should review all documents at least once every two years to confirm the adequacy in light of any changes that may have taken place in the legal system since initial drawing up of the documentation. In case of adverse development and classification of credit, related documents should be immediately referred to Legal Counsel for review.

2.3.8 DOCUMENTATION OF CREDIT FACILITIES

Documentation requirements for each credit facility will be decided by the Credit committee in consultation with the minimum documentation requirements laid clown by Legal Counsel. Legal Counsel must be consulted in all situations that depart from the routine guidelines. From the Group perspective the minimum documentation requirements are:

1. Borrower must be a current account holder and must have met the necessary current account documentation requirements.

2. Borrower must also meet the general borrowing requirements and additionally, depending on the product under consideration, meet the specific requirements for each product.

3. The documentation requirements will form a part of the credit package and no disbursement of funds may take place until the Account Manager and Credit Department Head have confirmed to the Credit Committee (on the checklist) that all documentation is obtained and in order.

4. Prior to being lodged for safekeeping, all documents must be independently signature verified. They should also be pencil initialled by the Account Manager and Credit Department Head and Legal Officer.

5. In situations where disbursements are made prior to completion of documentation a procedure must be in place in the Credit Administration Department to continue following up for the receipt of outstanding documentation by the agreed Target Date. This requirement is in addition to the approvals required for deferral of documentation as contained in Section 1.4.

2.3.9 DESCRIPTION OF SECURITY AND SUPPORT ON CAs

The following are guidelines for describing security/support in credit applications:

2.3.10 CHARGE OVER CURRENT ASSETS

- Indicate extent of charge over inventory or receivables-Amount of charge.

- Whether registered or unregistered, first or second. If second charge, indicate amount of first charge and who holds it.

- Whether sole charge or shared pari passu with other lenders.

- Margins.

- Insurance and risks covered.

- Value of collateral and source of valuation.

  Example: <u>pari passu</u> first registered charge over inventory and receivables for ………….. shared with ……………… margin of 75% on inventory and 80% on receivables. Fire insurance lodged with …………. (lead bank) and both banks noted as loss payees. Current value………. per stock and receivables statements dated………………

2.3.11 <u>CHARGE OVER FIXED ASSETS</u>

- Whether debenture or mortgage (equitable or registered).
- Whether first or second, shared or sole.
- Assets covered and amount of mortgage.
- Margins.
- Current appraised value (no more than one year old and appraisal to be carried out by duly appointed and qualified appraiser).
- Insurance and risks covered.

  Example: First registered debenture in favour of ECOBANK for …………………………….. over land, building and equipment valued at ……………………….. as of …………………………. Margin 40%. All risk insurance lodged with us and ECOBANK named as loss payee (held).

2.3.12 <u>GUARANTEES</u>

- Whether personal, joint and several, cross company, parent company or third party.
- If externally guaranteed, indicate guaranteeing entity and date guarantee received.
- Amount and expiry date of the guarantee.
- Indicate estimated net worth of individuals or corporate entities guaranteeing the obligation (for individuals, confirm net worth statements held or not).

  Example: Joint and several guarantees of Mr. & Mrs. Jon Smith (Directors of ABC Company) for …………………. Estimated net worth …………………..

and ………………………. Respectively per Personal Means Statement dated ……………. (held).

2.3.13 HYPOTHECATED DEPOSITS

- Indicate where held
- Amount
- Maturity date of deposit
- Instrument creating hypothecation (pledge letter, endorsement on negotiable receipt, etc.)

  Example: Pledge fixed deposit for …………………. Held at ECOBANK, under hypothecation agreement dated ……………. Expiring…………

2.3.14 MISCELLANEOUS

- Loan subordination (indicate amount and source)
- Special approval conditions – Example: Confirmation that all conditions precedent have been met prior to disbursement.

2.3.15 BANK GUARANTEES

Issuance

1. The issuance of a guarantee will be supported by an application or counter-indemnity signed by the customer, in which the customer must agree:
2. To reimburse the Bank for any payment made under the guarantee, regardless of whether or not the beneficiary's claim thereunder was genuinely justified.
3. Upon demand by the Bank to provide cash (or other collateral satisfactory to the Bank) sufficient in amount to cover the Bank's total liability in the transaction (commonly known as a "Cash Substitution clause").
4. The guarantee issued will also vary depending on the specific transaction requirements, but will be worded to the extent possible in fine with the

counter-indemnity, and in such a way as to avoid any possibility of the Bank's involvement in any dispute as to whether the principal (our customer) has indeed failed to perform his obligations under the terms of the guarantee. A place of payment, an expiry date, and a limit on amount must also be embodied in the counter-indemnity and the guarantee. As a matter of policy the instrument issued will contain a clause stating that it will be returned to the Bank when the purpose of the issuance of the instrument has been fulfilled However, this provision may be waived in the event that the guarantee text includes a clause to the effect that the bank's liability will cease on the expiry date whether or not the instrument is returned.

5. If the Bank is liable for interest payment under the guarantee, this should be clearly incorporated in the maximum amount payable under the terms of the guarantee.

6. In all cases, a counter-indemnity must be obtained from the customer. It should quote the guarantee issued by the Bank and must remain valid at minimum up to 30 days beyond expiry date of our guarantee to allow time for the bank to claim against the applicant (our client) in case of a late claim from the beneficiary. All such counter-indemnities must incorporate the "cash substitution clause" referred to above.

2.3.16 CANCELLATION

1. As a general rule, the Operations group will cancel and remove control of a guarantee (i.e. remove the guarantee from the Books) only after the return of the original instrument. However, in the event the beneficiary has not returned the instrument even after the expiry period, the following conditions must apply prior to removal of control:

2. No written confirmation from the customer on whose behalf the guarantee was issued is needed.

3. A month's time has elapsed since the expiry date, inclusive of claim period.

4. At least a month has elapsed since a follow-up letter sent by the Bank to the beneficiary asking for return of the original bond.

5. Each cancellation not supported by the return of the original bond must be approved by the Senior Country Operations Officer and the Bank's Legal Officer/Counsel.

6. In no case should control be removed prior to expiry date inclusive of claim period without the return of the original bond, unless the text of the guarantee is specifically worded so as not to require the return of the instrument to the Bank on expiry.

2.3.17 GUARANTEES WITHOUT EXPIRY PERIODS (OPEN ENDED GUARANTEES)

In those instances where we issue a guarantee which does not carry a specific expiry date, full cash collateral will be required, including an additional margin for interest if applicable under the terms of the guarantee. This requirement may however be modified or waived by the Credit Committee, including the Managing Director, based on relationship considerations and if the credit is otherwise deemed strong.

2.3.18 INSURANCE POLICIES

Units should recognise the need to analyse, monitor and spread Insurance company risk in their respective countries. To this end, each unit should have an appropriately experienced/qualified insurance Consultant or Broker produce a study, analysing the financial strength, management and reputation of the leading Insurance Company's as a basis for setting limits for exposure to each of these companies. Limits should be approved by the Credit Committee including the Managing Director. The Consultant's study should be up dated and limits reviewed annually.

1. Physical control over insurance policies will be maintained by the Legal Department. However the Credit Department will maintain a tickler on the basis of expiry date of each policy. In those instances when the original policy is held by another bank on behalf of a syndicate of banks of which ECOBANK is a member, copies of the original policies will be used for control purposes. Two months prior to expiry the Credit Department will inform the respective account officer of the following details:

- Name of client
- Assets covered by policy
- Insurance cover amount, date and name of insurance company
- Expiry date
- Confirmation of premium payment

2. If the policy is not received within four weeks of expiry the Credit Department Head will send a second follow-up to the Account Officer, with a copy to the Managing Director.

3. Where the Bank is named as a loss payee under an insurance policy, the Bank must obtain the right to take steps to maintain cover in the event that the client fails to do so.

2.3.19 INSURANCE UNDER LETTERS OF CREDIT

Unless specifically stated in Credit Applications for all sight or usance letters of credit, all insurance certificates will be blank endorsed to ECOBANK**.** Where the account party operates under an open marine policy, the following procedure will apply:

1. A copy should be lodged with the Bank.

2. Confirmation in the form of a receipt should evidence payment of the premiums.

3. Each policy insured under an open marine policy must be evidenced by a specific cover note evidencing ECOBANK's interest which must be in hand no later than three weeks from the Letter of Credit opening date.

4. Any exception to the above should be specifically stated on the CA face and an explanation provided in the Remarks Section.

2.3.20 CASH COLLATERALIZED TRANSACTIONS AND HYPOTHECATION DOCUMENTS

1. When cash collateral is accepted to secure a loan, the hypothecation agreement covering same should be perfected under the laws of the country of the depository of such cash, which may not be the same law governing the credit agreement.

2. For example, if the credit agreement is governed by Togolese law and cash collateral deposited in France, the hypothecation agreement should be drawn to conform with the laws of France and not those of Togo.

3. In addition, when accepting cash collateral from a customer, it must be ensured that the collateral is not subject to an already existing charge to another lender. This could happen where some lenders have a floating charge over all current assets (which would also include cash). Also the Bank accepting cash collateral must ensure that the collateral is free from all existing or future liens or encumbrances. Legal Counsel should be consulted in all cases to ensure that both conditions are complied with. In some jurisdictions it may be advisable to take a letter-of-set-off as additional support.

2.3.21 GUARANTEES SUPPORTING LOCAL CURRENCY FACILITIES

It is important that there is a common understanding on guarantees obtained locally and in support of local currency facilities. In all such instances it is a requirement that:

1. There is a separate guarantee document from the guarantor referring to the borrower and facilities guaranteed.

2. Guarantees must be continuing.

3. Guarantees must cover all principal and interest, fees and charges, including process costs in the event of enforcement.

4. Guarantees must be consistent with the terms of the primary credit.

5. Where facilities are supported by separate agreement (e.g. term loans, facilities agreements, etc.) the guarantee must be referred to, in the Security/Support Section of the main agreement.

6. A separate guarantor fine is established and controlled in the name of the guarantor.

7. In addition, the Bank must ensure that such guarantees:

- Are drafted by Legal Counsel.

- Are validity authorised and executed and

- The terms of the primary credit agreement are not amended without the guarantor's consent. Absence of such consent in the face of amended terms could invalidate the guarantee.

- Are duly registered where required by local legislation.

2.4 CREDIT ADMINISTRATION

1. Credit Administration focuses on housekeeping, the credit support, control systems and other practices necessary to manage the outstanding Risk Assets to normal repayment and to properly monitor business risks.

2. While some of the administrative functions will be handled by the Credit Department, the ultimate responsibility for an overall acceptable process for each borrower lies with the Account Manager. The Credit Administration responsibilities are summarised below:

- Control of Credit files.
- Safekeeping of Credit and Documentation files.
- Follow-up for various internal expiries i.e., CA's, Insurance, deferrals, deficiencies.
- Control of availments and excesses over approved lines.
- Monitoring of collateral inspections, site visits and customer calls.
- Monitoring of repayments under term credits.
- Responsibility for report preparation.

3. The above responsibilities are described in full in Section Three of this Manual.

2.5 PROBLEM RECOGNITION

This process block deals with the Bank's ability to anticipate, detect, recognise, and report as early as possible potential problems within an individual borrower's business or industry. The objective of early warning systems is to address problems while there is still time for alternative corrective actions and revision of strategy against the relationship. It is important to comprehensively document all findings in call memos, credit evaluations and discussions with management. While occasionally, and as a result of judgemental differences, an outside reviewer may classify a credit differently from the Bank's management, "a double jump" or new classification by an independent reviewer will reflect adversely on the Bank's rating in terms of its ability to anticipate, recognise and deal with problem credits.

2.5.1 PORTFOLIO REVIEW/RANKING

One of the most effective ways of achieving an overall acceptable rating in problem recognition is by continuous contact and information gathering, both from the customer as well as the market; recording of all negative signals and discussing these with the Credit Committee and Management. This should also involve periodic review and ranking of Risk Assets along some established internal guidelines and may sometimes lead to classification of credits. Negative signals include, but are not limited to the following events:

- Recurring casual overdrafts or line excesses that take a long time to clear.
- Frequent delays in repayment of principal or interest payments.
- Inability to communicate with customer and failure to disclose information.
- Major management changes especially in financial area people and key decision makers.
- Negative market trends, Government directives, Legal suits and/or bankruptcy threats by other creditors.
- Deterioration of economic environment.

- New competition in industry.

2.5.2 <u>CLASSIFICATION OF CREDITS</u>

1. If any of the above or other similar signals point towards a deteriorating situation it may become necessary to classify the loan and thereby trigger review and approval by the next higher level of Management. Classification categories are determined by the degree of the problem.

2. Since credit officers are expected to be well informed as to the activities of the credits under their supervision, the primary responsibility for identifying and adversely classifying credits rests with them. Adverse classifications may also be initiated by Senior management, internal auditors and Risk Asset reviewers.

2.5.3 PURPOSES

1. To highlight those credits that represent an above-normal credit risk.

2. To evaluate the degree of risk involved.

3. To develop a strategy or action plan for the elimination of weakness and the ultimate collection of outstandings.

4. To assist the calculation and reserving of appropriate loan loss provisions.

2.5.4 DEFINITIONS OF CLASSIFICATIONS

1.**"Uncriticized" (Current): (I)**

Credits that are fully current and the orderly payment of which is without doubt.

2.**“Other Assets Especially Mentioned” (OAEM): (IA)**

Credits with evidence of weakness in the borrower's financial condition or credit worthiness, or which are subject to an unrealistic repayment programme, or which are lacking adequate collateral, credit information or documentation. If sufficiently severe or advanced, these or other conditions would warrant a worse classification. Early attention, including substantive discussions with borrowers, is required to correct deficiencies.

3.**“Substandard”: (II)**

Credits for which the normal repayment of principal and interest may tee, or has been, jeopardised by reason of severely adverse trends or developments of a financial, managerial, economic, or political nature, or by important weaknesses in collateral. No loss is foreseen, but a protracted work-out is a possibility. Prompt corrective action is required to strengthen the Bank's position as a lender, to reduce its exposure, and to ensure that adequate remedial measures are taken by the borrower.

4.**“Doubtful”: (III)**

Credits, full repayment of which appears questionable on the basis of available information, and which therefore suggest a degree of eventual loss not yet determinable as to amount or timing. Vigorous action is required to avers or minimise losses. Non-accrual of interest is required and previously accrued and unpaid interest must be reversed. The principal should be reversed or written off to the extent deemed necessary. Any such credits should be reported to the local Board of Directors and the ETI Board.

5.**“Loss”: (IV)**

Credits that are regarded as uncollectible. Any amount so classified by account management, should be fully reserved, and previously accrued and unpaid interest must be reversed. A classification to IV does not mean that there is no potential for eventual recovery. Responsible units are expected to continue a vigorous collection effort until it is decided that no further repayment or recovery is possible. Any such credits must also be reported to the local Board of Directors as well as to the ETI Board.

6.When a facility is classified IA or worse, the initiating unit must immediately submit a Classified Credit Memorandum (CCM) including the following minimum basic information:

- Lines and outstandings.
- Brief classification history.
- For new classifications, a brief relationship background.
- Security or Support held, inclusive of estimated asset value.
- Summary of latest financials (highlights only).
- Reasons for classification and action plan.

7.Specific assignment of responsibility should be made either to a designated Credit Officer or the Risk Manager or Credit Department Head depending on the circumstances. It is important that developments are followed closely and alternative measures implemented if the credit continues to deteriorate.

8.Management must pay continuous attention to the risk management process and ensure that there are no past due line revisions, backlog of statement spreading, slippage in calling program, unresolved documentation discrepancies, missing Account Officer or back up assignments. Credit training and coaching must be continuing at all levels.

9.All classifications and changes in classifications must be approved by the Credit Committee, Managing Director and the CPC of ETI.

2.5.5 REPORTS

1. All classified accounts must be reviewed both monthly and quarterly and Monthly Classified Loan Reports (MCLR's) and Quarterly Classified Loan Reports (QCLR's) - see Forms and Formats Section of this Manual - prepared for submission to the Crecit Committee, Managing Director and the CPC of ETI.

2. Past due obligations ("PDOs") and accounts receivable must be reviewed regularly, and timely follow-ups made to initiate corrective action and formal reports signed off by the Credit Committee and Managing Director each month.

2.6 POLICY PRACTICE AND PROCEDURE

Since adherence to policy and procedure is a requirement within each process phase, a thorough understanding of the bank's overall credit policies and procedures is the quickest way to achieving an overall acceptable credit process. The elements of this block include:

2.6.1 COMPLIANCE WITH LOCAL LAWS AND REGULATIONS

These include Government and Central Bank policies affecting banking practices in the country. Example: interest rate ceilings, reserve requirements, sectorial lending, reporting requirements, exchange control regulations, ... among others.

2.6.2 ADHERENCE TO THE BANK'S AND THE GROUP'S POLICY GUIDELINES

Examples of these are credit approval and consultation requirements which are all laid clown in Section One of this Manual, and other policies such as for example maximum exposure per sector, minimum security requirements, etc... which may be laid down.

2.6.3 EXCEPTIONS/DEVIATIONS

Ensuring that exceptions are kept to a minimum and when they must be made, that proper approvals are obtained.

2.6.4 CONFIDENTIALITY

All corporate policies and information, both for the Bank and customers, are handled with confidentiality.

2.6.5 CONFLICT OF INTEREST

Bank's ethical practices are complied with and there are no conflicts of interest.

2.6.6 CREDIT POLICY AND PROCEDURE MANUAL

The Bank's Credit Manual is periodically reviewed and updated in light of changing corporate and external policies.

2.7 REMEDIAL MANAGEMENT

The need for Remedial Management arises in relation to specific problems that have surfaced. The Management of problem loans requires a different and more intense approach than those under normal Management. Determination of remedial Action Plans is not easy it requires experience, knowledge of the borrower and the market, and there are no hard and fast rules.

As discussed under Problem Recognition, different account classification levers reflect the seriousness of the problem and each situation calls for more or less intense remedial action.

2.7.1 RESPONSIBILITY

1. Depending on the severity of classification, the bank should assign corrective action responsibility to an appropriate individual and senior Management should be closely involved in achieving targeted objectives. A few examples follow:

2. In a classified IA situation, the bank's strategy may call for:

   - A reduction in total exposure of 20%

   - An improvement of security margin by incremental collateral.

   - A thorough review of the loan documents to ensure enforceability.

3. Method of achieving this will involve dialogue between the Account Officer, Bank Management and Legal Counsel. The primary responsibility may rest with the Account Manager but close involvement of both Management and Legal Counsel will be required.

4. In a classified II situation, the action plan may call for a prepayment of some of the obligations, request for the client to find alternative Bankers, calls under guarantees etc. Every step will be documented and if results are not being achieved, more serious steps (Legal action) may have to be considered.

5. In a classified III situation, the action plan may call for legal action to enable the Bank to exercise its rights under the security arrangements, sale of collateral, appointment of a receiver or liquidator. The action plans called for here may be very time-consuming and involve several senior Bank Officers, and even outside Accountants/Receivers. Reserves and write-offs have to be properly established at this stage and the portfolio transferred from accrual to non-accrual status.

2.7.1 RESERVES AND WRITE-OFFS

Whenever an account is classified IA or worse, the following guidelines for reserves is recommended:

Classification	Reserve
IA	5%
II	20%
III	50%
IV	100%

All reserves must be approved by the Board of Directors regardless of amount. Until recovery efforts are discontinued, effective follow-up for collection of the risk management process.

2.7.3 LAW SUITS

Legal action against any borrower, provided that such action is recommended by Legal Counsel, must be approved by the Managing Director, and confirmed by the local Board of Directors.

2.7.4 LEGAL EXPENSES

All legal expenses relating to credit recoveries will be for the borrower's account and records must be maintained of all such expenses.

2.7.5 REPORTING

The classified credit memorandum (CCM) and subsequent monthly and quarterly reports should clearly bring out action plans, target dates and results should be updated and strategies revised in a timely manner.

2.8 ORGANISATION/STAFFING

This process addresses the staffing needs of the Credit and Marketing and Credit Administration Departments and can be further broken clown into three subsections:

2.8.1 STAFFING ADEQUACY

The unit must be adequately staffed with people who have the ability and qualifications to meet the tasks. The staffing should also address back-up in situations when those with primary responsibility are absent. Position descriptions as well as job assignments must be formulated for each lending officer and the Credit Department.

2.8.2 STAFF CONTINUITY

Average experience levers of each staff member must be sufficient to caser for job requirements and turnover must be carefully watched so that loss of experienced staff is quickly covered by more accelerated training efforts.

2.8.3 COACHING/TRAINING

This is a very important responsibility for the Management and requires planning to ensure that both formal as well as on-the-job training needs of the lending unit and Credit Administration Department are met. To strengthen internal training, regular Credit Committee meetings are an excellent tool as they provide a forum for discussing complex credits, new marketing initiatives as well as general process issues. A11 officers must be completely familiar with the prevailing credit policy and procedure guidelines in addition to other local regulatory requirements.

<u>SECTION THREE</u>: <u>CREDIT ADMINISTRATION</u>

SECTION THREE: CREDIT ADMINISTRATION

3.1 CA LEAD TIMES

CAs supporting all credit facilities must be reviewed and (if necessary) renewed once every year. In order to avoid approval gaps, the renewal CA must be prepared and circulated for approval one month before the expiry date of the previous approval. For example, for a CA expiring September 30, 1991, the renewal CA and all approvals must be in place before that date. It is important that an allowance should be made where necessary, for approvals to be sought from ETI well in advance of the review dates. Where fines are not being renewed, Account Officer must place a memo, signed by the Credit Committee, confirming that the facility is not being renewed (with reasons), and therefore, allowing the credit fines to expire without renewal.

3.2 EXTENSION IN REVISION DATES

In cases where the preparation of an annual review CA will be delayed, it may become necessary to request approval to continue operating under the previously approved fines, for a period of up to 90 days. Such delay may be due to fate receipt of financial statements or delays in meeting key management to obtain updated information, among other reasons. In all such situations, a request for extension must be presented in a memorandum to the Credit Committee, listing out the previously approved fines and present outstandings. This memo will give the reasons for the extension request and should normally be for a period of one month with a maximum of 90 days. Approval of such an extension must be sought from the lever required by the amount of facilities.

3.3 BUNCHING OF CREDIT RENEWAL REQUESTS

During the initial CA preparation phase, care must be taken to avoid bunching (i.e. all CAs expiring in one month). While financial year end patterns may make it necessary to review more CAs at certain times of the year than at others, the account load should be as evenly distributed as possible, taking into account financial year end dates, vacation periods, etc.

3.4 FINANCIAL STATEMENT UPDATES

An analysis of Financial performance is a key component in the preparation of a CA. Since most companies publish their annual statements within three to six months of the financial year end, CA revision dates should be closely aligned to fall approximately six to eight months after the financial year end to allow for receipt and analysis of the numbers. If the CA revision date is more than six months away from the previous year end closing, then the CA package should contain interim financials for the period elapsed since that year end closing. Under no circumstances should packages presented for credit approval contain figures that are more than twelve months old.

3.5 CREDIT FILES

3.5.1 CONTROL

1. Credit files are strictly confidential and must be kept in locked steel and fireproof cabinets when not in use. Only Senior officers, Account Officers, Credit Committee members and Credit Department Staff will have access to credit files. All credit files must be returned to the Credit Department each day, but if this is not practical, they must be kept under lock in steel cabinets overnight. Under no circumstances should credit files be removed from the bank premises.

2. It will be the responsibility of the Credit Department to track the movement and custody of credit files by having an adequate requisition card system in place.

3.5.2 ORGANIZATION

All credit files must, at minimum, contain the following sections:

1. Credit Approvals (CA's), including copy Offering and Availment tickets.
2. Basic Information Report/Account Plan
3. Financial Statements details/spreads
4. Financial Memos/CA remarks
5. Documentation
6. Collateral/Site Inspection and Call Reports
7. Checkings
8. Customer Correspondence
9. Internal Correspondence
10. Permanent
11. Classified Credit Memorandums, Monthly and Quarterly Classified Loan Reports

For ease of reference, it is recommended that the first section in each file should contain the credit approvals, filed in chronological order.

3.5.3 CROSS REFERENCE

When lending to group, a separate file should be maintained for each borrowing entity and consolidated file maintained for the group. The group and individual files must be cross-referenced to related entities.

3.5.4 CULLING AND RETENTION OF FILED MATERIAL

Except for classified credits all files must be culled periodically and at minimum once annually at the time of each annual review. Culling of credit files will be the responsibility of individual account officers. All culled material should be stored for a period of three years after final adjustment/repayment of the customers' liability. This period may be extended in accordance with local laws and regulations.

The following retention periods are recommended subject to local regulations:

1. Credit Approvals - Current plus two years.
2. Financial Memo (or Country Risk Reviews*) - Current Plus two years
3. Basic Information Reports - Most current
4. Account Plan - Most current
5. Spreads - Last three financial years, plus most current projections
6. Credit Checking - most current: adverse checkings in Permanent Section.
7. Documentation - All legal correspondence to be permanently retained. Original legal documentation should be kept in the vault, with photocopies only in the Credit file.
8. Correspondence - Last 12 months
9. Collateral Inspection Report - Most current
10. CCM's - All CCM's plus all monthly/quarterly reports for permanent retention.

* **Country Risk Review**: A paper which normally substitutes for the Financial Memorandum in case of lending to the Government.

3.6 COLLATERAL STATEMENTS

1. Where we hold a charge over inventory and/or receivables, all borrowers will be required to submit monthly statements of all stocks and receivables within 15 days of each month-end. Stock statements must indicate opening and closing stocks of all finished goods, working-progress, raw materials and stores and spares. Receivables statements must provide a break-up in a form similar to the inventory and collateral inspection forms provided in Chapter Five of this Manual.

2. It will be the responsibility of the Credit Administration Department to check these submissions and report any omissions to the concerned Account Officer, with copy to the Managing Director.

3.7 COLLATERAL INSPECTIONS

1. For all loans secured by a charge over either inventory or receivables or both, collateral inspections must be carried out at least quarterly either by a competent bank employee or, preferably, by an outside professional agency. Any deviations from inspection requirements must be approved by the required lever of approval for the credit.

2. It is expected that if an outside agency is used, the charges for such inspections must be negotiated and billed to the customer with his consent.

3. Whenever collateral inspection are required subsequent to lending, the new requirement should be clearly communicated in writing to the customer and he should be aware that the Bank will make random calls on him without prior notice.

4. The objective of a collateral inspection is two-fold:

    1. Perform a physical count of the client's stock or receivables and verify numbers against latest inventory report.

    2. Meet with the business client on a surprise basis and see how he runs the plant/keeps his books in true form (i.e. without regard to preparations for external inspections, etc...).

5. Bearing the above in mina, our approach to the collateral inspection will therefore be as follows:

   1. Prepare an internal time schedule of relevant customers and visit them on those dates without prior notice. Even if the principal contact (eg. Chief Accountant or Financial Controller) is not available, the next person in fine should be contacted.

   2. The meeting should always stars with a discussion with this contact on general issues affecting the company's operations i.e.

      - Present state of plant, eg. is it running smoothly and producing to capacity?

      - Number of shifts/employees.

      - Any industrial/market problems affecting the company?

   3. Review company's order book for the month and also review the stocks/receivables ledger as of the nearest date and make a physical check of stocks against the stock ledger.

   A collateral inspection could also be combined with a site visit. During the tour, reviewer should make observations on all aspects of the company facility and ask any relevant questions. It is recommended to take photograph on such visit. This is especially appropriate on site visit and can be very useful to demonstrate progress between visit.

3.8 CALL MEMORANDUM

Frequency of customer contact, levers contacted and the nature of calls are usually determined by the type of relationship and its problems or potential. However, the following guidelines on the frequency and scope should be considered:

3.8.1 FREQUENCY

Non-classified relationships	-	Once a month.
Classified Credits	-	Twice a month or as dictated by the established action plan in each situation.

3.8.2 SCOPE

For non-classified credits, a detailed call memorandum should be prepared quarterly covering all marketing issues as they relate to the Marketing Plan, and an overall financial and qualitative update. For classified credits, fortnightly or monthly call memos, co-related to the action plans for the credit, plus financial updates.

3.8.3 PROSPECTS

For all prospects on the Target Market list, each Account Manager must maintain at least a monthly calling frequency, and all call reports must be circulated to Credit Committee members before filing. A system should be in place to ensure timely follow-up action.

3.8.4 RELATIONSHIP UPDATE

For all key relationships, the Bank should perform a semi-annual relationship update (in-between annual reviews) addressing:

- Interim financial performance
- Major developments within the company
- Any negative industry developments that may affect the customer
- Overall progress against our credit and marketing expectations.

3.9 CHECKINGS

3.9.1 BANK/TRADE

Formal and informal reports obtained from outsiders can represent an important independent source of information on our customers. Formal checkings constitute those obtained from banks and, in some markets, from the trace (suppliers, buyers, etc.). Informal reports are usually obtained on probing, are verbal, as those obtained from competitors and customers, and are usually more reliable and useful than any checkings obtained in writing.

Formal Bank checkings must be obtained on all customers once a year.

If market practice allows, formal trace checkings must be obtained with similar frequency. Irrespective of whether formal trace checkings are available or not, Account Officers should informally contact a cross-section of the market (competitors, customers, suppliers, etc. of the subject of enquiry) on the general financial standing of the customer. Care, discretion and tact will obviously be required in soliciting this kind of information, so as not to embarrass either the bank or the borrower. As in every situation, this will require good judgement on the part of the Account Officer. All information obtained must be recorded in the Credit file.

3.9.2 REGISTRAR CHECKING

Prior to accepting any charge over a company's assets, a search must be carried out at the appropriate government department to confirm that no prior charges have been registered against the security being offered. This exercise must be repeated with each CA renewal request to ensure that our security position remains unchanged and has not been diluted by the assets being charged to another lender during the year under review.

Where such official records are not easily accessible, the services of an approved notary or lawyer may be required.

3.10 REVIEW OF OVERDRAFTS/EXCESS

3.10.1 REVIEW

The Credit Department Head will be responsible for a weekly review of all temporary overdrafts and excesses over approved lines. In so doing, the officer will ensure that the necessary follow-up has been implemented to regularize the overdraft or excess.

In addition, the following procedures will apply:

- All Temporary Overdrafts (TODs) must have the prior Credit Committee approval evidenced on either the referral card or some other document.

- No Temporary Overdraft should be outstanding for more than seven calendar days.

- If not liquidated within 10 days, the TOD should be regularized by restructuring into a regular loan or advance facility.

- If however, it is outstanding for 30 days or more without any effort to restructure into a formal line, or if it is restructured but the repayment schedule is not followed, it should be transferred to Past Due Obligations.

SECTION FOUR: PROCEDURE AND PRACTICE

SECTION FOUR: PROCEDURE AND PRACTICE

4.1.1 CREDIT PACKAGES

Following are the basic components of a CA Package:

1. CA Face and facility listing
2. CA Remarks and financial analysis
3. Basic Information Report
4. Spreads
5. Marketing Plan and Budget Form
6. Checklists: RAACs, Documentation, Credit Administration
7. Trade/Bank and Registrar Checking.

Of these, only items 1 through 4 are required by ETI's CPC in Lome if the credit needs to be submitted to them for approval. ' Where there is a term loan, the following additional items are required:

1. term Loan Agreement
2. Term Loan Summary
3. Term Loan Checklist.

The length of a CA package is dependent upon the complexity of the credit and whether it is an initial, interim or annual CA.

1. An initial CA secured by cash collateral, Third Party Collaterals or Standby Letters of Credit does not require an in-depth financial analysis. However, it will need to have a comprehensive background section. Therefore, although not complex from a risk point of view, the initial CA could still be a lengthy document.

2. Similarly, a CA for products like guarantees and bonds to the Immigration, Customs, etc., secured by 100% cash collateral primarily requested by some key liability (depository) customers, will not require an in-depth financial analysis. The CA components will tee: a CA face, CA Remarks, a BIR, Checkings from one Bank and One Trade source, and the related credit documentation.

While there is no rigid rule as to how long a CA package should tee, all packages should be as concise as possible with the minimum of duplication.

Wherever possible and with appropriate approval, certain parts of the credit package such as BIRs, Spread Sheets, should be automated via available micro-computers.

The following guidelines apply:

4.1.2 CA FACE

The CA face is the way in which the bank presents facilities to be approved to a borrower. The blocks on the CA face are explained in the footnotes to the CA form in the "Forms/Checklists" section of this Manual. In addition, the CA face should indicate:

1. Whether the borrower is a Target Market name or not and its tier.

2. Exchange rates used for conversion of fine amounts to dollars.

3. Outstandings (if any) against existing or proposed credit lines.

4. Pricing for each facility.

5. Also where we are recommending sub-allocations, indicate procedural guidelines on tenor and amounts. In the case of overdraft facilities, clean-up requirements (if any) should be indicated.

6. A list of documentation requirements.
   The security documents should be listed separately from the support documents as the two have a different legal implication on the credit. After listing the do should include a statement e has reviewed the documents and that in order. Where certain documents are being deferred, appropriate credit committee approval should be obtained before any drawdown is made.

7. The face of the CA should be used for approval of all Initial, Interim, as well as Annual Credit reviews.

4.1.3 <u>FACILITY LISTING</u>

This is a continuation page for describing the facilities if they do not fit on the CA face.

4.1.4 <u>CA REMARKS</u>

CA Remarks will be required for all packages and should cover the following subject matter:

4.1.5 <u>PURPOSE/LINE STRUCTURE</u>

Since it is already obvious from the CA face what the purpose of the CA is, provide only a short statement to define the purpose of this CA (annual, interim). What should be expressly covered under this section is the purpose of the facility and justification that the proposed fine structure is appropriate for the client's need. In situations where we recommend sub-allocations, this section should provide a justification for the sub-allocation. Also include here the previous year's utilization and comment on whether it was overly or marginally used.

4.1.6 <u>FACILITY LISTING</u>

For initial reviews, a detailed background should be provided, but we should avoid repeating information already provided on the BIR. In addition, this section should discuss the bank's relationship with the client and how we stand in the banking line up against our competition. Include here also the previous calendar progress against budget. A comment on how the company fares against the RAAC and its standing in the Bank’s portfolio quality rating is also helpful.

4.1.7 MANAGEMENT

The CA remarks should contain an assessment as to management capabilities/quality. Significant changes during the past year, and anticipated major changes in Management should also be discussed in this section. Cross-reference to the BIR, if necessary, should be made.

4.1.8 FINANCIAL ANALYSIS

Where a separate financial memo is not prepared, this section should give the credit committee an in-depth overall picture of the company's financial performance, its balance sheet strengths and weaknesses and its cash generating capabilities. The focus should be on the "whys" of the historical figures: the absolute changes are self-evident from the spreads. A fine by fine review is not necessary, but it is essential to explain major trends in the operating results, balance sheet and cash flows. An element of practical common sense must be applied, which distinguishes regular features in financial statements from either one time or irregular developments/trends. For instance, the borrower may have embarked on a CAPEX (Capital Expenditure) programme during the year under review. How this was financed, whether the programme costs are on target, and the effects of depreciation, tax liabilities, etc. should be explained. Similarly, if the receivables or inventory evidence a slip from past levers or if Short Term Debt or payables show a significant variation, these should be explained. If margin have improved or worsened (price controls, competition, one time rationalizing, restructuring of expenses) these should also be addressed. Company trends versus industry trends should also be compared. These are only a few examples. Sensitivity analysis of key balance sheet or P & L items should be covered. Where security for the loan is a charge over the company's assets (floating, fixed or both), the analysis should be complemented with a liquidation analysis providing the realizable value of such assets.

2. For classified names, there should be emphasis on specific action plans and target dates.

4.1.9 FUTURE PROSPECTS/SENSITIVITIES

For the larger CAs, a paragraph covering future prospects should be included immediately after the financial analysis Section. This section should discuss the borrower's business and financial outlook over the next 12-18 months (or the life of the term loan if relevant). A critical assessment of the company's business can then be made by employing different basic assumptions (adverse political changes, sudden curtailment of import licences for raw material purchase, a shift in consumer demands, price decontrol, etc) and the resultant impact on aspects such as cash, net income and the balance sheet. A conclusion of this analysis would indicate whether such an eventuality would result in our working away from the relationship, reducing our exposure or otherwise.

4.1.10 RISKS ANALYSIS/WAYS OUT

1. This is a very important part of the CA Remarks and must draw from both historical and projected results to determine specific vulnerabilities of a specific borrower, and why the risks are acceptable or not. As a general rule, each loan will have at a minimum, two ways out: the first one being the company's cash flow generation, the second one being exercising rights on the security.

2. A very clear statement on the number of ways out should be made to determine how the risks are hedged. A comment on market value and solvability of security is desirable. Where we have a charge over assets, the analysis should also include a liquidation analysis, which takes into account a conservative and realisable market value of the assets.

This section should also specifically address all the risks associated with the borrower, as well as the industry and then address all the mitigants. History is usually the best example of a company's ability to cope with the future and to the extent that they have failed or succeeded in the past, we can draw some conclusions on the future. Every borrower has weaknesses. We must analyze these objectively. Risk could be internal (micro: management, financial structure, poor product quality, outdated technology etc.) or external (macro: price controls/declining market demand, credit ceilings, supply, distribution, import controls, etc.). We have to decide which are the ones that apply in a specific case and the degree of vulnerability.

4.1.11 STRATEGY AND RECOMMENDATION

1. Finally, the analysis of all the above must translate into specific credit recommendations indicating purpose and whether the recommendations are consistent with the risk and the client's needs.

2. Specific line recommendations, must also be consistent with an overall relationship strategy which could be one of three – stay, increase exposure or work-away (usually applies to no T.M. names or classified IIs and worse). For classified credits, the recommendation should provide action plan, triggers and target dates.

4.1.12 BASIC INFORMATION REPORTS (BIRs)

The BIR is intended to be a compressed but comprehensive profile on the borrower, and should communicate to the reader all essential facts. All blocks should be completed in as much accurate and relevant detail as possible. The BIR should contain a factual information on management/key decision makers (i.e. age, number of years with the company, previous experience) whereas the CA Remarks should highlight changes over the year, eg. key position changes, introduction of critical management process, etc; As much relevant continuing data is possible (on management, or products) should be loaded onto the BIR.

4.1.13 SPREADS

1. Guidelines on the use of the spread sheets are provided in the Forms/Formats Section of this Manual. Financial reports should be obtained for all clients who are required to produce audited statements on their operations. For Ecobank purposes, these should be current and spread (even where we are not required to analyse them – e.g. cash collaterals/SBLCs type exposure).

2. Spreads should always cover a three year period on the same form. Separate spreads should be used for projections, if applicable. Likewise, spreads of unaudited accounts should be analysed separately from those of audited statements.

3. Use comparable periods only, but if house figures are available as of an interim date, these should be inserted into the fourth column. Do separate spreads comparing historical interims – if you need to explain any running rate differences, these should be discussed in the Remarks. If interims are not available in sufficient detail so as to be spread, then just discuss highlights.

4.1.14 MARKETING PLAN

This should be used for all accounts that are expected to yield a minimum Account Profitability as defined in the target Market study. When used, it is important to ensure that marketing and credit strategies are consistent with overall relationship outlook, i.e. the specific action plans are of measurable dimensions (eg. Increase share of pool to X per cent or improve tier position by increasing or establishing facilities XYZ etc.). The Marketing Plan should, at a minimum, discuss the next 12 months. The form should be supplemented by a Budget form, discussing the various assumptions for the Budget. A sample Marketing Plan and a Budget Form are contained in the Forms and Formats Section of this Manual.

4.1.15 CHECKLISTS

1. RAAC (Risk Asset Acceptance Criteria)

This checklist focuses on the Target Market and Risk Asset Acceptance parameters.

2. Credit Administration

This form serves to confirm that all the necessary components of the credit package have been included. Additionally, it should be used as a self-check when the CA is still in draft form, to confirm that the key issues in each process block have been addressed.

3. Documentation

In addition to listing all the documents on the CA, this checklist should be completed, and reviewed by the Account Officer, Credit Department Head an the Credit Committee (for approval of deferrals).

4.1.16 CIRCULATION OF THE CREDIT PACKAGE FOR CREDIT COMMITTEE REVIEW

1. Each credit Committee member reviewing the CA document should set out any observations he has to make in a memo to the Account Officer. The Account Officer will thereafter finalize the package, taking into account all the points made and agreed on by the Credit Committee members.

4.1.17 POST CLASSIFICATION CAs

When an account becomes adversely classified, the entire relationship must be reviewed in the form of a CA which will also require next higher level of approval. Provided the last CA was done 6 months before the classification, it will be sufficient to reproduce all the attachments to the previous CA, along with CA remarks covering the following points:

- Relationship History and Background
- Comments on Financial and/or Industry trends leading to the classification.
- Existing Lines and Outstandings
- Revision Date
- Security/Support
- Accrual Status (if overdue state amount and how long overdue)
- Principal Payment status
- Action Plan and Strategy: Must be specific and geared towards remedial management; must address whether unit plans to retain or cut (liquidation) the relationship, reasons, time frames.

4.1.18 TERM LOAN REVIEWS

Where the unit has extended a term loan to the customer**,** the repayment program usually runs into several years with sometimes no repayments during the first two years during the grace period. In these situations, however, the relationship will still require a term loan review which will provide an update on the progress of the project, compliance with term loan covenants, changes in the Management or project structure and update on collection of principal and interest. The term loan review requires the original level of approval.

4.1.19 SAMPLES – SECTION FIVE

Term Loan Summary

Term Loan Check-off List

4.2 CREDIT PACKAGES – CHEQUE PURCHASE LINES, BONDS AND GUARANTEES

1. Where withdrawals are authorized against uncollected funds, there is a potential exposure for the bank in the event that an instrument is returned unpaid while we have already advanced the customer some funds under the expected payment.

2. Similarly, whenever the Bank issues bonds or guarantees to third parties, unless these are supported by 100% cash collateral; there is a potential credit risk which should be addressed before the issuance of such guarantees. As a rule, all guarantees should be 100% secured by cash collateral or alternatively, a corresponding secured credit line.

3. The following CA preparation guidelines will apply:

    1. CA face and brief remarks

    2. BIR

    3. Marketing Plan

    4. Audited accounts for all corporate names should be requested.

    5. Where feasible bank checkings should be obtained from drawee's banks (i.e. where funds are regularly received from the same source).

    6. Recourse Agreements approved by legal counsel and signed by authorised signatories are required for all cheque purchase lines.

    7. Guarantees are generally 100% cash collateralized but where such cover is not available, a full risk analysis must be performed.

    8. Facilities must be reviewed annually.

    9. The Customer Service Unit must be provide with a copy of the approval CA face.

4.3 CREDIT PACKAGES – PERSONAL OR POLICY LOANS

1. Credit packages recommending policy loans should contain a CA with a remarks section. The remarks page should cover:

   - Purpose/line structure
   - Relationship Background
   - Justification for Credit Extension
   - Security Support
   - Recommendation

2. A policy loan is defined as a loan made to:

   - An individual (except a staff member)
   - To an entity where the proprietorship is used essentially for personal accommodation.

3. The following procedural guidelines will apply:

   - All Policy loans must carry the full credit Committee approval including the Managing Director.
   - Borrowers will be confined to individuals associated with Tier I Group of customers only.
   - Amounts must not exceed the equivalent of US $50,000
   - Tenor must not exceed three (3) years; because of this,
   - Real estate loans are specifically excluded from the Personal loans program.

4. All exceptions to the above will require the approval of the Chairman of the Subsidiary/affiliate concerned and ETI-CPC. In addition, once a year as of December 31, the Bank must prepare a summary of all outstanding Policy loans and submit the summary to the Bank's Board of Directors for review The report should be in the following format and must be submitted by January 31 of following year.

PERSONAL OR POLICY LOANS REPORT

NAME OF BORROWER	CORPORATE AFFILIATION	APPROVED FACILITIES (000)	OUTSTANDINGS (000)	SECURITY/ SUPPORT

4.3 CREDIT PACKAGES – FINANCIAL INSTITUTIONS

OVERVIEW

4.4.1 Lending to Banks/Financial Institutions involves different considerations to lending to commercial customers.

For a start an evaluation of the banking sectors and a rating or tiering of individual institutions needs to be done.

4.4.2 The following general considerations apply:

1. The risks faced by banks in any given country are influenced by the structure of the banking system, the competence of its regulators, and the objectives of political leaders.

2. The risk of lending to a government-owned bank is similar to country risk.

3. A retail bank is one which has a broad base of depositors and risk assets diversified among thousands of separate unrelated obligors.

4. A bank which has refund itself with “bought money” does not have the same stable deposit base as a retail bank. And the regulatory authority may not be as willing to step in as a lender of last resort.

5. A bank in an exchange control country which borrows in foreign currency is dependent upon the monetary authority’s willingness and ability to make exchange available for repayment. It also has an exchange risk.

6. Specialised banks, merchant banks, investment banks, consortia, especially if foreign-owned, are rarely integrated into the host country’s economy and may not enjoy the support of the local regulator to the same extent as purely domestic banks.

7. A healthy parent-bank will tend to support a weak subsidiary, especially if it bears its name. When the roles are reversed and the parent has a problem, the subsidiary can be affected adversely.

4.4.3 Specific country factors and banking policies must also be considered.

1. Economic and political stability of the country. In some instances, the ultimate risk of credit to banks will in fact be the ability of a sovereign state to assure liquidity of its key institutions.

2. Position and reputation of the bank in the economy. (for instance, a state owned Bank will probably be supported by the Central Bank in case of trouble).

3. Quality of management (i.e. professional competence, level of professional experience, familiarity with their bank, MIS availability? technologically up to date?, soundness of policies?).

4. Quality of assets: loan loss reserve policy; write-off experience, portfolio diversification in terms of exposure by industry, geography, maturity.

5. Earnings: where known, it may be appropriate to pull some meaningful ratios such as earnings/capital, loan loss coverage, earnings to risk assets, etc. Historical track record should be assessed.

6. Liquidity, defined as a bank's ability to repay depositors, is a key element in the qualitative evaluation of a bank because of the rapidly shifting character of a bank's assets and liabilities. A bank must maintain sufficient reserves to meet deposit swings, both daily and seasonal, long-term deposit trends and customer loan demand. With the increasingly active participation of banks in the major money markets has come the need to assess their ability to acquire funds under varying conditions of stress. It is important to understand the extent to which a bank relies on borrowed funds.

7. Capital and capital adequacy regulations and the extent to which they are being complied with.

4.5 CREDIT APPROVAL PROCESS – FI NAMES

4.5.1 BANK RATINGS

Virtually, all banks in this region, and in Africa, are "non-rated". With regard to industrialised countries, the ratings applied institutional banks will apply. The categories Rated A, AA, AAA, and AAAA.

4.5.2 TARGET MARKET

FI background information should be the basis for a comprehensive Target Market Study and a Treasury strategic plan.

4.6 CREDIT PACKAGES

1. The Credit package will require full Credit Committee Approval and should have the following components:

    1. CA face

    2. Basic Information Report (please refer to BIR form for Banks in Section Five of this Manual).

    3. Brief financial memo commenting on:

        - Capital structure
        - Assets
        - Management
        - Earnings
        - Liquidity of the Bank

    4. Spread Sheets (please refer to Commercial Bank spread sheets in Section Five of this Manual)

4.7 AVAILMENT/OFFERING TICKETS

4.7.1 AVAILMENT TICKET

Under normal process guidelines, the Bank will prepare a credit package, take it through all approval steps and obtain all the necessary documentation before releasing the line for customer use. If this has been accomplished, and provided that the same product, limits, and the tenors approved in the CA are being availed, then the disbursement, whether done in the loans department, over the counter represents an availment. For transactions other than availments under facilities for advances in current account, an availment ticket (AT) will be prepared for securing approvals in accordance with the guidelines in Section One of this Manual.

4.7.2 OFFERING TICKET

In exceptional situations, the bank may be requested to do a one-off transaction where production of a full CA package would not be warranted. For such situations, the processing of the disbursement can be on an offering basis, and an offering ticket (OT) can be prepared for securing the necessary approval as per Section One of this Manual. OT approval is also appropriate if credit facilities have been approved, but not all conditions have been complied with.

4.7.3 ROUTING

1. Except for overdrafts (where an availment ticket is done for the line not for individual debits), all disbursement requests should be routed through operating departments who will review the request and prepare a ticket describing the proposed transaction.

2. This ticket, along with supporting documents will be passed to the Credit Administration Department, which will indicate the approved lines, and present outstandings and whether the documentation is complete and in order. The Credit Department will also state whether or not the transaction is within lines and pass the ticket to the Account Officer.

3. The Account Officer will confirm the pricing for the transaction, obtain necessary Credit Committee approval and (in the case of OTs) indicate time frame for correcting the irregularities on the transaction (eg. formalising the transaction as a facility, obtaining missing documentation, etc….).

4. The Account officer will pass the ticket to the Credit Administration Department which will confirm that the approvals are regular and return the tickets to the Operating Department for processing.

5. After processing, the Operating Department should photocopy each ticket and pass on a copy (if this is an AT) to the Credit Administration Department against the proper initials. In the case of OTs originals will be kept by the Credit Administration Department, while the Operating Department will keep a copy, also initialled by the Credit Administration Department.

For ease of reference by Customer service and other Operating . Departments, copies of all approved CAs and any amendments thereof should be made available to all such units.

4.7.4 SAMPLES/FORMATS

A sample Availment Ticket and description is contained in Chapter Five of this Manual.

4.8 INTEREST EARNED NOT COLLECTED

1. Interest earned on advances in current account may be debited to the customer's account to create a TOD (Temporary Overdraft) provided that the excess over the approved line is liquidated within 7 days. If after a period of 30 days from original booking date this TOD is not liquidated, it should be reversed out of income (i.e. crediting Interest Earned not Collected and debiting Profit and Loss – Adjustments and Refunds of Profits Previously Taken).

2. With regard to interest on temporary overdrafts, since TODs by definition are temporary and should be cleared within 7 days, interest on TODs may be debited to the customer's account, but if principal is unpaid after 90 days, the TOD should be transferred to non-accrual and interest accrual reversed out of income.

4.9. PAST DUE OBLIGATIONS - NON ACCRUAL ASSETS

4.9.1 SCHEDULE FOR TRANSFER OF ASSETS TO PAST DUE OBLIGATIONS

Loans and Advances: These assets are transferred to PDO according to the following schedule:

1. Single payment loans that are unpaid 15 days after maturity.

2. Single payment loans and demand notes with interest payable at stated intervals where an interest payment is due and unpaid for 15 days. When an interest payment is past due, the entire unpaid principal must be transferred to Past Due Obligations.

3. An instalment that is unpaid (principal or interest) for 30 days on consumer, mortgage, or term corporate instalment loans. When an instalment is past due, the entire unpaid balance must be transferred to Past Due Obligations.

4. Casual overdrafts not paid within 15 days. Overdrafts extended under formal lines are considered past due when not covered per the terms of the underlying agreement or in any event 15 days after the line has expired.

5. <u>Advances under Letters of Credit</u>: Any outstanding items exceeding 30 days will be transferred to PDO automatically by the Operating Department.

6. <u>Bills Negotiated</u>: Cheques purchased will be transferred to PDO if they remain unpaid for 30 days.

7. <u>Bills Discounted</u>: Will be treated as single payment loans.

4.9.2 <u>RESPONSIBILITY FOR LIQUIDATION OF PAST DUE OBLIGATIONS</u>

1. Where a new PDO is created, it is the responsibility of the Account Officer to ensure follow-up to obtain liquidation.

2. The impact of the creation of a PDO item on an account relationship should result in our taking a close look as to continued accommodation although as a general rule no further credit, irrespective of lines, will be permitted until the PDO item is liquidated and only then after full Credit Committee's approval.

4.9.3 <u>TRANSFER TO NON-ACCRUAL STATUS</u>

If interest and/or principal remains unpaid for a period of 90 days from the date due (and not from date of transfer to PDO), all outstandings to the borrower should be transferred to PDO - Non Accrual and all unpaid interest reversed out immediately to the debit of Profit and Loss - Adjustments and Refunds of Profits Previously Taken. The entire asset should be transferred to PDO Non Accrual and not just the unpaid instalment.

When an outstanding is classified III previously accrued and unpaid interest must be reversed out as under (i) above.

4.9.4 PAYMENTS ON PAST DUE ITEMS

The following guidelines will apply:

1. Past Due Obligation, on accrual, not reserved against. Payments received are to be applied as follows:

    1. Outstanding interest firs.

    2. Then principal after all interest cleared.

2. PDO, on accrual, partly or wholly reserved against:

    1. payments specifically tendered by client as interest will be applied first to interest, then to principal.

    2. if no specific application mentioned by client, then funds to be applied first to principal and,

    3. after all principal is paid, additional amounts will be applied to interest.

3. PDO, on non-accrual, whether reserved against or not. Payment applications will be in the order given:

    1. Principal.

    2. After all principal repaid, then additional funds to interest.

4. Items written off and only a claim record is maintained.

    1. First application to principal.

    2. After all principal is repaid, then application to memo interest.

    3. All funds applied to interest, in the case of non-accrual PDOs and claims should be credited to Profit & Loss Sub-division Adjustment and Refunds of profits Previously Taken only to the extent that IENC was originally reversed out to the debit of Profit & Loss. Memo interest over and above this out-off should be credited to Interest and Discount.

4. Whenever doubts exist, applications of funds received against PDOs on accrual**,** will be referred to the Credit Committee and Managing Director.

4.9.5 REPORTING

The Credit Administration Department Head will report to the Credit Committee and the Managing Director as of each calendar month end, all PDOs outstanding. The report should indicate Name, Amount, Number of days outstanding, and the Account Officer's action plan "to get the past due obligations regularised. The Board of Directors will be kept informed of PDO outstandings on a quarterly basis, and monthly if any PDO item exceeds US$250,000 (or its equivalent in local -currency) or is classified IA or worse.

4.10 CANCELLATION, FREEZING/CLOSING OF ACCOUNTS

4.10.1 CANCELLATION/FREEZING OF LINES

Any cancellation or freezing of fines, should not be instituted without formal notice to the borrower. A unilateral decision in this regard, if not communicated to the borrower, may expose us to litigation brought against us by the borrower.

4.10.2 CLOSING OF CURRENT ACCOUNTS

1. Before a current account is closed, reasonable notice must be given to the customers so that they can make alternative arrangements.

2. All officers are asked to ensure strict compliance as negligence on the part of the Bank could prove to be very costly.

04.021

4.11 CENTRAL LIABILITY RECORDS

4.11.1 Unless or until the Bank transaction processing is automated, the Credit Administration Department will be responsible for the maintenance of accurate and up-to-date Central Liability records.

4.11.2 DEFINITION

A Central Liability ledger is a ledger card where each customer’s direct and indirect obligations are recorded.

4.11.3 PROCEDURE

1. All borrowing customers’ direct and indirect obligations must be controlled against the relative approved credit lines and commitments.

2. Even if borrowers' obligations are not supported by credit fines, these should still be recorded on a ledger card with notation to indicate "No Line" or "Approved on OT" basis or otherwise.

3. Foreign currency obligations will be recorded in the currency of the obligations and converted into local currency (et prevailing exchange rate) for reporting purposes wherever a report is required. For bills purchased and advances in current accounts, individual cards held by Customer Service Unit will be used in lieu of Central Liability Ledgers. Please note that the latter outstandings are not reflected in Central Liability ledgers.

4. One ledger card will be maintained for all products/obligations (including sublimits). A customer with five different products will have all his outstandings recorded on one card.

5. When reporting outstandings on an availment or offering ticket, care must be taken to ensure that all of the borrower's outstandings in the various cards including Customer Service records have been picked up to arrive at the total outstandings figure.

4.11.4 SAMPLES/MODULES

A sample card and explanation is held in Section Five of the Forms and Formats Section of this Manual.

4.12 STANDARD LINE WORDING

4.12.1 The objective of this section is to provide a description of the more common banking products. This guideline will help the writer/reviewer of a credit to ensure that each credit line is fully described giving tenor, maximum period, sublimit provisions, etc.

4.12.2 The following are standardized line descriptions which may be used for short-term facilities. When lesser risks are to be included in a line (e.g. sight L/Cs, under acceptance L/Cs), use the line description of the greater risk rather than **“and/or”** descriptions. When the purpose of the line is not exactly described, select that description most closely approximating your risk, making sure your risk is equal to, or less than that of the selected description.

1. For advances in current account.

2. For temporary overdrafts in current account.

3. For special advances in current account repayable on 48 hours notice.

4. For own note borrowings.

5. For discount of own promissory notes.

6. For demand loans.

7. For clean credits, guarantees or undertakings.

8. For discount of trade bills.

9. For discount of accepted trade bills.

10. For acceptance financing of imports.

11. For the purchase of up country checks.

12. For release of documents received for collection prior to payment or acceptance of the draft.

13. For loans against trust receipts.

14. For the opening of documentary acceptance credits up to ………………..….. days sight.

15. For the opening of documentary sight credits. (with/without control of documents).

16. For the purchase of documentary export bills.

17. For purchase of clean export bills.

18. For short-term credit in any form secured by ………./ (including in this category would be such type of collateral as securities, merchandise, warehouse receipts, cash, etc. This list is not meant to be all inclusive).

19. For short-term credit in any form guaranteed by ……………………..

20. For short-term credit in any form supported by ………………………

4.13 STANDARD ABBREVIATIONS OF CREDIT FACILITIES

For the purpose of abbreviating facility descriptions, the following liability symbols may be used. Any other type of liability should be stated in words which clearly describe the nature of the risk.

AC - Advance under C/C and L/C.

ARE - Acceptances Executed.

AG - Advances in C/A - Guaranteed.

AM - Advances in C/A Vs. Merchandise

AR - Advances in C/A Vs. Real Estate.

AS - Advances in C/A - Secured.

AX - Advances in C/A – Clean

BA - Bankers Acceptances discounted or purchased

CL - Clearings and cash Items.

DB - Domestic Bills -

EB - Export Bills

IB - Import Bills.

FD - Sight or short usance items charged to an "Our Account".

IN - Interest Earned Not Collected (Booked).

LG - Loans - Guaranteed.

LM - Loans vs. Merchandise

LR - Loans vs. Real Estate

LS - Loans vs. Securities

LX - Loans - Clean

TLG - Term Loans - Guaranteed.

TLM - Term Loans - vs. Merchandise

TLR - Term Loans - vs. Real Estate

TLS - Term Loans - vs. Securities

TLX - Term Loans - Clean

NA - Our Account

OD - Overdraft (Current or Their Account).

RC - Account Receivables

CC - Commercial Credit Unused.

BSE - Bills Sold with our Endorsement

FXS - Future Exchange Sold.

LCU - Loan Commitment - Unused

TC - Travellers L/C Guaranteed Unused

TR - Trust Receipt Deliveries.

XL - Collections Outstanding

CKU - Clean Credits, Guarantees or Undertakings

ST - Special Transaction.

These liability symbols may also be used in correspondence (including recommandations of facilities made by cables) and memoranda, where applicable but should not be used in completing "Description of Credit Facilities" on Credit Application.

4.14 CREDIT FACILITIES TO THE GOVERNMENT AND ITS RELATED AGENCIES

4.14.1 Whenever credit facilities are being extended to the Gorvernment, or to any of the majority owned or controlled Agencies, inclulding state owned or controlled banks, a determination must be made as to whether the entity meets the “Means and purpose Test” for supporting the credit request or whether such credit will be consolidated with the credit risk of the Government. This definition results in breaking up of credit extension to Government sectors into two distinct categories:

4.14.2 CATEGORY I

Credit extended to Government entities which do not satisfy the means and purpose test and whose borrowing has to be aggregated with other lending to the Government.

4.14.3 CATEGORY II

In order to recognize a Government entity being in category II (stand-alone entity), the following criteria must be satisfied:

The borrower must have its own resources or revenue sufficient, to service its obligations over time (Means Test). The loan must be obtained for a purpose consistent with the borrower's general business (Purpose Test).

4.14.3 DOCUMENTATION

There are five specific documents that must be maintained in the credit files in order to show that loans or other **extensions of credit meet the means** and purpose test. These requirements are:

1. A statement and supporting documentation describing the legal statue and degree of financial and operational autonomy of the entity.

2. Financial statements for the three years preceding initial extension of credit.

3. Financial statements for each year that facilities are outstanding.

4. A detailed assessment of the entity’s means of servicing the loan.

5. A loan agreement or other written statement from the borrower which clearly describes the purpose of the credit facilities.

4.14.5 The best way to ensure that this is complied with is to have a copy of this section put at the beginning of the CA section of every credit file for which this is a consideration.

2. With the above guidelines, the lending unit should be able to readily identify and incorporate the facilities either as belonging to category I or II of the Government CAs.

4.14.6 All facilities to Category I names will be approved in- the name of the Government and its Agencies. Facilities to Category II names will be approved in separate individual CAs, but all approved amounts must be included under Category II of the Government CA for reporting purposes. Facilities to Category I names must have a common review date but those of Category II will be reviewed on dates which coincide with their annual statement dates. Category II names will be shown on the Government CA for information purposes only, but should not be added to the total of that CA for approval purposes.

4.15 COMPROMISE SETTLEMENTS AND ABANDONMENT OF RECOVERY EFFORTS

1. With some problem credits where a protracted work out is anticipated, where the principal amount is wholly or partially reserved or likely to be reserved in the near future, and when the legal, opportunity and carrying costs are high, it may be worthwhile to negotiate a compromise settlement with a borrower. Such compromise settlements may include the foregoing of part or all of interest and even part of principal.

2. Any form of compromise settlement or moratorium on principal or interest (accrued or memo) requires approval at the same lever of credit authority as would be required if the total relationship were adversely classified.

3. The Board of the operating unit and ETI-CPC must be consulted for any such transaction in excess of US$ 50,000 before a commitment is made. Similarly, for amounts in excess of US$ 250,000, the Board of ETI must be consulted. In either case, once approved, the Audit Division of ETI must be promptly advised.

4.15.1 ABANDONMENT OF RECOVERY EFFORTS

Decision to abandon recovery efforts must be taken by the Credit Committee, including the Managing Director for amounts up to US$ 5,000. For amounts exceeding US$ 5,000 but not exceeding US$ 50,000 approval by the Board of Directors must be obtained. Amounts in excess of the operating unit of US$ 50,000 but not exceeding US$ 250,000 should be referred for approval to ETI-CPC and amounts in excess of $250,000 to the Board of ETI.

4.15.2 FORMAT FOR USE IN RECOMMENDING COMPROMISE SETTLEMENTS (Amounts in LCY thousands with US$ equivalent)

1. Name of client

		Local Currency	US$ Equivalent
2.	Outstandings		
i)	Direct Outstandings	……………	…………...
ii)	Indirect Outstandings	……………	…………...
iii)	Total Outstandings	……………	…………...
iv)	Memo interest	……………	…………...
v)	Any other expenses (eg Legal Fees)	……………	…………...
vi)	Grand Total	==========	========

3. Security

- Description:
- Liquidation Value:
- Expected Time span to achieve liquidation:

4. Compromise Amount

5. Amount of Charge Off
(i.e Grand Total (2vi) – Indirect Outstandings (if fully covered by Cash Collateral) (2ii) – Compromise Amount (4)

6. Reasons for Compromise Settlement:

- Brief Background on Client
- Relationship with ECOBANK
- Steps taken before Settlement
- Financial Condition
- Other Interests
- Sources of Repayments for Compromise Settlement Amount.

7. Write-off for Tax Purposes
(i.e. Direct Outstandings (2i) – Compromise Amount (4))

04.029

4.16 <u>CREDIT EXTENSION REPORT TO ETI</u>

All operating units are required to submit a monthly statement of outstanding Risk-Assets to ETI indicating name of customer, amount approved, expiry date, outstandings and classification where applicable.

The following format is suggested for the monthly report:

4.17 RISK ASSET REVIEW GUIDELINES

1. The Risk Asset Review (RAR) procedures are an integral part of the credit management process of ECOBANK. Risk Asset Review’s mission is two-fold:

   - To conduct an independent examination of the credit health of a business unit’s portfolio and the risk asset management process, and

   - To report to management and the Board of Directors of ETI, through the Chief Auditor, the results of such examinations.

2. Risk Asset Reviews are conducted on an annual basis and the scope of the review must cover all of the subsidiary's risk assets.

4.17.1 REVIEW GUIDELINES

The guidelines presented here below are intended to assist the subsidiary Bank during the three main phases of the audit:

4.17.2 PRE-AUDIT PREPARATIONS

Prior to the arrival of the reviewers, the Bank must prepare a package for the auditors covering the following items:

4.17.3 PORTFOLIO COMPOSITION AND STATISTICS

- A summary of all fines and outstandings.

- A breakdown of portfolio by industry segment.

- A list of all outstanding account receivables.

- Details of all contingent outstandings.

- A copy of the General Ledger.

4.17.4 PERSONNEL RELATED MATERIAL

- The Bank's organization chart.
- List of account officers (credit officers) biographical data.
- Account assignment list.
- Personnel turnover during the period under review.
- Summary of credit training programs for the current and coming year for the credit and marketing staff.

4.17.5 OTHER/REPORTS

- If prior reviews have been conducted, a copy of the lest risk asset review report, lest operations inspection report and (if any) lest Central Bank inspection report.
- If the Bank has any classified portfolio, copies of the classified loan reports for the lest six months should be provided.
- A copy of the Bank's plan/strategy paper and Target Market Study.
- A list of all past due obligations as of out-off date.
- A list of temporary overdrafts as of out-off date.
- A list of CA maturities, including any past due CAs.
- A list of non-Target Market and work-away names.
- A list of the 10 most profitable accounts, including lest full year account profits or current year to date account profits.
- A list of all deals turned clown during the year.

4.17.6 APPROACH TO THE AUDIT

1. The Audit team normally advises their proposed arrival well in advance and sometimes may request that the review package be forwarded to them (in the Hotel) a few days before review date usually the week-end before. Upon arrival at the Bank the Auditors normally hold discussions with the Bank Management to understand the business environment, regulatory restrictions, exchange controls, lending ceilinc3s, etc. Other issues covered include competition, ECOBANK market share and unit's business plan.

2. After these discussions, the reviewers then proceed with a review of credit files and this exercise brings out strengths as well as weaknesses both in the credit process as well as the portfolio. All the files are reviewed against the process cycle blocks of Target Market, Credit Initiation, Documentation and Disbursement, Credit Administration, Problem Recognition, Policy, Practice and Procedures, Remedial Management and Organization/Staffing. A checklist of some of the questions asked is included in Chapter Five of this Manual.

4.17.7 POST REVIEW

After completion of the review, the Auditors will give the Branch a rating on both the portfolio quality as well as the process quality. These ratings vary from above acceptable to acceptable, below acceptable and unsatisfactory in descending order of merit.

4.17.8 FOLLOW-THROUGH ON REVIEW

1. Often, the review will surface a number of weaknesses either in the main process or specifically related to some accounts. Additionally, the reviewers may make recommendations which need to be incorporated within existing systems and controls.

2. To ensure that all these are addressed within a reasonable time-frame, the comments and recommendations are put on a corrective grid which describes the comments and identifies the necessary individual or department to carry out the necessary corrective action. This grid is subsequently reviewed in future process meetings and all deficiencies have to be corrected before the next audit. Repeat comments are a serious affair and every effort has to be made to avoid them.