Board Paper No: 2024/805/09/S

**Board Meeting No 77** 

Date 27<sup>th</sup> September 2024



#### **Lanka Credit and Business Finance PLC**

# AND PROCEDURES MANUAL

#### **VERSION IV**

Owner ; - Deputy General Manager (Credit)

Department ; - Credit

Approval ; - By the Board of Directors. Date of Approval 27 September .2024
Review ; - Annually or on the occurrence of any event that warrants such

review whichever is earlier

#### INTRODUCTION

#### THE MANUAL ON CREDIT POLICY AND PROCEDURES OF LANKA CREDIT AND BUSINESS FINANCE PLC

- Credit policy and procedures of Lanka Credit and Business Finance PLC (hereinafter referred to as "The Company" in this document) will be determined by the Board of Directors and will be subject to review from time to time based on recommendations of the CEO/ Executive Director, Deputy General Manager (Credit), Head of Credit and Head of Recoveries and related key executives handling the subject of credit administration of the company, functioning at the time of such review
- This Manual is intended to introduce Policies and Procedures with a view to standardizing the Credit Administration functions of the company, and to maintaining a profitable and a performing Credit Portfolio.
- It is mandatory for all Branch Manager, Assistant Manager and the Executives (Credit Officer) involved in the Credit Administrational Functions to strictly adhere to the credit policies and procedure contained herein. Any violation will be considered as grave act of misconduct that may necessitates appropriate disciplinary action as per disciplinary procedures of the company.
- The contents of this manual are subject to Acts that govern our regular activities such as the Companies Act, Mortgage Act, Exchange Control Act, and Finance leasing Act. Consumer Credit Act & Pawning Acts, Bills of Exchange Act, Credit Information Bureau of Sri Lanka Act, Stamp Duty Act and, those Acts and regulations relating taxations and the Directives issued by the Director Department of Supervision of Non-Bank Financial Institutions of the Central bank of Sri Lanka (CBSL) and the requirements of the Director Financial Intelligence Unit of CBSL
- The Manual consists of eight parts made up as follows

Part I - Credit Policies of the Company

**Part 11 - Credit Evaluation Procedures** 

Part I11 Loan Review Policy & Procedures

Part IV Early Warning Signals & Watch listing Procedures

Part V Reschedule / Restricting of NPLs – Procedures

Part VI Write Off / Write down Procedures

Part VII Issue of on Demand Letters of Guarantee = Policy and Procedures

PART Viii Code of Conduct for Manager and Marketing Officers

Instructions should be obtained from CEO/ Executive Director. regarding any clarification or interpretation on any policy or procedural matter not covered in this manual

- ➤ When conducting business activities with customer's staff members of all grades should adhere to Direction No. 01/2018 on the subject "Guide Lines on Financial Customer Protection Frame work" Copies of which have been provided to all employees.
- A copy of this manual should be held by the Branch Managers and by those involved in credit administration functions for compliance with its requirements and for the guidance of the staff members involved in credit activities.

#### TABLE OF CONTENTS

#### PART I CREDIT POLICY

#### **Paragraph Numbers**

- 1. DELEGATED AUTHORITY FOR CREDIT ADMINISTRATION (DA)
- 2. RISK CONTROL
- 3. CREDIT APPLICATION THAT SHOULD NOT BE ENTERTAINED.
- **4.** ADVANCES TO CATEGORIES WHICH ARE SUBJECT TO THE PRIOR APPROVAL OF THE BOARD CREDIT COMMITTEE, TO ENTERTAIN-
- 5. SINGLE BORROWER EXPOSURE LIMIT
- 6. PUDENTIAL LIMITS
- 7. RELATED PARTY TRANSACTUION
- 8. STRESS TESTING
- 9. SECTORIAL LIMITS
- 10. CATEGORY OF ELEGIBLE BORROWERS
- 11. LENDING PRODUCTS
- 12. PURCHASING CHEQUES
- 13. PURPOSES FOR WHICH DIRECT CREDIT FACILITIES (Loans) COULD BE GRANTED
- 14. SECURITES FOR CREDIT FACILITIES AND EXPOSURE Loan to Value ratios
- 15. TYPES OF SECURITIES
- 16. CRIB CLEARENCE
- 17. POWER OF ATTORNEY
- **18.** DEFINITIONS (The Term of Loans)
- 19. RATE OF INTEREST.
- 20. TARIFFS & CHARGES
- 21. IDENTITY OF THE CUTOMER / BORROWER
- 22. REJECTED CREDIT APPLICATIONS (DATA BASE)
- 23. BLACK LIST (DATA BASE)
- **24.** STAFF LOAN SCHEMES
- 25. LENDING TO EXISTING BORROWERS (Controlling Over indebtedness)
- **26.** EQUITABLE AND FAIR TREATMENT
- 27. USE OF FORMATS
- 28. RECORDING OF CREDIT APPROVALS

#### PART II

#### **CREDIT EVALUATION PROCEDURES**

#### **WORK FLOW DIAGRAMS**

- 1. CAPTURING INFORMATION FOR CREDIT APPRAISAL (Loans / Letters of Guarantee)
- 2. COMPLETION OF LOAN APPLICATION/ GUARANTOR'S STATEMENT
- 3. INTERVIEW VISIT CUSTOMER /COLLECT DATA/ DOCUMENTS
- 4. PHOTO COPIED DOCUMENTS
- 5. CREDIT INVESTIGATION
- 6. CREDIT ASSESSMENT
- 7. WHEN A GROUP IS BEING FINANCED
- **8.** EVALAUTION OF BORROWERS (credit analysis)
- 9. RISK FACTORS THAT SHOULD BE SCRUTINIZED DURING APPRAISAL PROCEDURE
- 10. RISK SCORING SYSTEM
- 11. STRUCTURING A FACILITY

- 12. CREDIT PROPOSAL PAPER BASIC INFORMATION
- 13. MORTGAGE OVER IMMOVABLE PROPERTY TO SECURE A CREDIT
- 14. VALUATION OF IMMOVABLE PROPERTIES OFFERED TO MORTGAGE TO SECURE CREDIT FACILITIES
- 15. FREQUENCY OF VALUATIONS
- **16.** THE VALUATION REPORT (Composition)
- **17.** VALUATION FEES
- **18.** INSPECTION OF IMMOVABLE PROPERY BY THE BRANCH MANAGER ON RECEIPT OF THE PROFESSIONALVALATION REPORT
- 19. TITLE REPORT.
- 20. THE MORTGAE BOND (Preparation, Execution and Registration))
- **21.** POSTDATED CHEQUES
- 22. CHEWQUE RETURNED REMATKS
- 23. CREDIT EVALUATION
- 24. COLLECTION OF POST-DATED CHEQUES
- 25. CASH KACKED CRTEDIT FACILITIES
- **26.** INSURANCE REQUIREMENTS
- 27. MORTGAGE OVER IMMOVABLE PROPERTIES HOUSING LOANS
- 28. SECURITY DOCUMENTATION
- 29. EXECUTION OF DOCUMENTS
- **30.** GUIDE TO REGISTER A CHARGE OVER AN ASSET TAKEN AS SECURITY AND THE REGISTRATION PROCESS.
- **31.** STAMP DUTY
- **32.** CREDIT DISBURSEMENT
- 33. CONTROL AND PRACTICES IN DISBUIRSEMENT OF FACILITIES
- **34.** VALUE OF SECURITY THAT SHOULD BE UPLOADED TO THE SYSTEM WHEN DISBURSING A CREDIT FACILITY (REFE COLLATERAL VALUE WINDOW IN THE SYSTEM)
- 35. SECURITIES CHECK LIST
- **36.** SECURITIES TEMORARY OUT REGISTER
- **37.** DECLINED FACILITIES
- 38. PRIORITY OF MORTGAGES AND CHARGES
- 39. EARLY SETTLEMENT PERFORMING FACILITIES
- **40.** RECOVERY PROCEDURES
- 41. RECOVERY PROCEDURE LOANS
- **42.** TIME BOUND RECOVERY PROCEDURES
- 43. DEFECTS IN CRIB REPORT
- 44. CREDIT FILE
- 45. CONTENTS OF CREDIT FILE

## PART III LOAN REVIEW POLICY AND PROCEDURES

- 1. INTRODUCTION
- 2. OBJECTIVES
- 3. QUALIFICATION OF LOAN REVIEW OFFICER
- 4. INDEPENDENCE OFLOAN REVIEW OFFICE
- 5. FREQUANCY OF REVIE SCOPE OF REVIEWDEPTHOF ANALYSIS
- 6. REPORTING OF FINDINGS
- 7. CROSS FUNCTIONAL DEAPRMENTS ABD PERIODIC REVIEW OF POLICIES

# PART IV EARLY WARNING SIGNALS FOR WATCH LISTING PROCEDURES

➤ MONITORING & CONTROL OF CREDITS & RELATED FORMATS

#### **PART V**

#### **RECHEDULE / RESTRUCTURE OF OVERDUE LOANS**

- 1. PURPOSE
- 2. CBSL REQUIREMENTS
- 3. PROCEDURE TO BE ADOPTED
- **4.** FEATURES OF THE RESCHEDULE / RESTRUCTURE FACILITIES
- 5. PERIODICAL REVIEW OF RESCHEDULED /RESTRUCTURED FACILITIES
- 6. LIMITATIONS FOR A BRANCH
- 7. PERFORMANCE OF BRANCH MANAGERS
- 8. RECLASSIFICATION OF RESCHEDULED NPLS
- **9.** IMPAIRMENT

#### PART VI WRITE OFF/ WRITE DOWN POLICY & PROCEDURES

- 1. INTRODUCTION
- 2. CRITERIA OF SELECTION
- 3. EXCLUSIONS
- **4.** COMPLIANCE
- 5. PROCEDURE OF WRITING OFF
- 6. RECOVERY OF WRITTEN-OFF ACCOMODATIONS
- 7. DELEGATED AUTHORITY TO WRITE OFF / WRITE DOWN NON –PERFORMING CREDIT FACILITIES

# PART VII ISSUE OF DEMAND GUARANTEES POLICY & OPERATIONAL PROCEDURES

- 1. DEFINITIONS
- 2. TYPES OF GUARANTEES THAT COULD BE ISSUED
- 3. \CONTENT OF INSTRUCTIONS IN GUARANTEES
- 4. ISSUE OF GUARANTEE
- 5. SECURITY
- **6.** RECORDING OF GUARANTEES ISSUED
- 7. APPLICABLE LAWS
- 8. CREDIT LIMITS
- 9. TERMINATION
- 10. ACCOUNTING IN THE GENERAL LEDGER
- 11. RECORD OF CLAIMS PAID
- 12. MONTH END BALANCING OF OUTSTANDING GUARANTEES / PAYMENTS MADE ON DEMAND

#### **Part VIII**

CODE OF CUNDUCT FOR BRANCH MANAGERS & MARKETING OFFICERS

LANKA CREDIT AND BUSI	NESS FINANCE PLC -	CREDIT POLCY	& PROCEDURES MA	ANUAL

### PART I CREDIT POLICY

#### 1. DELEGATION OF AUTHORITY FOR CREDIT ADMINISTRATION (DA)

- a. The Board of Directors shall delegate limits of authority for Credit Administration Functions to the Board Credit Committee and to the CEO/ Executive Director who in turn is authorized to delegate limits of authority to Executives involved in Credit Administration at Head office and at Branches at his discretion
- b. In terms of the above the Chief Executive Officer / Executive Director shall from time to time determine and communicate the limits of authority for the approval of credit facilities to Branch Managers by letters addressed to them personally and such authority to be operative as long as he / she is a Manager of a **particular Branch**. (Duly accepted copy of the aforesaid letter should be placed in the personal file)
- c. In the event of, the Manager been transferred to another branch, or to another department of the company, the authority delegated as the Manager of the particular Branch shall be null and void.
- d. If he is assigned to another Branch as its Manager a fresh letter shall be issued, (addressed as the Manager of the new branch) delegating the limits of authority for Credit Administration by the CEO/Executive Director (Duly accepted copy of the letter should be placed in the personal file)
- e. The Branch Manager should strictly adhere to the conditions stipulated in the letter referred to above, and to the <u>policies and procedures contained in this manual</u>. The said letter of authority should be made available for the perusal of Internal & External Auditors on request.
- f. The Internal Auditor shall report to the Board Audit Committee in his Branch Audit Reports any violations of the requirements in this manual, and comment on the repercussion of such violations, and if necessary suggest new systems and procedures to be adopted to avoid repetition such violations as appropriate.
- g. Any credit proposal in excess of the authority delegated as aforesaid to any executive, should be referred to the next higher authority exercising authority, duly justified recommended for consideration utilizing approved formats
- h. Processing of credit facilities and approval should be on a centralized basis, which involves maintaining one credit file only, for a customer at a particular branch of the company, which branch should be the nearest branch to the customer's permanent address. Accordingly, if a customer has already obtained

- i. a credit facility (ies) from a particular branch all subsequent requests for credit facilities should be processed through the same Branch.
- j. The proceeds of a credit facility **should not be disbursed** pending approval and / or pending security documentation

#### 2. RISK CONTROL

- a) Prospective borrower should maintain savings account at the branch ensuring compliance with KYC and CDD requirements
- b) Borrowers should be made aware of the consequences of multiple borrowings over indebtedness, delays in repayments levy of penal interest and if observed avoid enhancing exposure to such borrowers.
- c) Credit proposals amounting to Rs.5 Million and above should be referred to the Chief Risk Officer (CRO) who shall record his independent observations / comments on risks observed / violation of regulatory, statutory requirements / requirements in this manual and credit circular in force, in the space provided in the credit proposal format in writing hand for the due consideration of the approving authority.
- d) Credit Risk Scoring system in force should be followed and credit proposal with a High-Risk rating should be declined in consultation with the CEO/ Executive Director.

#### 3. CREDIT APPLICATIONS THAT SHOULD NOT BE ENTERTAINED.

- a) Credit for speculate activities on the future market of securities or commodities, Gambling
- b) Minors (less than 18 years)
- c) For illegal activities recognized by statute
- d) Those appearing as irregular in the CRIB reports
- e) To a Director / or a relative of a Director of the Finance Company (relative means the spouse and / or dependent child of the Director)
- f) To a Holding or subsidiary company of the Finance Company
- g) On the security of our shares or on the security of the shares of any of our holding / subsidiary companies
- h) To purchase our shares
- i) On the guarantee or on the indemnity of a director of our finance company, a relation of a director of the finance company or any employee of our finance company.

Items (e) to (i) are extracts from Direction No 1 of 2007 of the Central Bank of Sri Lanka "Finance Companies Lending Direction"

# 4. ADVANCES TO CATEGORIES WHICH ARE SUBJECT TO THE PRIOR APPROVAL OF THE BOARD CREDIT COMMITTEE, TO ENTERTAIN-

a) Politically exposed persons (Refer Compliance Manual for more details)

- b) Members of the Clergy
- c) Borrowers who have defaulted the company or any other financial institution
- d) Non-nationals
- e) Production or trading in alcohol and alcoholic products
- f) Gambling and Games of Chances
- g) Production and trading in arms and ammunitions
- h) Production and Trading in goods and services that are clearly harmful to society
- i) Companies/ Borrowers that are involved in unethical & unlawful activities including Money Laundering
- j) Projects that use child Labor.
- k) Non Resident Sri Lankan citizens\
- 1) Unincorporated Bodies (Associations etc.,)
- m) Projects harmful to environment
- n) Applicants over the age of 60 or if the repayment period exceed the 60<sup>th</sup> Birthday of the applicant (**Refer Note Below**)
- o) Lending to settle non-performing facilities with other financial institutions. these are reflected in CRIB report as non performing
- p) Exposure to clients appearing in the negative list of the company as write offs / non-performing.

#### NOTE REFERRED TO UNDER 4 (n) ABOVE

Advances to applicants over the age of 60 years or if the repayment period exceeds the 60<sup>th</sup> birthday of the applicant to be approved by the **Head Office Credit Committee** subject to the following conditions; -

- a. The applications should be for a **joint loan** and they should maintain a joint savings account at the branch
- b. **Repayment capacity** is to be established taking onto consideration among others the source of income of borrowers, sustainability income of the joint borrowers, and the age of applicants
- c. **Maximum repayment period** should not exceed 60 months. (5Years)
- **d. Maximum loan value** to be decided based on (b) above, the repayment capacity (Debt Service Cover)

#### 5. SINGLE BORROWER EXPOSURE LIMIT

According to Direction No 4 of 2006 of CBSL relating to the above subject we give below a summary of limitations which we should comply with in terms of Part I. page 9 paragraph 5 of our Credit Policy and procedures Manual Version II

Category	Limit	
1. Maximum of a single accommodation or the aggregate	Shall not exceed 15% of our capital funds	
of accommodations granted by us and outstanding at	as shown in the last audited balance sheet	
any point of time from and individual borrower	of our company	

2. Maximum of a single accommodation or the aggregate	Shall not exceed 20% of the capital funds	
of accommodations granted by us and outstanding at any	as shown in the last audited balance sheet of	
point of time from any group of borrowers or from	our company	
subsidiary companies and/ or associate companies		
3. Single accommodations granted to and outstanding in	Shall not exceed 50% of the total	
respect of borrowers referred to in 1 & 2 above <b>each of</b>	outstanding accommodation granted by us	
which exceeds 10% of our capital funds as shown in	as shown in the last audited balance sheet of	
the last audited balance sheet, when all such	our company	
outstanding accommodations are aggregated		
4. The maximum of a single <b>unsecured accommodation</b>	Shall not exceed 1% of the core capital of	
or the aggregate of unsecured accommodations granted	our company as shown in the last audited	
by us and outstanding at any point of time from a	Balance sheet	
single borrower		
5. The aggregate of unsecured accommodations granted to	Shall not exceed 5 % of the capital funds	
and outstanding at any point of time from all	of our company as shown in the last Audited	
borrowers	balance sheet	

Please note that an **unsecured accommodation** means accommodations made without as security or any accommodation with **security** constituting of assets the market value of which is not adequate to cover at least 75% of the accommodation. However, "**Security**" shall include guarantees given by third parties;

Deputy General Manager (Credit) shall ensure compliance with the above requirements through the Head office Credit Department.

#### 6. PRUDENTIAL LIMIT

In order to maintain a diversified portfolio, the Company will adopt the following criteria with following Prudential limits

- a) Subject to the aggregate of **SBL** of 12% & 18 % of Company's eligible capital the total exposure to the **top 20 borrowers** at any given time should not exceed **40%** of Company's total outstanding of accommodations granted as at the previous month end.
- b) To minimize the concentration risk on facilities granted against **Third Party guarantees** to be restricted **to 25%** of the of the Total Gross Advances as of previous month end.
- c) In line with credit risk appetite of the Company exposures for the High-Risk structured Credit facilities to be restricted to 40% of the Total Gross Advances as of previous month end.

#### 7. Related Party Transactions

The Company shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with any person, and particularly with the following categories of persons who shall be considered as **"related parties":** 

- i Any of the Company's subsidiary companies;
- ii Any of the Company's associate companies;

- iii Any of the directors of the Company;
- iv Any of the Company's key management personnel;
- V A close relation of any of the Company's directors or key management personal;
- vi A shareholder owning a material interest in the Company;
- vii A concern in which any of the Company's directors or a close relation of any of the Company's directors or any of its material shareholders has a substantial interest.

(Material Interest - who owns shares exceeding 10% of the paid-up capital of the relevant establishment)

#### The type of transactions with related parties shall include the following:

- i The grant of any type of accommodation
- The provision of any services of a financial or non-financial nature provided to the Company or received from the Company
- iii The creation of any liabilities of the Company in the form of deposits, borrowings and investments,
- iv The creation or maintenance of reporting lines and information flows between the Company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.

The Company shall ensure that it does not engage in transactions with related parties in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Company carrying on the same business.

In this context, "more favorable treatment" shall mean and include treatment, including;

- The granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Company's regulatory capital,
  - The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.
- ii Charging of a lower rate of interest than the Company's best financing rate or paying more than the Company's deposit rate for a comparable transaction with an unrelated comparable counterparty,
- iii Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties,

- iv Providing services to or receiving services from a related-party without an evaluation procedure,
- v Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.

The Company shall not grant any accommodation to any of its Directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation.

This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board of the Central Bank of Sri Lanka and the Directions issued.

In line with above and the credit risk appetite of the Company exposures to **Related Party** exposures to be restricted to 30% of the Company's eligible capital.

d) Similarly **Connected party** exposures to be restricted to **25%** of the Company's eligible capital.

(Connected Party - A shareholder owning a material interest in the Company or close relation to the Director/KMP)

e) It is the responsibility of DGM Credit & Recoveries / Chief Risk Officer jointly with support from Finance department to ensure adherence to these limits, whilst CRO's Department monitor these limits and report any violations to the BIRMC/ BCC.

#### 8. STRESS TESTING

"RMD shall conduct stress tests and scenario analysis with appropriate information and methodologies to assess possible impact of external changes such as country/industry specific slowdowns, market risk events, Interest / Exchange rates volatilities etc. Stress tests may also include contingency plans detailing management responses" to stressful situations. The BIRMC shall review results of stress tests of the portfolio and suggest suitable changes to be done in prudential limits for protecting the advance quality.

#### 9. SECTORIAL LIMITS

- a) In order to avoid industry/sector concentration, the Company has fixed limits on its exposure to different sectors.
- b) Company will follow the sector classification as specified by CBSL RMD will keep the Board /Management informed of any requirement to reduce exposure to sectors considered as high risk depending on the external conditions.

- c) DGM Credit / Chief Risk Officer will propose any amendment to the limits specified below with justification for such amendments to CEO/ Executive Director for consideration.
- d) Such justifications should arise from external factors such as impact from a downturn in the economy on a particular sector/industry, changes in laws and regulations that will have an impact or potential opportunities in a particular sector. The DGM Credit shall propose appropriate sector limits from time to time for the approval of the Board through BIRMC.

#### 10. CATEGORY OF ELEGIBLE BORROWERS

- a) Individuals with repayment capacity (Employees of Government Departments Government corporations. Armed Forces Statutory bodies, reputed public companies, partnership concerns)
- b) Sole proprietary Business Concerns
- c) Joint Borrowers Group of borrowers
- d) Partnership concerns –
- e) Limited Liability Companies (Private or Public)
- f) Registered co-operative societies
- g) Registered societies
- h) Employees of our company

#### 11. **LENDING PRODUCTS** (subject to procedures enumerated in Part II of this manual)

- a) **BUSINESS LOANS** (For working Capital, Business Expansion, Purchase of Machinery and Equipment, Tourism, Transport, Plantation, Agriculture & etc.)
- b) **LEASE FINANCE** (Refer Leasing Manual)
- c) **PERSONAL LOANS** (Purchase of Consumer Durables, Education, Wedding Miscellaneous acceptable purposes)
- d) HOUSING LOANS (Purchase and / or Construction of Residential Buildings, Land Purchase)
- e) MICRO LOANS (Viable & project oriented)
- f) SME LOANS (Viable & project oriented Agriculture Tourism Transport improve existing industry)
- g) GOLD LOANS (Mortgage of gold jewelry based on gold value (Refer Manual on Gold Loans)
- h) **LETTERS OF GUARANTTE** (Refer Part VII of this Manual)

#### Note

Granting advances / accommodations in any other form other than in the form of a loan is PROHIBITED Any deviations need prior approval of the Credit Committee of the Board duly recommended by the Head Office Credit Committee and / or CEO / Executive Director.

#### 12. PURCHASING CHEQUES

a) Purchasing a cheque under the prior approval of CEO/Executive Director or a DGM is a temporary accommodation to a beneficiary of a cheque which is self-liquidating; this activity should be restricted to purchase cheques relating to payment of salaries drawn by the government departments, statutory bodies and reputed business establishments only. Such cheques should be those drawn in favor of our customer and the cheque purchased proceeds should be credited to his account.

- b) The Cheque should be <u>cleared through our banker as per the agreed</u> <u>arrangements with for this purpose immediately. if time permits on the same</u> <u>day</u> (We are not protected as a "Clearing Bank' to clear cheques of customers in accordance with the Bills of Exchange Ordinance)
- c) A cheque drawn on an individual's own account should not be purchased by the company. This is an ATM operation that he could conduct at a customer's Bank

# 13. PURPOSES FOR WHICH DIRECT CREDIT FACILITIES (Loans) COULD BE GRANTED

- a) For Agricultures & Animal Husbandry (Short to Medium Term)
- b) Trade & Services (Short term working Capital)
- c) Term Loans (Purchase of land & Buildings / Construction of residential / factory buildings / Extensions or Repairs to existing buildings / Purchase of Machinery & equipment for industries)
- d) Purchase of Vehicles (Loan / Lease Finance) (Private Use / Public & Tourist Transport Business)
- e) Project oriented lending SME / MICRO (self-employment / poverty elevation)
- f) Personal Loans (Educational / Acceptable Personal requirements)
- g) Any other purpose approved by the Credit Committee of the Board of Directors

#### 14. SECURITES FOR CREDIT FACILITIES AND EXPOSURE

#### TYPE OF SECURITY

#### **LOAN TO VALUE RATIO (LTV)**

Cash (Lien over the Balance in Fixed deposits or savings accounts )	Maximum 90% of face value for funded directs facilities (loans)– 100% for Contingent non funded indirect facilities (Letters of Guarantee)
Treasury Bills / Government securities	100 % of invested value
Mortgage over immovable property (Land & Building)	70 % of Forced sale value as valued by a panel Valuer of the company for bare Land, Residential / commercial properties. For Proposed Building Construction 60% of Bills of Quantities (BOQ)
a) Mortgage over Agriculture Property	a) 50% of Forced Sale Value
b) Mortgage over Factory Land & Buildings	b) 70& of FSV (Only capital)
c) Machinery only	c) 50 % of OMV

Mortgage over Machinery / Movables /	50 % of invoice value or Market Value or s valuation
Stock in Trade	from a competent person or authority acceptable to the approving authority
Gold Loans(Refer Gold Loan Policy and Procedures Manual)	As notified from time to time based on gold market value and caratage
Purchase of Cheques	75% of face value Refer Paragraph 8 above
Assignment over life policies	90 % of surrender value
Assignment / Mortgage over Book Debts	50% of amount outstanding (book Value)
Listed Blue-chip Company Shares (Excluding Shares of our company)	50 % of Market value if shares are of more than one company 30% of Market value if from one listed company The total value of shares taken as security for one or more exposures of any single company shall not exceed 29% of the shareholder's equity in that single company at any given time
Proposed Building Constructions	60% of Bill of Quantities (BOQ) subject to availability of 40% equity of borrower

 $\mbox{CEO}$  / Executive Director have the authority to permit variations in LTV for prime & profitable customers.

Maximum LTV for advances against vehicles is determined by the Central Bank of Sri Lanka which will be conveyed through a Credit Circular – Variations not permitted

#### **15. TYPES OF SECURITIES**

- a) Floating Mortgages over Immovable properties (With Title Insurance Policy If recommended in the title report by the Legal Officer)
- b) Mortgages and / o\r assignments of acceptable book debts
- c) Mortgages of Movable Assets
- d) Absolute ownership of Motor Vehicles
- e) Pledge or Assignment over Gold articles
- f) Cash in Margin accounts for Letters of Guarantee. (100 % or up to a percentage of the guarantee value based on the credit worthiness of customers)
- g) Against Set off of Balances in Term Deposits or Savings accounts
- h) Bank Guarantees / Indemnities (up to full value of facility) (limited to two active facilities per indemnifier) limited to two active facilities per indemnifier)
- i) Personal / Corporate Guarantees up to facility value (limited to two active facilities per guarantor)
- j) Assignment over Life Policies
- k) Assignment over Loan / Lease Portfolio
- 1) Assignment of Public Quoted Shares
- m)
- n) Loan Protection Policy (Additional Security for Personal Loans)

#### **16. CRIB CLEARENCE**

#### Borrowers and Guarantors should be cleared prior to entertaining credit facilities.

If borrower is a married lady	CRIB clearance of spouse required
If Borrower is spinster age between 18 to 21	CRIB clearance of father / mother
If borrower is a partnership concern	CRIB clearance of all the partners
If the Borrower is a Limited Liability Company(not a Public quoted	CRIB clearance of all the directors along with that of the company
company)	
Where the CRIB report states "settled in Full" "irregular" or Rescheduled"	Obtain report from the respective reporting institution

• Prior approval to be obtained for Lending to those who have figured as "irregular" in CRIB records at any one time within last 12 months, unless the reporting institution confirms (In writing direct to us) the settlement and satisfactory conduct of facilities thereafter with them and classified as performing as per CBSL Directives.

#### 17. POWER OF ATTORNEY

When customers request facilities under a power of attorney (P.A) grant of such facilities needs the **prior approval** of Head Office Legal for consideration of the Credit Committee or Board Credit Committee. and will be subject to the applicant meeting the following requirements.

Obtain the principal's confirmation by way of an affidavit that his attorney has the authority to enter into a borrowing agreement on his/her behalf and that he will notify the company in writing if the power of attorney is revoked by him prior to such eventuality.

#### 18. DEFINITIONS (The Term of Loans)

**Short Term** – Facilities that are liquidated within a period of one year or less (Trade \ Finance)

**Medium Term** – Facilities that are to be liquidated during a period exceeding one year but less than three years

**Long Term**- Facilities that are to be liquidated during a period exceeding three years but Less than seven years (Refer note below)

**Micro Loans**-Project oriented–Short term up to 24 months (with or without a Grace period as per project report)

**SME** 

**NOTE** 

- a. A facility subject to a repayment period exceeding 7 years (long Term) will be subject to the approval of the Credit Committee of the Board of Directors.
- b. Facilities to be liquidated during a period exceeding 5 years should bear the joint confirmation of availability of funds to match the period of the Chief Risk Officer and AGM (Finance & Strategic Planning) for consideration of such facility by the appropriate approving authority.
- c. Such facility should be fully secured by primary floating mortgage over immovable property
- d. In the case of individuals, the repayment period should not exceed the 60<sup>th</sup>, Birthday of the borrower and in the case of joint borrowers it should be up to the 60th. Birthday of the eldest borrower.

#### **19. RATES OF INTEREST**

- a) The Management will review the lending rates from time to time based on the prevailing conditions, rates of competitors, anticipated future movement of rates, our cost of funds and will establish a floor rate. Accordingly, the lending rates applicable will be conveyed to the Branch Managers through a Credit Circular as and when the need arises to revise rates of interest.
- b) If the need arises to consider a special rate of interest below the published rate to a prime customer prior approval of CEO / Executive Director should be obtained. Such request should be justified based on the client's overall profitability to the company, credit worthiness, terms of the facility, security cover, Purpose, forced sale realizable value of any asset to be under lien to the company. The underlying strategy should always be to earn a reasonable return over cost of funds, risk premium and generate profit to the company.

#### **20. TARIFFS & CHARGES**

Rates and / or amounts to be recovered from customers to cover the cost for various activities involved in processing credit facilities shall be notified through a credit circular titled "Schedule of Tariffs and Charges" These amounts should be recovered from the borrowers on or before the disbursement of the facility through the savings account of borrower backed by a debit advice to the borrower. Such charges should not be capitalized.

#### **21. IDENTITY OF THE BORROWER**

- a) A customer seeking credit facilities should maintain a savings account with us which
  has been opened subject customer due diligence requirements for "Know Your
  Customer" (KYC) requirements. please refer "KYC-CDD-ML- CTF" Policy and
  procedures Manual and "Savings and Term Deposits" policy and procedures
  Manuals)
- b) The unique identification number of a customer is the National Identity Card (NIC) Number. In the case of Minor Accounts "Podiththa" the Birth Certificate Number and guardian's NIC number should be obtained. This is mandatory Requirement of the CBSL.
- c) Accordingly, it is mandatory that the customer establish his Identity and provide proof of his address for the purpose of utilizing our products and services.

- d) The customer should produce his National Identity Card. In its absence a Valid passport with the NIC number or a valid driving license with the NIC number, from which the NIC number should be extracted (obtains photo copies).
- e) **Do Not create any business relationship** with a person who cannot prove his Identity and / or provide proof of his permanent address.

*Note; -New NIC issued to those born after 1<sup>st</sup> January, 2000 will depict a twelve digit NIC Number. Renewed NICs will carry both new and the old number* 

#### 22. REJECTED CREDIT APPLICATIONS (DATA BASE)

To avoid a rejected application at a branch been accepted at another branch, all particulars pertaining to the rejected application should be entered into the Computer System by the rejecting authorized officer. (If system is not available maintain record manually till such facility is in place) To consider an appeal to reconsider an application rejected at any branch needs the prior approval of the CEO/ Chief Executive Director or that of the DGM. The request should be justified by the Branch Manager recommending such appeal.

#### 23. BLACK LIST (DATA BASE)

Record of Defaulters as "Black Listed": should be maintained in the company's server for on line verification prior to entertaining any credit facility of an applicant. (In addition to data in The CRIB report) Prior approval of the CEO/ Chief Executive Director or that of the DGM should be obtained to consider credit to those back listed even if the overdoes have been liquidated (If system is not available maintain record manually till such facility is in place)

#### **24. STAFF LOAN SCHEME**

Staff loan schemes could be developed within the following terms and conditions and such other terms and conditions deemed necessary by the Management with the approval of the Board of Directors. (A staff Circular has already issued indicating the applicable terms and conditions relating to the products as appropriate.)

#### **ELLIGIBILITY CRITERIA:**

- **a)** Should be a **confirmed staff Member** (to deviate from this requirement Prior approval to be obtained from CEO /Executive Director considering his /her previous experience in the trade and the performance of the previous role)
- b) Should have a service **period of 3 years** in the Permanent carder as at the date of the application for the facility (**Excluding Probation / Training period**)
- c) The housing loan facility could be utilized only once in the entire service period.
- d) Staff members are **not entitled** to obtain a fresh Loan up to the repaid amount of an existing loan
- e) The applicant staff member for a housing Loan should be the occupant of the / house to be purchased / or to be constructed

- f) If husband and wife are staff members only one member is eligible to a housing loan or Vehicle Loan / Lease facility/ No restriction for grant consumption loans to purchase of consumer durables (Furniture / Electrical items etc.,)
- g) Maximum Loan limit should be the limits indicated in the respective loan scheme.

#### **Terms & Conditions**

- a) Recovery of the loan Installment / Rental should be made from the salary of the staff member by the Human Resource Department in coordination with the Finance Department and IT Department. For this purpose, the Human Resource Department should be provided with a copy of the approved Credit Paper by the Head Office Credit Department or the Branch Manager as appropriate. This document should be placed in the personal file of the staff member backed by a letter of authority to do so.
- b) Staff loans should not be granted against the security of the guarantee of another staff member or dependent on the salary of the Staff Member
- c) Repayment period should not exceed the date of retirement of employee or the period applicable to the loan scheme whichever is early.
- d) Repayment should be way of a deduction from the staff Member's salary
- e) The total deductions from the monthly salary of the employee including the installment(s) on all categories of loans stated above, should not exceed 60% of the applicant's gross salary as at the date of the application (A statutory requirement which cannot be violated)
- f) In the event of resignation of employee or dismissal from service the rate of interest will be increased to coincide with rate applicable to the relevant loans category granted to customers of the company. This condition should be covered in the offer letter, loan contract and Mortgage bond.
- g) On resignation of a staff member the facilities should be settled in full or the facility should be rescheduled with the interest rates and conditions applicable to the customers considering their repayment capacity acceptable to the LCBF. E- finance system should be amended accordingly to treat the loan account as that of a customer.
- h) Human Resource dept and Head Office Credit department should satisfy jointly, the repayment programme of the outstanding Staff Loan of the staff member who is either resigning or dismissed from service, before issuing Service Letters and release of any payments/ documents to such staff member.

#### 25. LENDING TO EXISTING BORROWERS (CONTROL OVER INDEBETEDNESS)

Amount outstanding under existing credit facility (ies) should be taken into account when considering fresh credit facilities to an existing performing borrower as follows;

LANKA CREDIT AND BUSINESS FINANCE PLC - CREDIT POLCY & PROCEDURES MANUAL

Security of Existing Facility	Required amount <u>outstanding</u> under the existing facility <u>as a percentage to the original amount of the performing existing facility</u> to entertain a fresh advance
Personal Guarantees	25 % of the original advance
Mortgage over	<b>40</b> % of the original advance
Immovable Property	
Mortgage over	<b>30</b> % of the original advance
Movables	
Lease / Hire Purchase	25% of the original advance
Assignment over	<b>40</b> % of the original advance
stocks / Book Debts	
Cash backed	No Limitation
Gold Loans	No Limitation

The approval of CEO/ Executive Director is required to deviate from the above conditions to accommodate prime and profitable customers if such deviation does not create over indebtedness.

#### **26. EQUITABLE AND FAIR TREATMENT**

All customers should be treated equitably and fairly at all stages of their relationship with us as required and applicable requirements in the Direction Financial Customer Protection Framework of the Central Bank of Sui Lanka

#### **27.USE OF FORMATS**

- a) All applications for credit should be made, processed utilizing approved formats of the company to ensure uniformity in collecting data, evaluation, presentation of credit papers for approval to higher authorities and security documentation. Amendments to Formats should be approved by Head Office Credit Committee.
- **b)** Obtaining the customer's signature on any Blank Document / format with the intention to be completed later is **PROHIBITED.**
- c) Staff members should avoid completing formats/ documents which are meant to be completed by customers (Application forms for loans / Guarantor's Statement etc.)

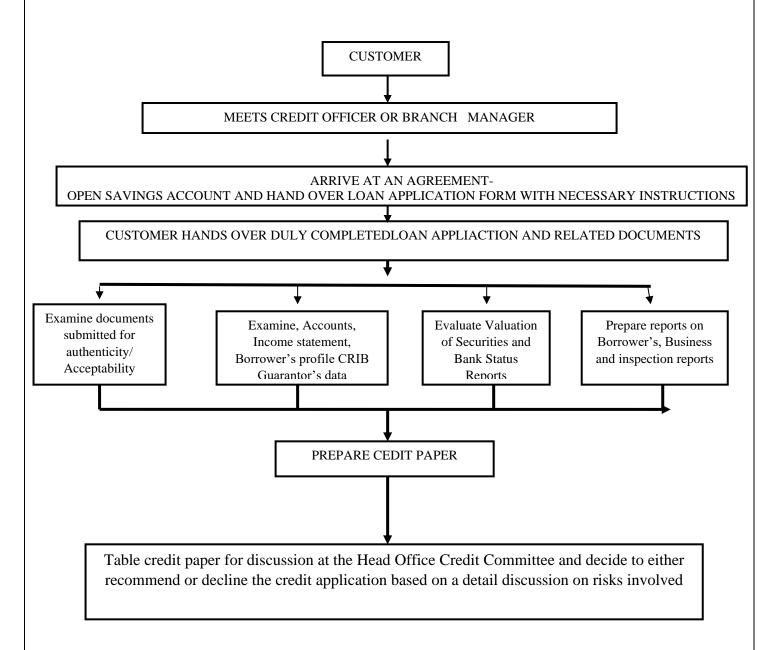
#### 28. RECORDING CREDIT APPROVALS ON CREDIT PAPERS

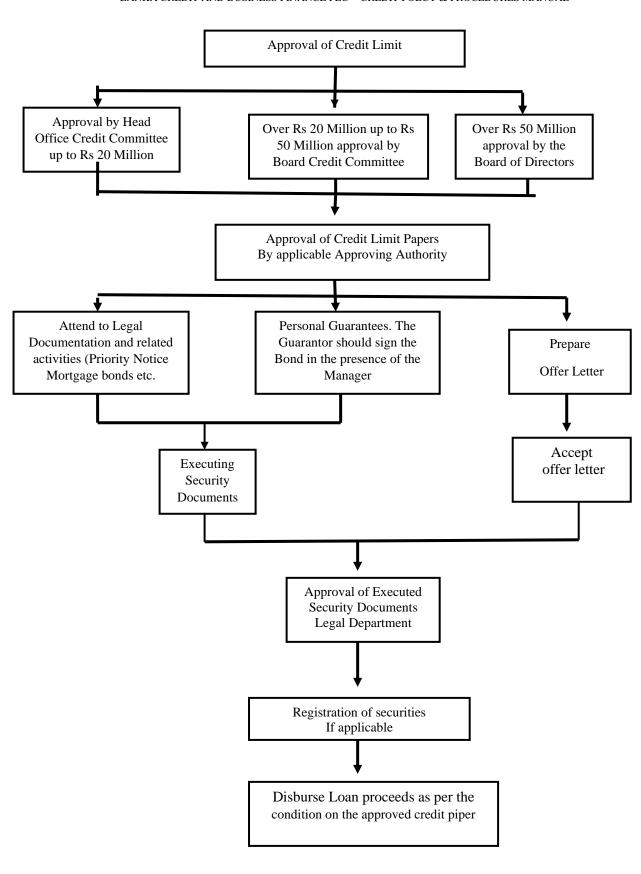
- a) All decisions to approve or decline credit proposals should be recorded in writing on the credit paper with justifications and should be authenticated by placing the signature and recording the designation of the authority who made the decision with the relevant date of approval
- b) In case of any Management Credit Committees all members should authenticate the decisions of the committee by stating their decision on the space provide in the credit paper to record their name and their signature and the date, having stated. The term "Approved or Declined" as appropriate

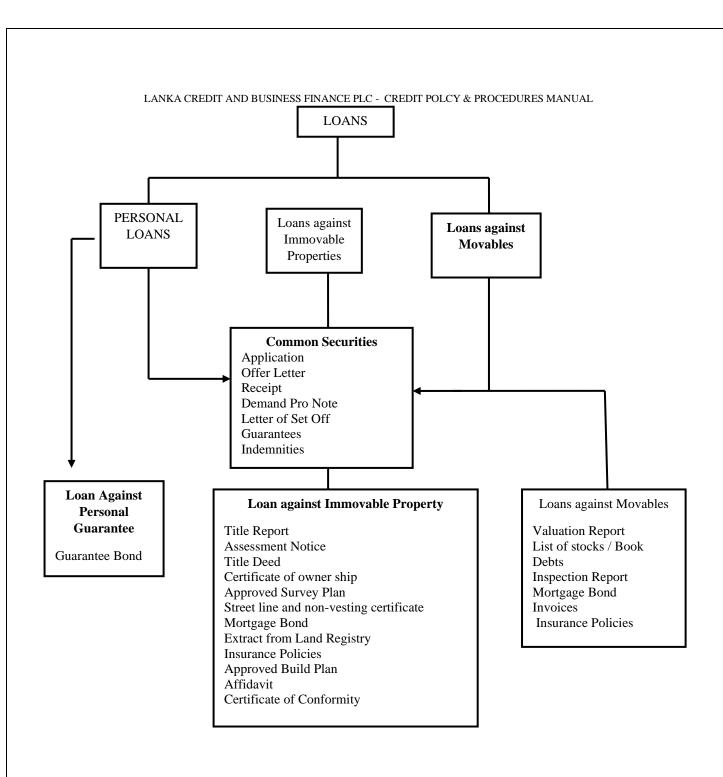
LANKA CREDIT AND BUSINESS FINANCE PLC - CREDIT POLCY & PROCEDURES MANUAL c) In the case of Credit facilities approved by the Board Credit Committee or the Board od of Directors the relevant Board minute duly certified by the relevant secretary should be attached to the Credit paper or the approval should be recorded in writing on the Board paper

# PART II CREDIT EVALUATION PROCEDURES

#### WORK FLOW CHART - CREDIT APPRAISAL & APPROVAL







#### **CREDIT EVALUATION PROCEDURES**

#### 1. CAPTURING INFORMATION FOR CREDIT APPRAISAL (Loans / Letters of Guarantee)

- a) The borrower should complete the **preliminary application form** provided by us which will be the first source of information on the borrower.
- b) The format "Guarantor's Statement should be completed by the prospective Guarantor furnishing all information required therein,to ascertain the credit worthiness of the Guarantor to accept his guarantee.
- c) In case of Project oriented Lending the applicant should submit a project viability report backed by cash flow forecast to be evaluated by the Branch Manager or in house group of credit executive or if necessary outside professional advice could be sought.

#### 2. COMPLETION OF THE LOAN APPLICATION & GUARANTOR'S STATEMENT Formats

 Branch Manager and officials assigned to process applications for credit facilities (loans / Lease) at branches and at the Credit Department at Head office should ensure that the Loan application and Guarantor's statements formats are completed recording required information with emphasis on the following specific requirements with immediate effect.

#### • LOAN / LEASE APPLICATION (BORROWER)

- a) The Borrower's Land /Mobile Residential Telephone number should be mentioned (in addition to Mobile and Email address)
- b) Photograph (selfie) should be obtained and attached to the credit application.
- c) The Branch Manager or the Credit Officer should visit the Residence of the borrower before preparing of the credit paper and confirm that the addressed has been verified A NOTE TO THIS EFFECT SHOULD BE RECORDED IN THE APPLICATION FOR CREDIT WITH THE DATE VISITED.
- d) Borrower's should state his Assets and Liabilities correctly with accurate values in his Loan Application. (THIS DATA COULD BE VERIFIED WHEN IMPLEMENTING 3 (C) ABOVE)

#### • GUARANTOR'S STATEMENT BY GUARANTOR.

- a) Guarantors income, source of income and his monthly expenses should be started backed by documentary evidence
- b) The Guarantor's Land/Mobile residential Telephone number should be mentioned in addition to Mobile and Email address
- c) The Branch Manager or the Credit Officer should visit the Residence of the Guarantor before preparing of the credit paper and confirm that the addressed has been verified A note to this effect should be recorded in the application for credit with the date visited.
- d) The Guarantor should state his Assets and Liabilities correctly with accurate values in his Loan Application. (THIS DATA COULD BE VERIFIED WHEN IMPLEMENTING

- 3 (C) ABOVE) Existing Guarantees provided to other borrowers is vital when deciding the capacity to except a guarantor.
- e) Guarantor should not be a dependent on the <u>Borrower's monthly salary or monthly</u> income
- f) Either the Manager or the Assistant Manager should call Guarantor over the declared phone and confirm the relevant phone number is connected to the relevant guarantor. A NOTE TO BE MENTIONED GUARANTOR'S STATEMENT.

#### 3. INTERVIEW AND / OR VISIT CUSTOMER BY PRIOR APPOINTMENT

- d) **Visit Applicants** business premises and residence to obtain an over view of his business operation/ and related activities/ to satisfy the need of funds for the purpose for which credit is sought. Ascertain experience & reputation in the business / social background /succession plan/ infrastructure in the case of Industries / Business entities.
- e) If the application is a business establishment obtain the **audited financial statements** and the certified management accounts up to the last completed quarter to determine the financial standing with the emphasis on ascertaining the profitability, liquidity, solvency, debt service cover with cross reference to facilities appearing in CRIB report.
- f) Applicants **Bank Statement for the last three months or the Savings Pass book** will depict the value of his transactions channeled through his Bank. If the bank statement shows suspicious large credit balances and large transaction which do not align with the normal business / income transaction such transaction should verified with the borrower.
- g) Obtain detailed CRIB Report (Need to submit the CRIB Name search report & CRIB reports for Old & New NIC Numbers)
- h) Income Tax Returns & receipts will assist to determine income status of any type of a borrower
- i) In the case of employed Individual applicants verify data relating income with the employer
- j) In house information on Customer's past performance with us in relation to facilities in force or settled.
- k) If the applicant enjoys credit facilities with other financial institutions details of such borrowing (Original Amount/ amount outstanding/ Instilment/ rentals/security offered and. performance) should be obtained. This would help to ascertain over indebtedness of customer and repayment capacity

**04.PHOTO COPIED DOCUMENTS** should be checked against the originals and the officer comparing the documents should make an endorsement on the photo copy to effect that he has seen the original document and place his signature along with the employee number stating "verified against the original by me"

1) Applicants and Guarantors should **declare their assets and liabilities** indicating details (lenders names, amounts due, repayment terms, security, details of properties such

assessment number, location and value, documentary evidence to prove income (refer preliminary application format)

- m) Clear photocopies of the NICs of applicants and guarantors duly verified against the original (confirmed as per (K) above) Central Bank of Sri lanka Recognize the NIC number as the unique Identification number
- n) In the case of limited liability companies (Private /Public), a certified copies of the certificate of incorporation/ certificate to commence business, Memorandum & Articles of Association with primary objectives, Registrar of companies Form 20 and a Board resolution indicating borrowing powers with the current request for facilities, should be obtained
- o) Title Reports if property mortgage is involved at the risk and expense of the applicant as we would proceed with the application if the title acceptable only
- p) Professional Valuation reports of properties assets offered as security at the risk and expense of the applicant. These reports should be obtained from a Panel Valuer approved by the Board of Directors
- q) In the case of Cooperative Societies and other Registered Societies obtain among others, Certificate of Registration (With related Authorities), Certified copy of the Constitutions which should depict borrowing powers, financial statements, and resolutions to borrower as required in their constitution. Extracts of the minutes relating to election of officebearers backed by a resolution to borrow as applicable
- r) In the case of Sole proprietary and partnership concerns copies of the relevant certificates of registration of an individual should be obtained.

#### 4.

#### 5. CREDIT INVESTIGATIONS

(Interview borrower to capture additional information)

The initial interview of the customer will be the foundation for a long standing mutually beneficial relationship. Based on the information provided by the borrower in his preliminary application format the Branch Manager could clarify or verify data / collect additional data whilst having a personal interview to cover all or some of the doubtful areas discreetly, to be used at the evaluation stage (maintain notes of the interview) The interview will also help to make a judgment of the applicant and his credit requirements in relation to the purpose to which facilities are requested.

The response of the applicant to questions raised in a truthful manner without any contradiction will witness the honesty & integrity of the applicant.

#### 6. CREDIT ASSESSMENT

a) Credit appraisal for business / Lease / Personal loan applications must be carried out professionally and diligently, with due regard to the political, economic, social, technological, environmental and legal environment prevalent in the country. Any appraisal should establish the sustainability and viability of the project undertaken by the

- applicant, to ensure the project is viable and capable of yielding sufficient cash flows to service future indebtedness.
- b) Initial assessment is to be undertaken by the Branch / business unit, between the Branch Managers, Product Heads and their respective business development officers.
- c) In managing the credit portfolio, Branches are to conduct an initial credit screening based on industry.
- d) The Credit Department must carry out an independent review on financing (which includes new financing, additional facilities, credit reviews and rescheduling / restructuring of performing accounts) submitted by Branches /Business units for Business, Leasing, Micro, and selected personal loans.

#### 7. WHEN A GROUP IS BEING FINANCED

All exposures to a related group of companies should be consolidated for approval and monitoring purposes, and, all annual and regular facility reviews should be consolidated. It is the responsibility of the Branch / Credit Department to ensure this consolidation. The customer can be an individual person or a legal entity. Related entities can be Limited Liability Companies, Partnerships or Sole Proprietorships.

Group entities are defined as those: -

- Where the individual person or parent entity owns more than 50% of the subsidiary entity.
- Where the individual person or parent entity owns a limited stake in (20% 50% or less) of an entity, but has effective management control by exercising a controlling influence over the financial and operational decision making in the said entity.
- Where the individual person or entity may or may not own any shares of the borrowing entity, but provides guarantees or other forms of credit support, or exercise management control, where that support is the primary source of repayment or a material factor in the credit decision.
- Where the individual person or parent entity owns 50% or less but the interrelationship between the parties is such that the parent would be materially affected by financial problems at the affiliate, and vice versa.
  - Furthermore, strict adherence to CBSL guidelines on grouping of facilities should be ensured. An analysis of the Group Risk should be attached to the credit proposal of the Group by the relevant Credit Officer/ Branch Manager.

#### 8. EVALAUTION OF BORROWERS (credit analysis)

#### **FIVE Cs OF CREDIT EVALUATION**

#### **CHARACTER**

Evaluate the past performance of the applicant for credit in relation to dealings with the company through in house information. In House Sources = Register of Rejected applications and Black listed borrowers and the performance under any existing facility. Other sources would be; -

- The latest CRIB report (NPLs Write offs Reschedulement. High indebtedness)
- Bank statements/ Savings account operations
- Status reports from applicant's Banker (s)
- Results of customer interview
- Social Status (customer Visits)

Use data to determine whether the applicant had been a willful defaulter

#### **CAPACITY / CASH FLOWS**

From the data collected and from the information gained by interviewing the borrower determine the applicant's needs and the capacity to repay facility by comparing income against recurring debt servicing / family expenses etc., (debt to income ratio)

**First Way OUT** -The evaluation process should be conducted to determine the **strength / reliability of the repayment capacity** of the borrower which should be through; the excess created in the internal generation of funds from the project / business / salary income, plus other income.

**SELF EMPLOYED** – Fair amount of our borrowers are individuals who are self-employed who seek credit to purchase assets to enhance their income. Therefore, it is of utmost impotence to ensure that such asset would generate additional income sufficient to cover the **loan installment** / **lease rental/insurance and maintenance expenses etc.** Failing to recognize the actual repayment capacity will result in a defaulted facility in our books.

**SALARIED EMPLOYEES-** In the case of salaried employees the Branch Manager should ensure that the loan installment / rental do not exceed 60% of the salary (*take home salary of 40% of salary is a statutory requirement*), taking into account the borrower's living expenditure, commitments to his employer and other financial institution. Period of employment, position held and job stability is another import factor (Required data is captured through the Borrower's / preliminary application format). Arrangement should be made with the employer to have the salary or the equated installment credited to the savings account at the lending branch in the form of an irrevocable undertaking by the employer to remit our required amount to us

SHORT TERM FACILITIES to finance **working capital** required for import export facilities are self-liquidating through the realization of sales proceeds / export bills which needs effective monitoring to ensure timely settlement.

#### **BUSINESS CUTOMERS-**

Financial analysis; - (audited Balance Sheets Profit and Loss statements) Projected Cash flow forecast statements shall be used when evaluating credit facilities for large business / industrial concerns, / SMEs. The process should be targeted to gain an insight into the past financial performance present position, and future trends and the stability of the applicant. (The accounts of the past 3 years could be analyzed by transferring data to a spread sheet) ... Comparing the following ratios based historical and projected accounts will help to estimate among the others the repayment capacity of the customer.

- Growth in sales / income
- Return on equity
- Return on assets
- Return on sales
- Cash flow performances
- Current Ratio / Quick Asset Ratio

- Working Capital and capital expenditure behavior
- Debt to equity ratio
- Debt / Interest servicing cover

#### **CAPITAL**

When determining credit limits, it is not prudent to provide 100 % of the cost of any purpose / activity/ project for which the facility is sought. A contribution to equity participation of the borrower decreases the chance of default as he has to perform to protect his investment as well. This could be achieved through down payments in the case of Lease and HP facilities or by restricting the advance to a percentage of cost of the asset to be acquired / constructed (Invoices /quotations and BOQs could be used to determine the level of the borrower's equity participation. (refer paragraph 9 above)

LIVERAGE - In the case of Business / Industrial institution Debt Ratio and Debt to equity ratios could be a guide in the decision making process to decide on the credit limit. Debt Ratio compares assets to debts and is calculated as total debt divided by total assets. A high ratio indicates that the bulk of assets purchased a being funded through borrowings. Debt to equity ratio compares equity to debt and is calculated as total debt divided by total equity. A high ratio indicates the stake holders are not providing sufficient equity to fund the business. These ratios are a measure of risk in relation to the borrower's capacity to meet its obligations. These indicators should be used in combination with the nature of business / industry etc. and the ratios and attributes mentioned above should not be treated in isolation

#### **COLLATERAL**

#### THE SECOND WAY OUT

Recovery through the realization of securities in the case of default is the "**Second Way Out**". Be aware that the security is a support and the last line to fall back in the event of default by a borrower due to unforeseen circumstances or intentionally, but it is not the reason to Lend. It should be noted that the recovery through the realization of securities may be through litigation, other than Cash Backed Facilities the aforesaid process is a time consuming and expensive.

When determining the collateral, the stability of realizable value (forced Sale Value/ Market value) of the security and the process of creating a lien or charge over such security and the process to be followed to realize the security in case of default should be considered against borrower's repayment capacity to mitigate the ever present risk of default.

#### CONDITIONS

Conditions are enforced when granting facilities to mitigate identified risk such as periodical inspections and stage release of funds to ensure end use of funds and prevent diversion funds to activities outside the scope of the declared purpose and also to ascertain the condition of assets mortgaged via inspections. Insurance requirements assigned in favour of the company is a condition to protect the company in any eventuality such as Floods Fire, Burglary,

Accidents riots, strikes, civil commotion etc., Such Insurance policies covering assets either financed by or / mortgaged in our favour should be assigned in favour of the company.

It should be noted to follow up renewal of such policies by the customer by calling for renewal endorsements issued by the Insurer and filing with the security documents. Customer should undertake to observe warrantees attached to the policy such as "Smoking is Prohibited, Storage of Hazardous goods prohibited, etc.,

#### 9. RISK FACTORS THAT SHOULD BE SCRUTINIZED DURING APPRAISAL STAGE

#### **EXTERNAL RISK**

- **Economic Risk** (Impact if interest rates increases / fluctuation of exchange rates, Indirect Taxations)
- Political Risk (Impact of Government policy changes / Import export controls/ license or permit policies / Import / Import & Export Duty & Imposer & Export Controls)
- **Social Risk** (Pollution / greenhouse issues / Stability of Industry in relation to social fashions / Pandemics)

#### **INDUSTRY RISK**

- Size
- Prudence
- Production
- Distribution
- Vulnérability
- Compétitive Environment
- Demand supplie situation
- Strategic importance for the group and for the country
- Concentration
- Market réputation

#### FINANCIAL RISK FACTORS:

- Profitability
- Liquidity
- Solvancy
- Debt management
- Post Balance sheet évents
- Viabilité of Projections / Cash-Flow
- Sensitivité Analysais
- Peer Group Analysais

#### **MANAGEMENT RISK FACTORS:**

- Expérience/relevant background
- Track record of management in seen th rough économico cycles
- Succession Plan
- Réputation

#### STRUCTURAL RISK FACTORS:

- Identify working capital requirement
- Relate the requirement with asset conversion cycle
- Purpose of the facilities should be clear and mode of disboursement should be structured accordingly (considéré stage releases)

#### **SECURITY RISK FACTORS:**

- Perishability
- Enforceability /Legal structure
- Forced Sale Value / Market value as appropriâtes

#### **10. RISK SCORING SYSTEM**

Based on the conclusions arrived during the evaluation stag the borrowers should be Risk Rated using the formats introduced for this purpose via a credit circular. (refer part V of this manual The Completed Risk scoring format should be attached to the Credit Paper. The risk rating of the customer should be recorded on the top of the credit paper (left Side for uniformity and preferably in RED colour) and rating should be uploaded to the system at the time of disbursement of the facility to facilitate computation of risk based exposure of the credit portfolio

#### 11. STRUCTURING A FACILITY

Based on the evaluations and data collected the facility should be structured to contain the following attributes

- a) **The amount** of the faculty (Consider borrowers' contribution to accomplish the Purpose financed by us)
- **b) Purpose** (Should be acceptable / Viable)
- c) **Security** (A strong second way out Maintain Loan to Value Ratio)
- d) **Rate of Interest** (Should be Profitable &in line with ALCO guidelines)
- e) **Repayment Period & Installment** (may include grace period if project oriented)
- f) **Insurance** requirements to protect assets financed and /or assets under lien to the company as security against insurable risks)
- g) **Special Conditions** (relating to disbursements / stage releases/Inspections/ Valuations / Inspections to ensure end use of loan proceeds and avoid misappropriation which may lead to default)
- h) For Loan to Value Ratio refer Part I Paragraph 10 of this manual

#### 12. CREDIT PROPOSAL (BASIC INFORMATION REQUIED IN A CREDIT PAPER

The **Credit Proposal Paper Format** should be completed providing among others the following basic information **where applicable** to consider approval.

- (a) Risk rating of the Borrower
- (b) Full Name and address of Borrower / Applicant / Guarantors / NIC Number/ Legal Status / Names of partners / Name of Sole proprietor / names of Directors / Business Sector (Specify as agriculture/

Industry / Tourism /Transport / Retail or Wholesale dealer, background /number of employees, achievements and history as appropriate

- (c) Age in the case of individual borrowers (if over 60 years Approval of CEO/ DGM\
- (d) History and age of the business and the period of relationship with us
- (e) Information obtained on Borrower from other financial institutions / other sources
- (f) Comment on CRIB report (Status of borrowings, total exposure) This report will help to determine over indebtedness
- (g) Nature and amount of facility requested and that of existing facilities if any (Consider Single borrower exposure where appropriate)
- (h) Purpose of facility
- (i) Terms (Rate of interest/ Repayment Period / expiry dates)
- (j) Income of Individuals Profession / Self Employed / Employed Name and address of employer & Designation of borrower
- (k) Facility should be within the Borrowing powers of a company. Institution (duly verified)
- (l) If business / status of business / incorporation and registration details duly verified against original certificates
- (m) Assets and Labilities of the Borrower (Inclusive of our company and other financial institutions)
- (n) Income / Salary particulars duly confirmed by employer & other income with source / if business attaché analysis of audited accounts in support with capital resources / income and financial ratios for the last three accounting periods)
- (o) Capacity to repay Repayment plan (Installment / Rental / No of installments or rentals / period
- (p) Particulars of Security Mortgage (Describe the Immovable / Movable property / vehicle/ stocks with forced sale values/ Market value as appropriate.)
- (q) Personal Guarantees (obtain duly completed guarantors statement) and disclose data required in the format inclusive of Guarantor's CRIB report (financial position/ net worth)
- (r) Value of Security (state value and source / Company's Panel Value's Name, / for vehicles Valuer registered with the Auto Mobile Association/ <u>Vehicle Inspection Report (VIR) by Branch Manager</u> which should be used to determine the final exposure to vehicles)
- (s) Income Tax particulars for the last three years of assessment (Auditors could provide certified data in respect of business establishments)
- (t) Name of Bankers / related branch / account number of accounts Current/ savings / fixed deposits and / account operation analysis as required in the format
- (u) Name of Identity document with related number Backed by verified photo copies
- (v) Risks observed and mitigates (competitive environment in a business / Effect Buyers and end users / effect of suppliers of inputs /raw materials, if it is manufacturing concern)
- (w) A printout of the "**Related Account Listing**" extracted from the system which discloses our existing exposure to a customer should be attached to the proposal in support of the repayment capacity in relation to the existing and proposed facilities.
- (x) Recommendation and Justifications of the Branch Credit Committee
- (y) Comments of Chief Risk officer
- (z) Record of recommendations and Justifications of Head Office Credit Committee and Deputy General Manager (credit)
- (aa)Record of Approval within the limits of authority delegated to the approving authorities

#### **13.** MORTGAGE OVER IMMOVABLE PROPERTY

#### Documents required; -

a) Original title deed backed by a title report from a Company's legal officer confirming acceptability of title to property taking into account the nonexistence of any registered Caveat or

such other legal impediments. (The title deed document of the borrower should be kept under safe custody during the evaluation stage)

- b) Title Insurance if recommended by the Legal officer in the title report under (a) above
- c) Non vesting Certificate / Street Line Certificate / certificates of ownership / receipts in support of payment of assessment tax, issued by the local Government authority
- d) Survey plan (The Plan should not be more than ten years old since the date of survey)
- e) Approved building plan if there is a building
- f) Bill of quantities (BOQ) if the Loan is for the construction of a new building or renovation of an existing building)
- g) Valuation report from a panel valuer of the company
- h) System printout "Related Account Listing "of Borrower.

# 14. VALUATION OF IMMOVABLE PROPERTIES OFFERED TO MORTGAGE TO SECURE CREDIT FACILITIES

The valuations of immovable properties should be in compliance with the Directions issued by the Monetary Board of CBSL in terms of powers conferred by section 12 of the Finance Business Act No 42 of 2011,

- a) The Monitory Board of CBSL will from time to time issue instructions with regard to eligibility criteria of valuers that could be appointed to the panel of valuers of finance Companies. These requirements will be included in the Valuation Policy document of the company and in the relevant credit circular
- b) The Credit Department at Head office should in terms of (a) above obtain the approval of the Board of Directors to appoint valuers to the panel and notify branches accordingly with the related qualification etc. The Head Office Credit Department should maintain a list of approved valuers and updated the list as appropriate under advice to branches.
- c) Valuers selected for the panel of the Company as per the required qualifications should acquire continuous professional development as approved / recommended by the respective professional body.
- d) The Valuer shall not be a related party.

#### 15. FREQUENCY OF VALUATION

Frequency of valuation of immovable property shall be as follows;

- a. Valuation of immovable property obtained as collateral against loans and advances which are non performing shall be made at the frequency as follows for regulatory purposes
  - i. In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes a report that is not more than five years' old
  - ii. All other credit facilities a report that is not more than four years' old

Valuation of immovable property obtained as collateral against loans and advances which are performing shall be made at the time of initial granting and at time any subsequent enhancement of credit facilities

b. **The loan agreement / offer letter** shall include detailed specifications of the manner and frequency of the **revaluations**, the description of the immovable property obtained or to be obtained as collateral and the fees payable to the valuer by the borrower.

#### **16. THE VALUATION REPORT (Composition and terms)**

- a) The valuation should be carried out at the specific written request of the Branch Manager in writing by a Panel Valuer. Valuation reports in the pocession of the borrower is not acceptable
- b) The Report should be addressed to the Branch Manager of the company and should be in triplicate
- c) Effective date of Valuation should be stated
- d) State purpose of valuation (collateral for lending0
- e) State name of borrower as notified by the Finance Company in the letter to the valuer requesting the valuation.
- f) Confirm identification of the property to be valued against survey plan / Assessment No /. Ownership / Demarking Boundaries
- g) Description of buildings / Occupancy/ Tenancies
- h) Comment on the extent of the Property (Demarcations / Boundaries etc.,)
- i) Comment on Reservations for Street line / street line expansion
- j) Describe right of entry to the Property: (Describe in detail the Route to be taken from the Public Road way to the properly)
- k) Description of the neighborhood (Ongoing or planed Public & Private
   Development activities, available infrastructure, public utilities, contaminated
   land; that may have an effect on the valuation in the near future (May be
   Adverse or Favorable)
- 1) State nature and source of information used
- m) State Assumptions used / Basis of Valuation
- n) State Forced Sale Value of Land and Buildings backed by computation details
- o) Market Value of Land and Buildings backed by computation details
- **p)** Any other relevant information deemed necessary for the guidance of the finance company with a view to safeguarding its interest, particularly in its lending operations.

#### **17. VALUATION FEES**

Fees payable to panel valuers on account of valuation of Immovable Properties will be notified through a credit circular titled "Valuation Fees".

# 18. INSPECTION OF IMMOVABLE PROPERTY BY THE BRANCH MANAGER ON RECEIPT OF THE PROFESSIONAL VALUATION REPORT

a) On Receipt of a valuation report the **Branch Manager should visit** and inspect the property and submit his report stating the date of visit, <u>confirming among others</u> the acceptability and accuracy of the valuer's comments under items (f) to (j) above and where appropriate item (m) as well.

- b) This inspection is necessary to assess the reasonableness of the Market value of an immovable property derived from the valuation model and, the reliability and the accuracy of data used for such valuation
- c) The. Branch Manager's report should be addressed to the CEO/ Chief Executive Director (attaching a Copy of the Valuation Report) who will authorize under his hand the acceptance of the Valuation Report.
- d) The Approved Valuation report and the Manager's Report should be filed with the related collateral documents of the borrower after the disbursement of the credit facility
- e) When disbursing a credit facility those responsible for updating the system should ensure input of the forced sale value of the property and the date of the valuation report
- f) The Approved Valuation report and the Manager's Report should be filed with the related collateral documents of the borrower after the disbursement of the credit facility

#### 19. TITLE REPORT.

The Title report should be prepared by a legal officers or a lawyer appointed by the company disclosing among others the following aspects extracted from the Land registry, covering a search period of 30 Years or more where appropriate, irrespective of the amount to be advanced.

- a) Name of applicant for Credit with NIC Number
- b) Branch
- c) Account Number
- d) Brief description of Land (based on a survey plan which should be less than 10 years old)
- e) Full Name of the Owner (Specify if not owned by the borrower)
- f) Devolution of title
- g) Comment on certificates issued by the Local Authorities
- h) Comment on Access to property
- i) State existing Encumbrances
- j) Observations and comments on title acceptability as collateral
- k) Defect and acceptability subject to title insurance
- 1) Specific recommendation for acceptance of title
- m) Pedigree sketch
- n) Schedule of the Land
- o) Any other information deemed necessary
- p) Date of Report.
- q) Recommendation to accept the title to property
- r) Name & signature of the Legal Officer originating the title report with the date of the report

Title report relating to advances for Rs 1.0 Million and above should be referred to the Senior Manager Legal at Head office for approval prior to processing the credit application

# **20.THE MORTGAE BOND** (Requirements for Preparation, Execution Attestation and Registration)

On approval of a facility against the mortgage of an immovable property the Branch Manager should request the company Lawyer / legal officer to prepare the mortgage bond by submitting the following documents: -

- a) Copy of the Approve Credit Paper
- b) Original Title Deed
- c) Latest Extract from the Land Registry Title Report

- d) Survey plan
- e) Title Insurance Policy (if recommended in the title report)
- f) Approved Building Plan and Bill of quantities (BOQ) if Loan is to cover cost of construction of a building.
- g) In the case of an occupied residential property an agreement to hand over vacant possession in the event of a sale of property for recovery of dues should be included
- h) Consent Letter (Letter of No objection) from Divisional Secretariat / Mahaweli Authority etc. where applicable.
- i) Any other document requested by the Legal officer.
- j) The legal officer shall prepare the mortgage bond, have it stamped, executed by the borrower, attested and register at the land registry **as early as possible**.
- k) If the Loan is for purchase of a property, the mortgage bond and the transfer deed should be executed simultaneously by the borrower and vendor which should be attested and register at the land registry as early as possible by the legal officer or the Branch lawyer involved.
- Mortgage Bonds / Transfer deeds should be executed, witnessed in the presence of the attesting legal officer only (all parties to the transaction should be present at one and same place and time of execution)
- m) The Legal officer should forward to the Branch Manager the duly registered Transfer Deed and / or the Mortgage bond and the said documents should be booked in with the security documents of the borrower prior to the disbursement of the facility
- n) In the case of 3<sup>rd</sup>. Party (tenant) occupied property with lease / rent agreement a "Deed of Postponement to be executed simultaneously with the Mortgage Bond
- o) The mortgage bond should provide for the mortgagee to agree. in the case of an occupied residential property to hand over vacant possession in the event of sale for recovery dues,

#### 21. POST DATED CHEQUES

- The law relating to Bills of Exchange and CHEQUES are governed by the Bills of Exchange Ordinance No 25 of 1927 and subsequent amendments by ordinance No 30 of 1930 and Act No 5 of 1955, No 25 of 1957 and No 30 of 1961. Accordingly, a cheque is a Bill of Exchange drawn on a Banker **payable on demand**
- A cheque is not a security document for Lending purposes but it is a mode for making payments to meet financial obligations instead of using cash, Therefore, a borrower or a lessee could pay his installment or lease rental by issuing his cheque drawn in favour of our company to the credit of his savings account at the respective Branch.

What we should know about cheques to protect our interest when dealing with cheques either postdated or not (Applicable Law is described above)

- a) A cheque is a bill of exchange drawn on a banker payable on demand
- b) Banker is the **Paying Banker**
- c) The **drawer** is the current account holder of that bank.
- d) The cheque **should be signed** by the drawer. (Our Customer)
- e) The payment of the cheque is made either in the form of cash over the counter or by transfer of funds to another account either with the paying Bank or to an account with any other Bank through the Lanka Clear system. (**Collecting Banker**).

- f) The amount cannot exceed the balance in the current account when presented for payment to make payment on demand or prior arrangement should be done by the drawer to overdraw the account.
- g) The amount should be stated in words and figures, which should not differ.
- h) **Payee** is the beneficiary of the cheque, stated after the word "Pay.....") on the face of the cheque.
- i) The cheque should be **dated**
- j) The cheque should be presented for payment to the paying bank within six months from the date appearing on the face of the cheque to avoid such cheques been returned by bankers with the remark "Stale Cheque"
- k) Any alteration made on the face of a cheque should be authenticated by the drawer by placing his/ her full signature.
- 1) The paying bank may refuse payment if cheque is partly torn with the remark "Mutilated Cheque"
- m) Before a cheque is deposited to the account the credit instructions should be recorded on the reverse side of the cheque as follows "Credit current account No......... of Lanka Credit and Business Finance PLC"
- n) . All the Cheques needs to be drawn in favor of Lanka Credit & Business Finance PLC
   & Not to accept any cash cheques.

#### 22. CHEQUE RETURNED REMARKS AND THE IMPACT

Remark	Impact on our Repayment Arrangements  Unable to fund the account – A danger signal Repayment capacity is doubtful Possibility of facility moving to Non-Performing Category Call for repayment of facility on cash basis		
Refer to Drawer			
Payment stopped by Drawer	Violates agreed method of repayment – <b>A danger signal</b> Could be willful default / Unable to fund the account Call for repayment of facility on cash basis Account will move to non-performing category		
Account Closed  (Banks close accounts for unsatisfactory conduct i.e. issuing cheques without funding the account)	Holding to postdated cheques is of no use Call for repayment on cash basis Account will move to non-performing category if payment is delayed Repayment capacity should be reviewed. A danger signal		
Signature differs from Specimen	Not a common remark, should contact customer (either call for a fresh cheque or payment in cash		
Amount in words and figures differ	If the post dated was examined we would have directed this error when it was deposited with us. Call for fresh cheque or payment in cash.		

LANKA CREDIT AND BUSINESS FINANCE PLC - CREDIT POLCY & PROCEDURES MANUAL

Effects not realized	Cheque should be represented for payment thorough our Bankers	
Stale Cheque	A cheque presented payment six months after the date stated on the face of the cheque will be returned with this remark. The customer could alter the cheque to reflect the current date and authenticate the alteration by placing his signature. Thereafter the cheque could be presented for payment through our current account.	
For any other remark or clarifications in respect of the above obtain instruction from DGM		
(Credit)		

#### **23.** CREDIT EVALUATION - REPAYMENT CAPACITY

Holding to Postdated cheques to recover an advance granted, do not in any way strengthen or improve the repayment capacity of a borrower to recommend a credit proposal. Cheque is an alternate mode of making a payment instead of the payment been made in cash. Therefore, obtaining postdated cheques to recover a facility should not be the only justification to recommend a credit facility (Loan or Lease facility) for approval.

The acceptable repayment capacity of the borrower (Debt Service Cover) and the value and realizable capability of the security, in the case of default, should be the main criteria to consider credit facilities favourably.

Finance companies are not entitled to the protection the Banks enjoy under the Bills of Exchange ordinance referred to above. Therefore, the cheque we accept either postdated or not to recover the monthly installment or lease rental should be drawn in the name of our company and it should be a cheque drawn by our borrower on his Bank's current account. (Refer section 5 step 1& 2 below)

#### 24. COLLECTION OF POSTDATED (PD)CHEQUES

Step	PROCESS	RESPONSIBILITY
1	Cheque to be drawn in favour of "Lanka Credit and Business Finance PLC" and should be drawn on the Borrower's Current Account	Collecting officer /Marketing officer
2	It Should be crossed "Account Payee"	Teller
3	All Post-dated cheques should be either entered in the system or in the "Post Dated Cheque Deposit Register" as soon as the cheque is received.	Teller
4	All Post-dated cheques to be arranged according to the order of the dates appearing on the face of the cheques and it should be deposited to the current account of the company., on the due date mentioned in the cheque. (No <b>deviations</b> )	Teller / Branch Manager
5	All post-dated cheques should be lodged in the Cash vault and every morning the cheques should be examined by the Manager and the	Teller / Branch Manager

	Teller and take out cheques relevant to that date to be deposited to the current account.	
6	Borrower's written request should be obtained if he /her wish to delay the presentation of a cheque to his account on the due date, such request should be referred to <b>Deputy General Manager</b> ( <b>Credit</b> ) <b>for approval</b> .	Branch Manager
7	Branch Manager and the teller should ensure that all cheques selected under 5 above are deposited on the stipulated date.	Teller / Branch Manager
8	If any cheque is returned with a remark of "Refer to Drawer" (Lack of funds) "Payment Stopped by Drawer / Account closed / Drawer's signatures differs from Specimen" notify borrower and request him / her to deposit cash immediately to meet installment/ Rental. Report to Deputy General Manager (Credit) Immediately for further Instructions if the payment is not received on the due date.	Marketing officer/ Branch Manager
9	If the cheque is returned due to any other technical reasons. you should represent the cheque on the next day having noted., in the Post-dated Cheque deposit register the representation date and remark.	Marketing Officer/ Branch Manager
10	Retuned cheque should be handed over to the client only after receiving cash for the returned cheque for further action.	Branch Manager
11	Cheque return charges to be debited to the client's account	Teller / Branch Manager
12	Entries made on the Post-Dated cheque register to be signed by relevant Teller and the Branch Manager and it should be kept in the cash vault.	Teller /Branch Manager

#### POSTDATED CHEQUES IN HAND REGISTER

Date	Name of	Name of	Cheque	Value	Due date	Date / Paid	Authenticati
Received	Borrower	Bank	Number	Rs	For	/Returned	on
Received		&	Tumber	KS	Presentati	/ Returned	Manager
					on	Remark if	
		Branch				Returned	&
							Teller
1		1	1				1

#### **25. CASH BACKED CREDIT FACILITIES**

- 1. Managers and officials at the Credit Administration Unit should examine the security files relating to existing cash backed facilities immediately, and record "Under Lien" on the face of the fixed deposit receipts held as security for cash backed credit facilities and ensure that this procedure is fallowed when granting such credit facilities.
- 2. Cashback facilities should be disbursed using "**Fixed Deposit Module**" in the system and not under the "Loan Module" to ensure effective marking of lien on the e'finance system.
- 3. If during the tenor of the cash backed loan if the need arises to amend the Fixed deposit account existing loan should be recovered and fresh; loan should be granted without creating any loss in interest payable to the borrower and interest receivable to our company
- 4. Credit facilities should not be granted against balances in Deposit accounts of deceased persons. Such balances should be released to the nominee as stated in the Savings and Term Deposits policy and procedures manual

#### **26.** INSURANCE REQUIREMENTS

- a. Loan (Lease Finance Refer Leasing Manual)
  - I. Insurance premium to be collected upfront from the client prior to / Disbursement of the facility.
  - II. All relevant risks to be covered at the time of obtaining insurance.
  - III. Branch manager and Marketing officer should negotiate with the customer before the renewal of insurance assigned to the company.
  - IV. Insurance premium to be collected from the client
  - v. Hiring cover is compulsory for following vehicle category
  - vi. Motor lorry, Batta
  - VII. Buses and Vans
  - VIII. Dual-purposes vehicles
  - **IX.** Three-wheels
  - x. Customers undertaking to be obtained to renew the insurance through our company at the time of the granting the facility. (Should be mentioned in the offer letter)
  - **XI.** All renewals to be finalized 1 month prior to the expiry.

All the insurance needs to be routed through our Insurance Partner (Prestige Insurance Brokers). If the insurance done from outside, Prior approval needs to be obtained confirming the reason & the branch should undertake to renew the insurance annually (if any).

#### **b. BUILDING INSURANCE**

In the case of an existing or new building value of which forms a part of the valuation such buildings should be insured against risk of Fire, Floods (if Flood prone), natural disasters, riots and civil commotion and should be assigned in favour of the company. The cover should be up to 100 % of the insurable value of the building stated in the Professional Valuation Report.

#### 27. MORTGAGE OVER IMMOVABLE PROPERTIES - HOUSING LOANS

Housing Loans could be categorized purpose wise as follows to determine disbursement of loan proceeds in stages:

- a) Loan to Purchase property with a house (No stage releases)
- b) Loan to Purchase property and construct a house (to be released in stages)
- c) Loan to construct a house on property owned by borrower (To be released in stages)
- d) Renovate / Repair residence owned by Customer subject to an inspection by branch Manager

(When construction is involved the Plan of the building duly approved by the local government authority is required with the Bill of Quantities)

In the case of (a) and (b) above since our advance will cover the purchase price of the property the transfer deed is executed by the vendor in favour of the customer (borrower) and the related mortgage in our favour should be executed by the burrower, simultaneously and registered.

In the case of - (b), (c) and (d) above the advances should be release in stages to ensure end use of funds using the Bill of Quantities (BOQ) for guidance. This document provides the specific quantities, measurements, specifications and costs of items backed by drawings of the building to be constructed. BOQ is prepared by a Charted Architect. Stage releases should be based on the work completed certified by a civil engineer or a Valuer

Accordingly, the company will finance up to 70% of the value of property as per (b) above. The vendor should confirm receipt of the balance 30 % from the borrower (receipt to be produced) when executing the transfer deed

If under b c and d the advance will include the 70 % of the cost of construction as per BOQ which is subject to stage releases as stated below.

The stage releases are to be made after inspecting the work in progress by the Branch Manager and satisfying himself with quantum of work completed as certified by a Civil Engineer or a Surveyor in relation to BOQ and plan, as follows; -

Stage 1 Percentage of Advance related to the purchase of the property (60 % of

Value of property)

Stage 2 Completion of DPC Level (The Foundation (60% of the cost of construction

as per BOQ)

Stage 3 Completion of walls to roof level (60 % of the cost of construction)

**Stage 4** Completion of the roof (60% of cost of construction as per BOQ)

Balance advance if any to be released on production of the certificate of conformity issued by the local authority. (This document should be filed with the security documents)

The above stage releasing procedure should be disclosed in the offer letter as conditions for the grant of the facility

• Credit officers and staff at the Credit Department at the Head office should not proceed to process credit papers submitted by the branches that are not in conformity with the

requirements herein, with immediate effect. (These requirements are applicable to all pending credit applications at Head office Crédit Department)

#### **28. SECURITY DOCUMENTATION**

#### THE OFFER LETTER (CBSL REQUIREMENT)

Customer should be provided with an Offer Letter which shall contain the following basic information as required under the finance customer protection framework. The borrower should record his acceptance of the offer made on the duplicate of the offer letter and it should be filed with the security documents

- 1. Name of The Borrower
- 2. Loan Reference Number
- 3. Amount approved
- 4. Repayment period of the loan
- 5. Rate of Interest and its basis (Nominal or Effective)
- 6. Installment and frequency of installment (monthly or any other basis)
- 7. Grace Period and related terms if applicable
- 8. Details of Security
- 9. Loan to value ratio
- 10. Break down of charges (such as Insurance, Valuation. Legal Documentation Registration stamp duty Etc., as applicable)
- 11. Penal rate (per Annum) in the event of delayed payment
- 12. Frequency of valuation of Immovable property mortgages (if applicable)
- 13. The recovery Procedure in the event of default (repossession of assets, The Cost involved in the process, Procedure after repossession, and other charges applicable, etc.,)
- 14. The condition applicable to early settlement of loans
- **a.** In the case of micro finance loans, the recovery procedure such as the days and the time that the field officer visits the group members and the details of the collecting centers. Customer should be notified of any changes relating to recovery arrangements if the need arises.)
- **b.** Any <u>changes to agreed terms and conditions of credit facilities</u> (in the offer letter) shall be informed to the customer before the change is made and accepted by the customer

#### 29. EXECUTION OF DOCUMENTS (CBSL DIRECTION)

All documents pertaining to credit facilities shall be duly completed accurately (Avoid Alterations) and executed by the customer / Guarantor, dated, and witnessed. Accepting incomplete documents and / or obtaining signatures on Blank Formats / documents is

#### **PROHIBITED**

In the case of facilities granted against Mortgage over Immovable properties the Loan agreement should provide a clause for the mortgagee to agree. (in the case of an occupied residential property) to hand over vacant possession in the event of sale for recovery dues,

# 30.GUIDE TO REGISTER A CHARGE OVER AN ASSET TAKEN AS SECURITY AND THE REGISTRATION PROCESS.

Nature of Security	Charge / Document	Registration Process
Fixed Deposit  Balance in Savings  Account	Letter of set off  Deposit of receipt duly discharged or Savings Pass Book	Mark lien in the system on the FD Register and on the face of FD Receipt
Vehicles (Loans)	Mortgage	Registration RMV  If Limited Liability company register mortgage (charge) with Registrar of companies within 21 days
Immovable property	Mortgage	Land Registry  If Limited Liability company register charge with Registrar within 21 days
Machinery	Mortgage	If Limited Liability company register mortgage (charge) with Registrar of companies within 21 days
Corporate Guarantee	Board resolution to guarantee nominating the officers authorized to execute the Guarantee bond on behalf of the Company	Memorandum of Articles should indicate the power to issue the Guarantee.  File Form 10 with Registrar of companies

#### **31.STAMP DUTY** (All types of Credit Facilities = Lease & Hire Purchase)

Security document relating to all types of credit facilities that attracts stamp duty should be duly stamped as per the Stamp Duty Act in force. Applicable stamp duty could be obtained from the Manager Legal or from a Legal Officer

#### **32. CREDIT DISBURSEMENT**

- (a) Proceeds of Credit Facilities should be **credited to the savings account of the Borrower**, if it is a joint borrowing the savings account should also be in the name of joint borrowers.
- (b) The disbursements will be authorized by the Executives at Head office credit Department
- (c) The borrower's written request should be obtained to remit proceeds of credit facilities to third parties. Subject to (a) above (If joint borrowers all parties should sign the letter)
- (d) Our cheque drawn to meet such requests should be issued by debiting the savings account of the borrower, thereby creating an audit trail of the movement of funds through the books of the company. All such cheques should be crossed "Account Payee only"
- (e) Disbursement of staff Loans should be executed through the Kohuwala Branch to the credit of the savings account of the employee, by providing the required data
- (f) Recovery of staff loans should be made by way of a deduction from the salary of the employee for which purpose a copy of the approved Credit paper should be held in the personal file backed by a letter of authority to do so.

- (g) Facility against immovable properties will be disbursed only after the receipt of day book register along with the mortgage execution letter.
- (h) All the Facilities 5Mn & above needs to be referred to Legal Department & the confirmation needs to be obtained prior to the disbursement.

#### 33. Control and Practices in disbursement of facilities

Proceeds of a credit facility should not be disbursed prior to grant of approval which should be recorded in by the approving authority in writing on the Credit Proposal Paper with the date of approval as provided in the format.

The Credit Administration Unit (CAU), which is a support function under Operations shall carry out all administrative functions such as control over security documentation, maintenance of limits, risk grading of customers in the system.

- (i) Prior to disbursement of duly approved facilities, all security documents as per approval shall be completed and any pre-disbursement conditions stated in the credit paper or introduced by the approving authority should fulfilled by the customer.
- (j) All data required in the IT Loan Module screen should be completed accurately by those performing updation under levels 1 to 5 as stated under (i) below.
- (k) At Branch Level I and level 2, at Head Office credit department levels 3 to Level 5, The Deputy General Manager (Credit) and CEO / Executive Director shall authorize in writing jointly the officials who should attend to this activity under 5 levels stated above (Trainees should not be authorize to perform this functions)

# 34. VALUE OF SECURITY THAT SHOULD BE UPLOADED TO THE SYSTEM WHEN DISBURSING A CREDIT FACILITY (REFER COLLATERAL VALUE WINDOW IN THE SYSTEM)

- i. **Immovable Property; forced sale value** of land plus buildings & Market Value and date of Valuation report
- ii. Gold; Market Value of Gold
- iii. Assignment of Shares: Ouoted Market price
- iv. Personal Guarantees; No value
- v. Motor Vehicles: Market Price
- vi. Assignment of Life Policies; Sum assured
- vii. **Cash Backed**; Face value of Deposit instrument under lien or the amount that should be blocked in the case of savings account.
- viii. **Stock in Trade** Certified and inspected Into Stock Value.

# 35. SECURITIES CHECK LIST (USE PRINTED FORMAT) THAT COVERS SECURITES THAT NEEDS SAFE CUSTODY UNDER DUAL CONTROL HAVING RECORDED IN THE "SECURITIES IN REGISTER"

Printed format should be completed and signed by the Branch Manager

#### **36. SECURITIES TEMORARY OUT REGISTER**

The captioned register should be maintained to follow up return of securities for safe keeping as per the above requirement, and book in as early as possible (preferably on the same day)

Executed Security documents should not be kept unattended. The executive who request the document for perusal is responsible for its safety custody and due return of same for safe custody as early as possible

#### **37. DECLINED FACILITIES.**

Any facilities by one business unit/ Branch shall not be considered for financing by another Business unit/ Branch under the respective delegated authority under the same customer's name or any other name

# 38. PRIORITY OF MORTGAGES / CHARGES OF SECURITY OBTAINED BY THE COMPANY

- The Company shall have a Primary hold by way of mortgage or charge over security for the credit facility.
- Secondary or subsequent interests will be considered only if there is adequate value and margin of security and provided that the primary or prior interest in such security is already with our company
- Stocks and book debts belonging to customer (Raw materials / finished goods
  /receivables) obtained as a security on a very selective basis by way of mortgage or pledge
  or assignment.
- Company shall not accept secondary or concurrent mortgages over assets primarily held with other Banks/Financial Institutions without the approval of the Board Credit Committee and such proposals should be backed by the consent of such institution,

#### 39. Early Settlement of Performing Credit Facilities

Borrowers may arrange to settle a **performing** credit facility before maturity (early settlement) in full or partially by funding his savings account.

For the above purpose you should follow the procedure given below.

- 1. Obtain from the borrower a letter with the following data and ensure recovery as per the request (Either full or part settlement)
- i. Loan Account Number
- ii. Amount outstanding as the date of settlement
- iii. Interest due up to the date of settlement
- iv. Early Settlement Fee payable if full settlement is involved (refer credit circular in force on Tariffs & Charges)
- 2. Having verified the contents in the letter either the Branch Manager or the Assistant Manager may approve the settlement request of the borrower in writing by recording on the customer's letter "Early Settlement Request Approved" and authenticate the approval by placing his/her signature, having recovered the early settlement charges as applicable.

3. After attending to the recovery, the aforesaid letter should be placed in the borrower's credit file to facilitate audit requirements.

#### **40. RECOVERY PROCEDURES LOANS**

- (a) The time bound recovery procedure given below should be followed in the recovery of loans that could be identified as the "Loan Portfolio at risk";
- (b) The following units shall function in jointly in the recovery of loans and related activities as follows:
  - Head of IT and staff
  - Branch Managers and their recovery officials
  - Manager Recoveries and staff
  - Officials at the Credit Administration Unit (CAU)
- (c) Senior Manager Legal and Legal Officers
- (d) The above stated officials should strictly adhere to the timing indicted against each process which fall under their purview.
- (e) The legal recovery should commence on the 85<sup>th</sup> day in arrears.
- (f) Branch Managers and the Senior Manager Legal & Legal officers should ensure that with regard to **existing NPL exceeding 12-month** legal process is activated immediately and the Senior Manger legal should report the progress made to CEO/ Executive Director through DGM (Credit & Recoveries)
- (g) If any letter is returned by the postal authorities, it should be considered as a **serious obstacle to continue the recovery process**. It is the Responsibility of the Manager Recoveries to follow up and have the address rectified through the Branch Managers, have the returned letter delivered and the system updated. Manager recoveries should arrange to maintain a record of returned letters and summit a monthly report to DGM (Credit & Recoveries) the progress made to update addresses against the total number of letters returned undelivered.

# The following steps have to be taken prior to dispatching the security documents for Legal action.

- a) Make every available effort to regularize the overdues with the support of Recovery Department
- b) Any possibility of Rescheduling or Re-structuring of these arrears' facilities.
- c) Rescheduling of advances can take place where it is clear that a customer is having genuine difficulty in settling dues on time, the LCBF may reschedule the outstanding amount to suit the amended cash flow position of the customer. BMs/RO should take all effort to collect arrears before rescheduling if possible.

- d) Branch Manager and Recovery Officers should confirm the authenticity/availability of security documents as per attached Check list together with account statement and BM should take responsibility of the confirmation of check list.
- e) If we receive any incomplete file or files not in compliance with the Check list, we will be compelled to return such files to respective BM for necessary action.
- f) Branch Managers should maintain a mirror (Copy) file of all correspondence etc. submitted to Head office recoveries department and Legal officer
- g) Branch cannot maintain loan accounts in arrears for a period of over 91 days in arrears under any circumstances, without taking steps to initiate legal action.

Officials indicted 2 above should ensure strict compliance with the requirements in this section.

#### 41. RECOVERY PROCEDURES - LOANS

- a) The time bound recovery procedure given below should be followed with a view to standardizing the various activities involved in the recovery of loans that are identified as the "Loan Portfolio at risk" and improve recovery of advances.;
- b) The following officials will be responsible to implement the time bound recovery action pln:
- c) Head of IT and staff
- d) Branch Managers and their recovery officials
- e) Manager Recoveries and staff
- f) Officials at the Credit Administration Unit (CAU)
- g) Senior Manager Legal and All Legal Officers
- h) The above stated officials should strictly adhere to the timing indicted against each process which fall under their purview.
- i) The legal recovery should commence on the 85<sup>th</sup> day in arrears.
- j) Branch Managers and the Senior Manager Legal & Legal officers should ensure that with regard to **NPL exceeding 12-month** legal process is activated immediately and the Senior Manger legal (recoveries) should report the progress made to CEO/Executive Director through DGM (Recoveries), as at the end of each month.
- k) If any letter is returned by the postal authorities it should be considered as a serious obstacle to continue the recovery process. It is the Responsibility of the Manager Recoveries to follow up and have the address rectified through the Branch Managers, have the returned letter delivered and the system updated. Manager recoveries should arrange to maintain a record of returned letters and summit a monthly report to DGM (Credit & Recoveries) the progress made to update addresses against the total number of letters returned undelivered.
- 1) The following steps have to be taken prior to dispatching the security documents for Legal action.
- i. Make every available effort to regularize the overdues with the support of Recovery Department
- ii. Any possibility of Rescheduling or Re-structuring of these arrears' facilities.

- iii. Rescheduling of advances can take place where it is clear that a customer is having genuine difficulty in settling dues on time, the LCBF may reschedule the outstanding amount to suit the amended cash flow position of the customer. BMs/RO should take all effort to collect arrears before rescheduling if possible.
- iv. Branch Manager and Recovery Officers should confirm the authenticity/availability of security documents as per attached Check list together with account statement and BM should take responsibility of the confirmation of check list.
- v. If we receive any incomplete file or files not in compliance with the Check list, we will be compelled to return such files to respective RM for necessary action.
- vi. Branch Managers should maintain a mirror (Copy) file of all correspondence etc. submitted to Head office recoveries department and Legal officer
- vii. Branch cannot maintain loan accounts in arrears for a period of over 91 days in arrears under any circumstances, without taking steps to initiate legal action.

#### **42. TIME BOUND LOAN RECOVERY PROCEDURES**

TIMING	PROCESS	RESPONSIBILITY	
3 Days before the Due Date	SMS Alert (Reminder)	Head of IT	
1 Day before the due date	Telephone Borrower (Reminder Call from Branch)	Branch Officials	
Due date + 1 Day (1 Day)	Telephone Borrower (Demand Call from Branch) Follow up till the due amount is recovered in full	Branch Officials	
Due Date + 6 Days (7 <sup>th</sup> Day)	SMS Reminder Alert (If the Borrower client does not respond as requested)	Head of IT	
Due Date + 7 Days (8 <sup>th</sup> Day)	1stReminder to be sent to the Borrower only	H/O Recovery / Head of IT	
31st Day in arrears	2 <sup>nd</sup> Reminder, to be sent to Borrower & Guarantors,	HO Recovery / Head of IT	
61st Day in arrears  Final Reminder followed by customer visit from the Branch & Visit Report to be placed in credit file for the reference.		Branch Recovery officers / H/O Recovery Head of IT	
75 <sup>th</sup> Day in arrears	Required documents to be requested by Manager -Recoveries from Credit Administration Unit	H/O Recovery/ CAU	
85 <sup>th</sup> Day in arrears	Required Documents to be forwarded to Senior Manager Legal Certified Security documents – Customer Application/ Agreement / Letter of Offer / NIC/ / Setoff / Mortgage Bond / Guarantee Bond / Last extract / Statement of accounts signed by HOR	Branch Manager H/O Recovery/ SMG Legal	
91st Day in arrears	LOD to be sent customer & Guarantors, / (If the facility is Below 500,000/= follow arbitration procedures or refer to Mediation Board	Snr: Manager Legal	
120 <sup>th</sup> Day in arrears	Preparation of the Proxy – <b>To be signed by 2 directors</b>		
All correspondence w	rith Police, Panel Lawyers. Land Registry and Courts		
130 <sup>th</sup> Day	Plaint to be finalized and case to be filed at the relevant court With the not settlement (if available)	Snr: Manager Legal	
140 <sup>th</sup> Day	Lispendance Registration		

150 <sup>th</sup> day	Summons Returnable	Branch Manager /Manager Legal /Snr. Manager Legal
	Answer by defendants / Ex party	Manager Legal /Snr. Manager Legal
	Pre-trial /Trial or enter the settlement through an affidavit	Manager Legal /Snr. Manager Legal
	Judgment / Order	Manager Legal /Snr. Manager Legal
Within 1 Month	File the Decree (If payments are not made by the respondent as determined)	Manager Legal /Snr. Manager Legal
Within 1 Month	File the writ papers	Manager Legal /Snr. Manager Legal
Within 1 Month	Auction	Manager Legal /Snr. Manager Legal
Within 2 years from the date of filing	Full Settlement of the facility c	Manager Legal /Snr. Manager Legal

- 1. All expenses incurred under the above process should be debited to the respective Loan Account
- 2. Customer Visit reports to be placed in Credit File. Forward copy to Head office Recoveries Department

#### **Arbitration cases**

75 <sup>th</sup> Day in arrears	Required documents to be requested by Manager -Recoveries from Credit Administration Unit	Head Office Recovery CAU
Required Documents to be forwarded to Senior Manager Legal Certified Security documents – Customer Application/ Agreement / Letter of Offer / NIC/ / Setoff / Mortgage Bond / Guarantee Bond / Last extract / Statement of accounts signed by HOR		Branch Manager Head office Recovery/ SMG Legal
91st Day in arrears	LOD to be sent customer& Guarantors, / (If Below 500,000/= follow arbitration procedures	Snr: Manager Legal
120 <sup>th</sup> day in arrears	Nomination Letter – to appoint an arbitrator (from LCBF)	Manager Legal /Snr. Manager Legal
150 <sup>th</sup> day in arrears	1st Call date to be fixed by Arbitration center (if no response from the client) Inquiry will be fixed	Manager Legal /Snr. Manager Legal
	2 <sup>nd</sup> Calling – If defendant is not appearing for the case	Manager Legal /Snr. Manager Legal
180 <sup>th</sup> day in arrears	Affidavit to signed – Re: settlement	Manager Legal /Snr. Manager Legal
	Final decree (award) will be issued by the Arbitrator	Manager Legal /Snr. Manager Legal
270 <sup>th</sup> Day in Arrears	Enforcement to be filled in commercial High court	Manager Legal /Snr. Manager Legal

Writ to be executed – Order by CHC	Branch Manager
	/Manager Legal /Snr.
	Manager Legal

#### 43. CRIB CLEARANCE POLICY

- CRIB reports should be obtained within 15 days prior to the date on Credit Proposal Paper.
- If the credit Facility exceeds Rs 1.0 Mn full CRIB Report (CRIB PLUS) should be obtained.
- The CRIB Report should be attached to the credit application
- If the Branch Manager fail to comply with the above the Manager Credit at CCD should obtain the required CRIB report and charge the cost to the Borrower
- If a prospective borrower or the Guarantor appears in the CRIB Report either as a borrower or as a Guarantor the application should be DECLINED. This includes reported "Write offs", more than two cheques returned within the last 12 months, legal action pending, and Credit Card is in default.
- If the prospective borrower claims that he has regularized his borrowings or the credit facility he has guaranteed he should produce confirmation from the related lending institution addressed to the Manager of our Branch involved, confirming settlement.

#### 44. THE CREDIT FILE

The credit file of a borrower serves as the historic records of customer relationships. Credit files are the basis for approvals for independent internal credit or audit reviews, as well as external reviews by external auditors and the CBSL examiners

#### 45. CONTENTS OF A CREDIT FILE

Branch Manager is responsible to prepare a complete credit file strictly is in accordance with the Checklist based on the particular type of product / facility

HOWEVER, IF THE APPROVED FACILITY IS AGAINST THE MORTGAGE OVER AN IMMOVABLE PROPERTY AND FACILITIES TO CORPORATE BODIES INCLUDING FACILITIES TO CORPORATIVE SOCIETIES AGAINST PERSONAL GUARANTEE, FOLLOWING DOCUMENTS ARE REQUIRED ALONG WITH THE CREDIT FILE IN ADDITION TO FORMAL DOCUMENTS

a) Consent Letter (Letter of No objection) from Divisional Secretariat / Mahaweli Authority etc. where applicable.

- a) Bodies including facilities to Limited Liability companies and Corporate bodies: -
  - ➤ Board Resolution to borrow
  - ➤ Certificate of Incorporation
  - Form 1
  - ➤ Form 20
  - Audited financials

SECURITIES SHOULD NOT BE REALSED UNTIL SETTLEMENT OF FACILITIES IN FULL AND SHOULD BE AUTHORIZED IN WRITING JOINTLY BY THE ASSISTANT MANAGER AND THE BRANCH MANAGER AND CREDIT ADMINISTRATION UNIT

# PART III LOAN REVIEW POLICY AND PROCEDURES

#### 1. Introduction

- a) Loan Review Mechanism (LRM) is an effective tool developed to constantly evaluate the quality of the loan book to provide qualitative improvements to credit administration. Effective management of the loan portfolio is crucial to the Company's growth and sustainability. Proper management of the loan book and the administration of credit will assist to reduce losses in the loan portfolio, and thereby to strengthen company's capital.
- b) Financial deterioration of borrowers, in relation to changes in interest rates and economic conditions, country and industry specific risks, etc. will result in credit losses in the portfolio. This has created the need for a consistent, comprehensive and regularly applied system for identifying, monitoring, controlling and reporting those factors to maintain a performing credit portfolio of the Company. Accordingly, LRM will assist the company in identifying such characteristics and ensures accurate and timely identification of credit related risks. A clear, concise and comprehensive LRM will support credit risk management to maintain a quality portfolio.

#### 2. Objectives

- i. Conduct reviews on the loan portfolio focusing on following:
  - > the approval process,
  - > accuracy and the timeliness of the credit rating
  - ➤ adherence to internal policies and procedures and regulatory requirements
  - Compliance with terms and conditions laid down by the approving authority
  - > compliance with loan covenants
  - > post sanction follow-up
  - > sufficiency/ accuracy and enforceability of security documentation and due registration where appropriate
- ii Prompt identification of loans with credit weaknesses and provide recommendation to minimize credit losses
- iii. Prompt identification of weaknesses in credit management and administration processes and provide qualitative improvements
- iv. Monitor and identify external environment and economic trends adversely impacting the loan portfolio of the company
- v. Provide essential information for determining the adequacy of the provisioning for loan losses / financial asset impairment
- vi. Provide the Board of Directors / Board Credit Committee and the Corporate Management an objective assessment of the quality of the overall portfolio
- vii. Provide management with information related to credit quality that can be used for financial and regulatory reporting purposes
- viii. Present LRM findings to the Board of Directors, the Board Credit Committee THRUGH

the Corporate Management on a timely manner and promote qualitative improvements to credit management and administration.

#### 3. Qualifications of loan review officers

The loan review officers should be independent in reporting and should have a sound knowledge and understanding on among others the following for an effective loan review process:

- a) Credit policy and procedures
- b) Credit appraisal and risk rating System
- c) Lending practices
- d) Operational procedures and internal circulars related to lending rates.
- e) activities
- f) Regularity requirements and statutory requirements
- g) Awareness on industry and macro-economic trends affecting the credit portfolio
- h) Development policies of the Government

The loan Review officers will have an authority over unrestricted access to information, relevant documents and personal during the loan review process.

#### 4. Independence of Loan Review Personnel

- i. Loan review officer functions will be under the purview of the Head of Risk Management and will not be a part of or influenced by anyone associated with the loan evaluation and approval process.
- ii. Loan review officers should independently monitor ongoing credit analysis and the prompt identification of emerging problems.
- iii. The loan review function should be independent in reporting to the CEO / Executive Director.
- iv. The established unit for loan review function should be staffed by loan review officers who are thorough in credit appraisal, loan approval, sanction process and credit policies / guidelines.

#### 5. Frequency of Reviews

The loan review function should provide feedback on the effectiveness of the lending process in identifying emerging problems. Reviews of significant credits should generally be performed annually or more frequently when factors indicate a potential for deteriorating credit quality.

A quarterly review should be carried out to determining the fluctuation and impact of specific Loan Loss Provisioning and Impairment process on the profitability of Branches and thee Company

#### 6. Scope of reviews

The total value of the credit facilities reviewed during the year should represent at least over 30% of the total credit portfolio, as at the beginning of the financial year

The credit portfolios should be subject to LRM each year to provide reasonable assurance that, all major credit risks embedded in the balance sheet have been traced.

The following credit portfolios will be considered under the loan review process:

- i. New credit facilities disbursed or existing facilities renewed
- ii. A sample of at least 10 % of credit facilities below Rs500,000/-
- iii. A sample of at least 40% of credit facilities over Rs 500,001 to Rs 10,000,000/-
- iv. Review 100 % of credit facilities exceeding Rs 10,000,000/-
- v. Credit facilities, which are highly exposed to volatile industry or sector or Client under stress situation on a case by case basis

#### 7. Depth of Analysis

The sample of credit facilities selected under LRM will be critically evaluated covering following criterion:

- Review the credit approval process against the Company's credit policy,
   procedures, delegation authority limits and regulatory requirements as appropriate
- ii. Accuracy and timeliness of credit ratings assigned by the credit officers and propose necessary changes to the scoring according to the changes in external environmental factors
- iii. Compliance with pre and post disbursement requirements
- iv. Adherence to the loan covenants
- v. Accuracy and sufficiency of documentation including, security documentations and timely filling of security related documents (E.g. stock statement, debtor statement, etc.)
- vi. Periodic reviews
- vii. Filing of financial statements on periodical intervals. If the client is a listed organization, filing of quarterly financial statements is mandatory
- viii. Evaluation of credit quality and identification of risk factors ix. Post sanction monitoring and recovery
- ix. Rectification of Internal and external audit findings

#### 8. Reporting of findings, follow up and corrective measures

- a) The Credit Department at Head Office will be responsible for the implementation of the LRM process across the company and will be performed independently to the Credit Administration and those involved in the credit approval process.
- b) The findings of the loan review process will be reported to the Branch Managers and copied to Manager Credit at Head Office, Senior Deputy General Manager and CEO/ Executive Director within 14 working days of the loan review completion date at a Branch.
- c) The Branch Managers and respective officers at the branch should respond to the findings within 7 working days of receiving the report from loan review officers with their feedback and actions taken to correct deviations, mitigate risk and other concerns reported
- d) On receipt of response as per (d) above a summary of findings on the outcome shall be submitted by the Loan Review Officer to the CEO/ Executive Director who shall refer findings to the Board Credit Committee (BCC), The BCC shall submit the key risk findings to the Board. of Directors and ensure compliance with the directions of the Board.

In addition, the following corrective measures shall be recommended and / or suggested to the corporate management based on the outcome of the review:

- i. Recommend improvements to the credit approval process to overcome any deficiencies in the process
- ii. Improve the review process for future compliance
- iii. Identify and maintain a client list based on early warning signs identified by LRM and propose credit risk mitigation strategies.
- iv. Strengthen the post approval process and follow ups
- v. Adopt precautionary actions before any negative external environmental factors affect the credit portfolio
- vi. Recommend training needs for staff involved in credit appraisal and approval process.
- vi. LRM findings will be communicated to the Internal Audit Department to follow-up if necessary.

Based on the Loan Review findings, highlight willful violation of the credit policy and the

practices of the company leading to exposing the company to loss or a fraudulent activity should be routed to Internal Audit through Senior Deputy General Manager and CEO/ Executive Director.

#### 9. CROSS FUNCTIONAL DEPARTMENTS

The Loan Review unit could obtain the support of following departments to execute the LRM process if the need arises

- I. Credit Department at Head Office
- II. Information Technology Department
- III. Human Resources Department

#### 10. PERIODICAL REVIEW OF THE POLICY

The Board Integrated Risk Management Committee (BIRMC) will perform periodical reviews of the requirements stipulated in this Manuel with a view to updating same to fall in line with changes in regulatory and internal credit environment of the company with the due approval of the Board of Directors. Accordingly, it is the responsibility of the Credit Department Head office to ensure that this manual is revised and updated as stated above.

\

#### **PART IV**

# EARLY WARNING SIGNALS FOR WATCH LISTING PROCEDURES

#### EARLY WARNING SIGNALS FOR WATCH LISTING

#### MONITORING & CONTROL OF INDIVIDUAL CREDITS

To safeguard the Company against potential losses, problem facilities need to be identified early. A proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. Examples of such warning signs include unauthorized drawings, arrears in capital and interest and deterioration in the Borrowers operating environment. Financial institutions must have an IT system in place to formally review the status of the credit and the financial health of the borrower at least once a year. More frequent reviews (e.g. at least quarterly) should be carried out of large credits, problem credits or when the operating environment of the customer is undergoing significant changes.

- Funds advanced are used only for the purpose stated in the customer's credit application;
- Financial condition of a borrower is regularly tracked and management advised in a timely fashion;
- Borrowers are complying with contractual covenants;
- Collateral coverage is regularly assessed and related to the Borrowers financial health
- The Company's internal risk ratings reflect the current condition of the customer
- Contractual payment delinquencies are identified and emerging problem credits are classified on a timely basis; and
- Problem credits are promptly directed to management for coremadial actions.
- More specifically, the above monitoring will include a review of up-to-date information on the borrower, encompassing:
- Opinions from other financial institutions with whom the customer deals;
- Findings of site visits;
- Audited financial sapements and latest management accounts;
- Détails of customers' business plans ;
- Financial budgets and cash-flow projections; and
- Any relevant board resolutions for corporate customers.

#### **BORROWERS** - (Individuals)

	Warning Signal	Frequency	Source / Mechanism
1	Delay in repayments within 30 to 90 days	Monthly	Overdue Report from System
2	All rescheduled facilities during the Olast six months	Monthly	Trail Balance from System
3	The demise of Borrower/ Serious adverse health condition/ permanent or Partial Disability of borrower	As when arises	Branch Manager to Head office Credit Department and Chief Risk Officer
4	The borrower not adhering or Breach of material loan covenants which could ;lead to a potential default	At frequency by which the covenants are monitored	Branch Manager Share report with Head office Credit Department and Chief Risk Officer
5	If one or more facilities were classified as non- performing, it should be included in the watch list of the preceding month and should remain in the list for period of one month	Monthly	Non - Performing Trial balance

#### EARLY WARNING SIGNALS FOR WATCH LISTING

#### **BORROWERS - BUSINESS CATEGORY**

Item	Warning Signal	Frequency	Source / Mechanism
No			
1	Significate drop in performance in the industry and the company's exposure to customer is higher / Economic indicators place a negative pressure on the Industry	As when any warning signal arises	Through industry reports / write ups and paper articles
2	New Regulations/ Government Policies	At time of occurrence	Direction of CBSL/ Legislations / Acts/ Govt Gazettes
3	Substantial default with other Financial institutions	At the time of periodical review / Enhancement of facility	CRIB Report
4	Continuous Business losses (losses over consecutive financial years)	At the time of periodical review / Enhancement of facility	Audited Financial statements or Management accounts
5	Any notable deterioration in the security offered for facilities extended	At the time of periodical review / Enhancement of facility or frequency by which securities are revalued	Valuation reports / Stocks and debtor statements

### **PART V**

# RESCHEDULE / RESTRUCTURE OF CREIT FACILITIES POLICY & PROCEURES

# $\frac{\text{RECHEDULE}/\text{RESTRUCTURE OF EXISTING OVERDUE LOANS WITH CONTINUOUS}}{\text{REPAYMENTS}}$

#### 1. PURPOSE

It is the responsibility of the Branch Managers and all those involved in credit administration functions to ensure that we lend to credit worthy customers and ensure repayment. However, the purpose of the proposed rescheduling / restructuring of loans is to facilitate borrowers in the event they face difficulties in meeting their repayment programs under unforeseen circumstances such as; -

- > Cash flow constraints
- Critical illnesses
- > Business failures due Natural Disasters and
- > Court settlements
- > Other Un- expected situations

The borrowers in difficult situations are facilitated to analyze their current situation and to look into ways and means to improve the cash flows while their terms and conditions of the facilities would be made fitting to the current situation.

When an account is overdue for more than Two months, the Branch Managers / Regional Recovery Officer should consider rescheduling the facility if required, following discussions with the client. If the overdue situation prevails over Three months without rescheduling/restructuring the facilities, Recoveries department will take over the facility and institute action to restructure/ reschedule facilities immediately or collect the overdue amounts.

As Branch Managers /Regional Recovery Officer / Marketing officers should initiate a discussion or **visit business place** and find out the reasons **for default**. If it is felt that the client is faced with genuine financial problem you may consider a reschedule of facilities, provide the client is co-operating with LCBF's efforts.

#### 2. CBSL REQUIREMENTS

Facilities should be rescheduled subject to the Provisions in Direction No 01 of 2020 of the Central Bank of Sri Lanka on "Classification and Measurement of Credit Facilities" with reference to among others paragraph 4.2 and 4.3 which cover rescheduling and reclassification of NPLs (copy circulated to Branches however refer CBSL web site or Credit Department if a copy is not available)

#### 3. PROCEDURE TO BE ADOPTED

- A written Request of the borrower to Reschedule with valid reasons acceptable to us should be obtained.
- 2. Selection of eligible Facilities for Rescheduling **should be based** on the criteria mentioned below
  - i. Loan should be in over **one month** and less than **6 months** in arrears category or **6 months** or above category
  - ii. Continuous repayment for **last 6 months** should be exist before **date of default.**

- iii. The average of the payment for last six months should be **over 50%** of the monthly installment of the existing loan.
- iv. Outstanding balance of the loan should be equal or greater than Rs. 50,000/-
- v. A fresh loan should be granted as a reschedule amount and the existing loan capital should be fully required from the proceeds of the fresh facility.
- VI. The charges such as documentation fee and stamp duty to be collected from the client upfront.
- Vii. Branch Managers/ Regional Managers should review the prospective contracts on by one and identify the relevant contracts to meet the desired objective of restructuring mentioned above.

#### 4. FEATURES OF THE RESCHEDULE / RESTRUCTURE FACILITIES

г.	Ta			
Amount	Capital outstanding only to be rescheduled			
	(Interest in Arrears + Charges +Liquidation charges if applicable should be paid by the			
	borrower)			
Interest Rate	Prevailing ALCO rates notified by a Credit Circular			
Tenor	Remaining period of the existing facility or longer period according to the client's repayment capacity and acceptable revival plan agreed by both parties. (Maximum 60 months)			
Repayment	Equal monthly installments			
	One installment is to be collected upfront			
Security	Personal Guarantee			
·	Existing Guarantors should provide a new guarantor's statement and execute a fresh guarantee bond.			
	Property Mortgage			
	New Mortgage to be executed with new terms to be executed if the facility is secured by a <b>Fixed Mortgage bond</b> for the existing facility			
	Re-valuation of the property to be carried out as per CBSL guidelines.			
	Last extract including the mortgage of the land to LCBF is recorded should be obtained.			
	For the Government own lands, Divisional Secretary's consent letter need to be obtained if			
	delayed existing mortgage to be tie up / pledge with the new facility through the offer letter in			
	addition to fresh mortgage bond. or / and obtained single guarantor (without deep screening) as additional guarantor			
	i. Loan to be disbursed under the same product of original product line			
<b>Facility Type</b>	ii. You can consolidate the series of facilities into a one facility as per the client request and to continue the repayment smoothly.			
CRIB	CRIB deviation approval to be obtained from CEO			
Approving Authority	Facilities approved by Head Office Credit Committee			
•	The facilities in arrears over 1 Month & Less than 6 Months			
	CEO's approval is required with the Recommendations of Branch Manager, DGM Credit &			
	Recoveries.			
	For the facilities in arrears over 6 months			
	CEO's approval is required with the recommendations of the Branch Manager, Manager			
	Recovery/ DGM Credit & Recovery recommendation.			
	Facilities Approved by Board Credit Committee or Board of Directors irrespective period in			
	arrears the proposal should be referred to the approving authority			
	Such Rescheduling proposal should be recommended as follows			

Proposals to <u>Board Credit Committee</u> should be recommended by Head Office Credit Committee  Proposals to the <u>Board of Directors</u> should be recommended by the Head Office Credit Committee and Board Credit Committee

#### 5. PERIODICAL REVIEW OF RESCHEDULED /RESTRUCTURED FACILITIES

The Recoveries Department shall maintain a list of Restructured /Re-scheduled facilities, which shall be presented to Recovery Meeting /Branch manager's meeting /Board Credit Committee (BCC) on a monthly basis to evaluate the progress of the same.

#### 6. LIMITATIONS FOR A BRANCH

Rescheduling / Restructuring of facilities to be restricted 5% per annum of branch credit portfolio as at the end of the previous financial year

#### 7. PERFORMANCE OF BRANCH MANAGERS

When evaluating the performance of Branch Managers, the adverse movement of facilities into Non-Performing segment over 3 months' category and beyond and the increase of the related Impairment requirements will be taken into consideration as weak credit evaluation on his part.

System should provide for the attraction of data relating to the performance of reschedule facilities for monitoring and follow up.

#### 8. RECLASSIFICATION OF RESCHEDULED NPLS

Reschedule facilities could be considered performing, only in terms of Table 3 to Direction No 01.2020 on the subject "Reclassification of Rescheduled NPLs Reclassification of Rescheduled NPL as PL.

(Table 3 to CBSL Direction No 01 of 2020 dated 14th February 2020)

Up Grade to Pl	Special Mention	Substandard and	Loss
		Doubtful	
Credit Facilities repayable in daily basis	Period of <b>4 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms	Period of <b>7 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms	Period of <b>15 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms
Credit Facilities repayable in weekly and bi-weekly	Period of <b>15 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms	Period of <b>30 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms	Period of <b>60 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms
Credit facilities repayable on monthly basis or more including bullet payments	Period of <b>90 days</b> after the date when90irst payment of interest or of principal whichever is earlier, falls due under the rescheduled terms	Period of <b>180 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms	Period of <b>360 days</b> after the date when first payment of interest or of principal whichever is earlier, falls due under the rescheduled terms

9. **IMPAIRMENT** Finance Department should adhere to SLFRS 9 with regard to rescheduled facilities and the CBSL Direction referred to above as applicable.

### **Part VI**

WRITE OFF/ WRITE DOWN
POLICY & PROCEDURES

#### INTRODUCTION

The Write off/ Write down Policy covers a general framework to be borne in mind for everyone engaged in credit and recoveries. This policy has taken into account the guidelines issued by CBSL.

This direction may be cited as the finance companies (Writing Off of Accommodations) Direction No.2 of 2013 and shall apply to every finance company licensed in terms of the Finance Business Act, No. 42 of 2011 and shall come into operation from the date of this Direction.

#### 2. CRITERIA OF SELECTION

- i. Loans must have matured at least six months before the recommended date for write-off/down and no payments received during the past 12 months from the recommended date for write-off/down. (Without ongoing legal cases)
- ii. Balance outstanding in a loan, net of realizable securities, at the time of the death or a permanent disability of the loan customer. (In such instances, criteria I above will not be applicable)
- iii. Balance outstanding for facilities granted on clean basis (with J/t and several personal guarantees) and arrears over 24 months.
- iv. The facilities must be fully provided thus there will not be an impact to the profit and loss.
- v. Balance outstanding in a loan, net of realizable securities, for which all the recovery efforts have been completed but futile due to genuine, justifiable reasons namely acts of god, and civil commotion. In such instances, criteria I & II above will not be applicable. The justifiable reasons should clearly include the Company's inability to proceed with legal actions against the borrower and the guarantors, in case of a personal guarantee. (Inability to proceed with legal action should be confirmed by a Legal Officer) In such instances, criteria I & II above will not be applicable.
- vi. Balances remaining in the Hire purchase or lease account after disposing of seized vehicles. In such instances management should justify the reasons as to why the proposed write off is cost-effective than pursuing legal actions. In such instances, criteria I & II above will not be applicable.
- vii. Loans granted against a mortgage over a property or any other form of movable or immovable property and the property is being sold and the residue remaining is not recoverable. In such instances, the criteria I & II above will not be applicable in deciding for write off.
- viii. Balances remaining in loans after execution of writs. In such instances, criteria I & II above will not be applicable

#### 3. EXCLUSIONS

- i. Loans granted to related parties must be approved in writing by the Director of Department of Supervision of Non-Bank Financial Institutions of CBSL. (definition of related party is stated in the related party policy)
- ii. LCBF should not write off any accommodation granted by it to any of the under

noted persons or institutions without the prior approval in writing of the Director of Department of Supervision of Non-Bank Financial Institutions: -

- iii. Any of its directors or any relative of such director;
- iv. Any undertaking in which any of its directors has an interest as a director, partner, manager, agent, investor, guarantor or a shareholder;
- v. Any of its subsidiary, associate, subsidiary or associate of a subsidiary or of its holding company;
- vi. Corporate or unincorporated companies where the directors of the finance company hold directorships, shares or other investments;
- vii. Any person who is an employee, consultant or advisor of the finance company.

In this Direction "relative" shall have the same meaning as contained in the definition in section 74 of the Finance Business Act, No. 42 of 2011.

#### 4. COMPLIANCE

SHOULD COMPLY WITH THE CRITERIA GIVEN IN CBSL DIRECTION NO: 2 of 2013 on "Writing off of Accommodations" and in obtaining Board approval for write off/down.

#### 5. PROCEDURE OF WRITING OFF

- a) The branch managers and credit officers together with staff at Head Office Credit Department, Regional Mangers, Head of recoveries and DGM (Credit)could identify the loans to be written-off as per the above mentioned criteria, on a case by case basis
- b) A list should be prepared in accordance with the CBSL Direction No, 2 of 2013 giving the following particulars:
  - i. Full name and address and national identity card number of the borrower and his/her
  - ii. relationship to the directors, if any;
  - iii. Original amount granted;
  - iv. Rate of interest;
  - v. Last date of repayment;
  - vi. Total amount recovered;
  - vii. Amount written off; (leaving Rs:1.00 in the loan account in case of a write down)
  - viii. Date of writing off from the books of the Company;
  - ix. Reasons in brief for writing off/down;
- c) The Head of the Recovery should scrutinize the schedule and recommend the list forwarded by the branches. Recovery Dept must prepare a final schedule addresses with proper justification to write-off/ write down.
- d) A paper should be to be prepared by the Head of Recoveries with his justifications recommendation to the approving authority through Deputy General Manager (Credit and Recoveries) and submit same with the schedule for the consideration of the approving authority.
- e) Approved schedules indicating the date of approval and the designation of approving authority should be circulated among the respective branches and the branches should pass the entries by keeping a balance of Rs: 1.00 for write down loan and fully write off the balance for write off loans.
- f) This schedule should be held at the branch to meet future internal and external audit quarries
- g) The Head Office Recoveries Department should keep a register giving the details listed under **section 2** above with the date written-off from the books of the Company.

- h) An extract of the register should be submitted to Director department of Supervision of Non-Bank Financial Institutions, of CBSL as per the direction No: 10 of 1991 along with the annual audited
- i) balance sheet to the

#### 6. RECOVERY OF WRITTEN-OFF CASES

Though the identified advances are written-off/ down in our books with the approval of the Board of Directors, all possible efforts by Legal Department, Recoveries Department, Branch Managers and Branch Staff should be made to recover at least a part of these loans whenever possible. If any recovery received, it will be credited as "other income-bad debt Recovered Account."

## 7. DELEGATED AUTHORITY TO WRITE OFF / WRITE DOWN NON –PERFORMING CREDIT FACILITIES

The Authority to approve written-off/down proposals falling in line with the above criteria shall be as follows: -

Designation	Limit
CEO / Executive Director	Up To Rs 99,999/-
Board Credit Committee	From Rs 100,000/ to Rs 999,999/
Board of Directors	Rs 1 Million and above

# PART VII ISSUE OF ON DEMAND LETTERS GUARANTEE POLICY & PROCEDURES

#### **ISSUE OF DEMAND GUARANTEES**

#### 1. **DEFINITIONS**

a. **DEMAND GUARANTEE**; - Means any signed document in favour of a defined 3<sup>rd</sup>. Party undertaking the payment of the amount mentioned in the document or part thereof on demand complying with the terms and conditions in the document.

#### PARTIES TO A GUARANTEE

- APPLICANT; The person who requests for a Demand Guarantee (Individual/ Corporate / Society etc.,) who would be our customer
- GUARANTOR; Means the party issuing a Letter of Guarantee (a) above in this case our Company.
- d. BENEFICIARY; Means the party in whose favour a guarantee is issued
- e. **DEMAND**; a signed document by the beneficiary demanding payment

#### 2. TYPES OF GUARANTEES THAT COULD BE ISSUED

Type of Guarantee	Purpose / conditions
Bid Bonds	To participate and bid for Tenders normally a percentage of the value
	Tendered ( Guarantee submitted with the tender documents)
Performance Bonds	Guarantee due performance if the Tender is awarded
Advance / Mobilization Bond	If tender is awarded to obtain and advance to commence work
Wiodinzation Bond	(Mobilization Advance is an advance to commence operations – when stage payments
	are made in respect of work completed the advance is recovered at each stage thereby reducing the liability under the guarantee.
Retention Bond /	To Withdraw funds withheld (When payments are made in stages or in full a
Guarantee	Percentage of the amount payable is held for a certain period to insure reliability /
	efficiency of the work done. This amount is released against the submission of a
	retention guarantee
Credit Purchase	To obtain goods on credit terms from reputed Importers /Manufactures and
Guarantees	Agents.

#### **\3. CONTENT OF INSTRUCTIONS IN GUARANTEES**

In accordance with one above the guarantee document should be clear and precise and the format **should** be approved by a Legal officer of the company by recording the approval on the draft format which should be placed in the Credit File. Branch Manager has no authority to issue a Guarantee bond without such approval unless it is fully secured by 100% cash margin. The wording of any amendments to a guarantee issued should be approved by a legal officer in the manner stated above.

#### The guarantee should specify the Following; -

- a. The applicant on whose behalf the guaranteed is issued (our Customer)
- b. The Beneficiary (**Should NOT BE AN INDIVIDUAL** should be either a Government Department, or a Statutory Body, or a Reputed business establishment / Firm. acceptable to the company)
- c. Guarantor is the issuing institution of the document (Our Company)

- d. A reference number to identify the underlying document against our records. The year of issue followed by the number issued during the year (Bid bond No 2019/01 or Performance Bond Number No.2019/02 as the case may be) as the heading of the Guarantee Document.
- e. The amount payable in words and figures with the currency (Rupees)
- f. Expiry date of the Guarantee, the date on or before which a claim should be lodged demanding payment by the beneficiary
- g. Details of the underlined contract & Terms for demanding payment
- h. The party liable for payment of any charges when acting under the guarantee if applicable.
- I. The Document should not contain any typing errors / alterations or correction of typing errors using correcting fluids.
- j. The Bond should be signed by both the Branch Manager and the Assistant
  - Manager stating their name and designation below the signature (all pages should
  - be signed where appropriate. (Place the branch rubber stamp on all pages)
- k. Applicable law should be stated as "Laws of Sri Lanka"

#### 4. ISSUE OF GUARANTEE

The Document should be addressed to the beneficiary and should be prepared on a Letter head of the company with the name of the Branch, in triplicate. **The First copy** will be the **original** document which should be **dispatched to the beneficiary** requesting the party to acknowledge receipt. **The second copy** should be marked as "**Applicant's Copy**" on top of the document and handed over **to the applicant**. **The Third copy** should be marked as "**Office Copy**" and placed in the Guarantees issued file of the branch in the order of the Guarantee number. (If the document exceeds one-page state the page number as "Page I of 3" – "Page 2 of 3" as the case may be on each page and should be signed as stated in 3. (J) above.

#### **EFFECTIVENESS**

A guarantee is issued when it leaves the control of the guarantor (our Company) and it is irrevocable on issue even if it is not stated in the document.

#### 5. SECURITY

- Cash Margin (to be held in "Margin Account Guarantees"
- Lien over Deposits with us with Setoff (deposit of relevant Receipt with us duly receipted)
- Indemnity of applicant (Partners in case of Partnership /, Owner in the case of Sole Proprietor concerns / In the case of Limited Liability Companies Indemnity of the company and counter indemnity of the Directors with resolutions)
- Mortgage over Immovable Properties

#### 6. RECORDING OF GUARANTEES ISSUED

A register titled "Guarantees Issued Register" should be used to record data of guarantees issued as indicated below.

#### **GUARANTEES ISSUED REGISTER**

#### Branch; -

Date	Reference	Name of	Name of	Amount of	Expiry	Date	Authorized by (initials
	Number	Customer	Beneficiary	the	Date	Cancelled	of Manager and Asst. Manager) "A"
		(Applicant)		Guarantee		or	"B"
5.1.19	2019/01						

#### 7. Applicable Laws

Guarantees should not be issued subject to the jurisdiction of any laws of a foreign country.

#### 8. CREDIT LIMITS

- Request for credit limits for issue of Guarantees should be evaluated as any other credit Facility as
  required in the Credit Circulars and Credit Policy and Procedures Manual. Facility could be one
  off or revolving
- b. Should be a customer of the company who maintains a Deposit account.
- c. Approval of Guaranty facility at Head Office
- d. The applicant should have the capacity to meet claims that may arise under the
  - Guarantee as the company has to meet the claims from beneficiaries without demur. (Any delay in meeting a claim under a guarantee would have an adverse effect on the reputation of the company.)
- e. Security to be decided based on (d) above (Refer Paragraph 5 above for types of securities)
- f. Commission to be computed at 3% per annum minimum for 3 months unless backed by 100 % cash margin.
- g. The facility should be offered to the applicant with the terms & Conditions and be accepted by the applicant

#### 9. TERMINATION

Whether or not the original guarantee document is returned to the issuing Branch the guarantee will terminate on expiry and after one-week reverse entries as per paragraph 8 below

The Received date stamp (with time duly noted) should be placed on clams received and any claim received after expiry date should not be entertained and the beneficiary notified accordingly.

The claim should be referred to a legal officer of the company with the office copy of the original document without any delay to ensure that the claim has been made in compliance with the guarantee, before making payment.

The demand should be rejected, if it is not in compliance with the terms of the guarantee, as per legal opinion, under notice to the Beneficiary, stating the discrepancy(s) for rejection, without any delay

#### 10. ACCOUNTING IN THE GENERAL LEDGER

The Balances in following accounts are classified as "Commitments & Contingencies" in the financial s statements

#### (a) WHEN ISSUING THE GUARANTEE

Credit	"Guarantees Issued" account (State details in the Voucher – Guarantee		
	Number and name of Customer		
Debit	Customer's Liability on account Guarantees granted" account (State details in		
	the Voucher Guarantee Number, Name of customer)		

#### (b) RECOVER COMMISSION UP FRONT

Debit	Customer's Savings Account (State Guarantee Number in the Voucher)
Credit	"Commission account Letter of Guarantee" (State Guarantee number and name of Customer in the voucher)

#### If Cash Margin is the Security (Pass following Entries before releasing the Guarantee)

Debit	Customer's Savings Account "( State Guarantee number and name of Customer in the voucher)
Credit	Margin account Guarantees "( State Guarantee number and name of Customer in the voucher and in the system)

# (c) WHEN CANCELLING A GUARANTEE (as per paragraph 9 above or when the original Guarantee Bond is submitted for cancellation by either the customer or beneficiary or when a claim is paid)

Debit	"Guarantees Issued" account (State details in the voucher Guarantee Number and name of customer)
Credit	"Customer's Liability on account Guarantees granted" account(State details in the voucher Guarantee number, Name of Customer)

#### • Reverse "Margin Account Guarantees" Entries as appropriate.

#### • Update Guarantees Issued Register

Make a note in the "Guarantees Issued Register" the date of cancellation or date the claim was paid against the relevant record of the guarantee for which a column is provided.

#### (d) WHEN MEETING A CLAIM: -

When claiming under a letter of guarantee the beneficiary should surrender the original guarantee to encase.

Debit	"Payments Made on demand under Letters of Guarantee" account (State details In the
	voucher Guarantee n umber ad the Name of Customer & Beneficiary. Date of Claim) refer

	note 1 & 2 below
Credit	Our Bank Account and Issue a Cheque Favouring the Beneficiary crossed "Account Payee" (state in the voucher Guarantee Number, Name of customer and Beneficiary in whose favour the cheque is drawn)

(Forward Cheque with a covering letter under **registered cover** to the Beneficiary and forward copy of the letter to the customer- Recover Postage from Customer) Reverse **original entries after making the above payment as indicated in (c) above.** 

#### (e) RECOVERY OF CLAIM PAID UNDER (d) ABOVE.

Debit	Margin account If Cash Margin is the security If not Debit the account of the Customer						
	refer note below						
Credit	"Payments Made on demand letters of Guarantee" (State details in the voucher Guarantee n umber ad the Name of Customer & Beneficiary. Date of Claim						

#### NOTE; -

#### (1) Balance in "Payments Made on demand under Letters of Guarantee" not backed by Cash Margin

If the customer's account is not funded to meet the claim, (already paid as stated in (d) above) when requested to do so within seven days from the date of payment Branch Manager should arrange to dispatch legal **Letter of Demand** to customer. If there is no response to such demand initiates legal action to recover as per available security within 30 days.

#### (2) Treatment of Outstanding Liability under "Payment made on demand Letters of Guarantee"

If claim is met by debiting the account "Payments Made on demand Letters of Guarantee" as stated in (d) above the liability of the customer shall be treated as a Loan facility and interest should be computed on the penal rate for lending in force, and recovered from the customer from the date of payment of claim to date of settlement. (This liability of the customer is subject to classification, provisioning as per Central Bank requirements and be reported to CRIB.)

#### 11. RECORD OF CLAIMS PAID

(h) A register named "Payments made on Demand Letters of Guarantee" should be maintained disclosing the following data of claims paid at the Branch not funded by the customer

#### PAYMENTS MADE ON DEMAND LETTERS OF GUARANTEE REGISTER

Date	Guarantee	Name of	Name of	Amount	Authorized by	Date	Authorized By
	Number	Customer	Beneficiary	Paid	Manager & Asst. Manager	Recovered	Manager & Asst. Manager
				Rs	Widnager		Wanager

# 12. MONTH END BALANCING OF OUTSTANDING GUARANTEES / PAYMENTS MADE ON DEMAND

- (a) The total of Guarantees outstanding in the "Guarantees Issued Register" should be tallied with the balance in the "Guarantees Granted" in the general ledger every month end and the balanced statement (Schedule) should be held for the perusal of Internal and External auditors duly authenticated by the Branch Manager and the Assistant Manager
- (b) The total of payments outstanding in the" Payments made on demand letters of guarantee Register" should be tallied with the balance in the "Payments made on demand letters of guarantee account "in the general ledger every month end and the Balanced statement (Schedule) should be held for the perusal of Internal and External auditors, duly authenticated by the Branch Manager and the Assistant Manager

#### **PART VIII**

Code of Conduct
for
Branch Managers
Credit officers
And
Marketing officers

Ethical code of conduct applicable to officers involved in the Credit function. All the officers engaged in the credit function ("From the Branch Managers/Credit officers /Marketing officers to the approving Authority") are expected to observe the **highest professional standards** in the discharge of their duties.

Without detracting from the generality of this requirement, particular attention is drawn to the observance of the following:

- 1. Branch Manager / Credit Officer /Marketing officer should maintain dignity and remain beyond reproach (maintain arm's length relationship) in their dealings with customers.
- 2. Neither they nor their family members should be involved in any personal transactions with or seek favours from customers.
- Credit facilities to related parties including family members should not be processed by the same staff member and should be disclosed to the supervisor immediately for appropriate action.
- 4. Branch Manager / Credit Officer /Marketing officer should always maintain the highest professional standards of care, diligence and integrity in the evaluation, recommendation and approval of credit facilities.
- 5. Branch Manager / Credit Officer /Marketing officer should act without bias and should not conceal or misrepresent material information regarding credit proposals.
- 6. You should act impartially and without delay in reporting adverse trends and/or performance with regard to the businesses for which facilities have been granted and in safeguarding the interests of LCBF.
- 7. You should not induce customers to stand guarantee and/or offer security for facilities granted to other customers.
- 8. You should not suggest or encourage in any way, customers to circumvent the LCBF's rules and requirements.
- 9. You should avoid being in conflict with the LCBF's interests at all times.
- 10. You should not make promises to customers or canvas business in a manner that would embarrass the LCBF immediately or in the future.

- 11. You should maintain confidentiality of information regarding LCBF, its subsidiaries and associates and its clients that is acquired in the discharge of your functions and disclose such information only for internal purposes or if required by law.
- 12. Officers should not profit from such confidential information by way of pecuniary benefit or in kind. Officers should not do consultancy services for clients, directly or indirectly, in projects funded by LCBF or otherwise, unless expressly authorized by LCBF.

Recommended to the Board of Directors to grant Approval to Adopt this Manual

**DEPUTY GENERAL MANAGER** 

**CEO/ EXECUTIVE DIRECTOR** 

(Credit)