

Standard Operation Procedure (SOP) for Credit Processing

This Standard Operation Procedure established in the purpose introducing credit personnel (CP) of Business Development Department (BDD) in M.G.N Emperor Bank Plc with detail of lending process from the beginning till fully completed loan proposal and submit seeking approval from approving authority. As in general of loan process, there are 5 steps need to be considered as following:

I. Exploring Prospect Customer

Exploring prospect customer is play a vital role to identifying potential customer in order introducing the banking products & services, while get accepting on loan terms & conditions by customer, account relationship officer (ARO) shall list down all the required and supporting documents upon the nature of customer business for further assignment.

II. Collecting all Required and Supporting Documents

A documents collection is a systematic gathering of data for a particular purpose from various sources, including manual entry into an information system, questionnaires, interviews, observation, existing records and electronic devices. A brief description might include the following:

1. Personal Information

- Copy of Identity card/ Passport / Passport of borrower and/or Guarantor
- Family Book / Residential Book
- Marriage Certificate
- Employment Contract, Employment Card and/or Employment Confirmation
- Payroll Slip and/or rental income ... etc

2. Company Information

- Business Patent, Business License, Latest business patent tax or Certificate
- Memorandum or Article of Association
- Board Resolution of Company for Loan Application

3. Financial Information

- Unaudited Financial Statement for last 06 months
- Bank Statement for the latest 12 months (if any)
- Loan Account Statement and Loan agreement with other banks (if any)
- Projected Financial Statement for 1 to 3 years
- Cash flow projection report
- List of local or foreign suppliers
- List of local or foreign purchasers or clients
- List of stock value

4. Security Documents

- Photostat of title deeds of property (ies) to be mortgaged
- Sale and Purchase Agreement of the property
- Valuation Report of the property (ies)

5. Others

- List of property (ies) rental together with lease agreement copy
- List of property (ies) owned together with title deed or letter of ownerships (if any)

III. Conducting Business and Property Visitation

Customer visits can provide the credit personnel/ARO with significant and valuable information about a business and its operations. The credit personnel/ARO receives a firsthand glimpse into the customer's facilities such as their inventory, condition of equipment, and property location as well as checking on market price, marketability, accessibility and adverse impacts on the property etc. On the flipside, a credit personnel/ARO should be alert to the attitude the customer takes during the visit and note any red flags. Therefore, results of customer visits should be fully documented with key information highlighted. Below are four main objectives of a customer visit that a credit personnel/ARO should take into account:

1. Building Relationships

A customer visit may include representatives from both the credit risk (CR) and business development department, and may also include other members of company management. Joint customer visits often allow unique occasions to enhance internal communications among BDD, CR, and other departments that are instrumental to the maintenance of the account. A customer visit delivers a strong and unified message to the customer that its business is important to the creditor and, more importantly, that the protocol for doing business with the credit grantor has certain expectations. It is important for the BDD and any other representatives to have a clear understanding of the goals and objectives of the customer meeting.

2. Observe the Facilities

If possible, a customer's visit should include a tour of the facility as a great deal can be learned from viewing the company's or business operations. It can also help break down barriers to understanding the customer. An observant credit personnel/ARO can note inconsistencies with information that has been previously provided by the customer. **Questions to ask include:** *what is the condition of inventory? Is the store well located? Are a competitor's products in use and, if so, in what quantities?*

3. Discuss and Review Financial Information

This method is mainly focus on many privately held companies will only permit onsite examination of financial information, which is why it is important to capture as much information as possible during the customer visit. Even when copies have previously been given to the credit personnel/ARO, a face-to-face discussion with the customer about their financial statements provides a clearer understanding of the numbers.

There are two reasons for this: (1) the assets may now be visible to the credit personnel/ARO; and (2) there is usually more unrestricted time allotted for the review than for a telephone conversation. An in-person visit also gives time for the credit personnel/ARO to learn in detail about the components of the customer's cash flow; determine if inventory or accounts receivable activity are normal; and serves as an opportunity to observe the company and/or management for signs of fraud or misrepresentation. Industry knowledge and advance preparation are crucial to a successful customer visit. If financial information is to be discussed, then the customer should be asked to prepare this information in advance of the meeting.

4. Resolve Disputes, Develop Interaction

The business development department is in a very unique position to help avoid situations that could lead to disputes, claims, and other problems that can negatively affect prompt payment within terms. It is likely that the BDD has more opportunities to monitor interactions between the customers and other departments. A customer visit provides an opportunity for interaction among the parties to arrive at a resolution or settlement.

IV. Write-Up the Credit Proposal

Approval of credit proposal request depends on how well presented in credit proposal in the purpose convince to seek approval from approving authority. Approving authority look to a credit proposal as evidence that business has strong management, experience, and a thorough understanding of the marketplace. They will also look for relevant financial information that demonstrates ability to repay the loan. Generally, a credit proposal should include these elements:

1. Borrower/ Business Information:

- Clearly and briefly describe who customer is, business background, business operation, product & service type, distribution channel, customer type, collection record, reputation, the nature of business or start-up and how the loan will be used to help the business succeed.
- Describe the history of customer business market industry and summarize current activity and results.
- An owner must put some of his/her own money into the business to get a loan; the amount depends on the type of loan, purpose and terms. Equity can be built up through retained earnings or by the injection of cash from the owner. Most lenders want to see that the total liabilities or debt of a business is not more than four times the amount of equity.

2. Business Financial Highlights: Include complete financial statements (balance sheet, income statement, and reconciliation of net worth) at least 1 year plus a current interim financial statement (not more than 90 days old).

3. Loan Purpose: State the amount of money need and how determined this amount with specifically what the loan will be used for and why it is needed.

4. Collateral: Describe collateral would be willing to pledge as security for the loan. Every loan program requires at least some collateral that can be sold in case the cash generated by the small business isn't sufficient to repay the loan. All loans should have at least two identifiable sources of repayment which the first source is ordinarily cash flow generated from profitable operations of the business and the second source is usually collateral pledged to secure the loan.

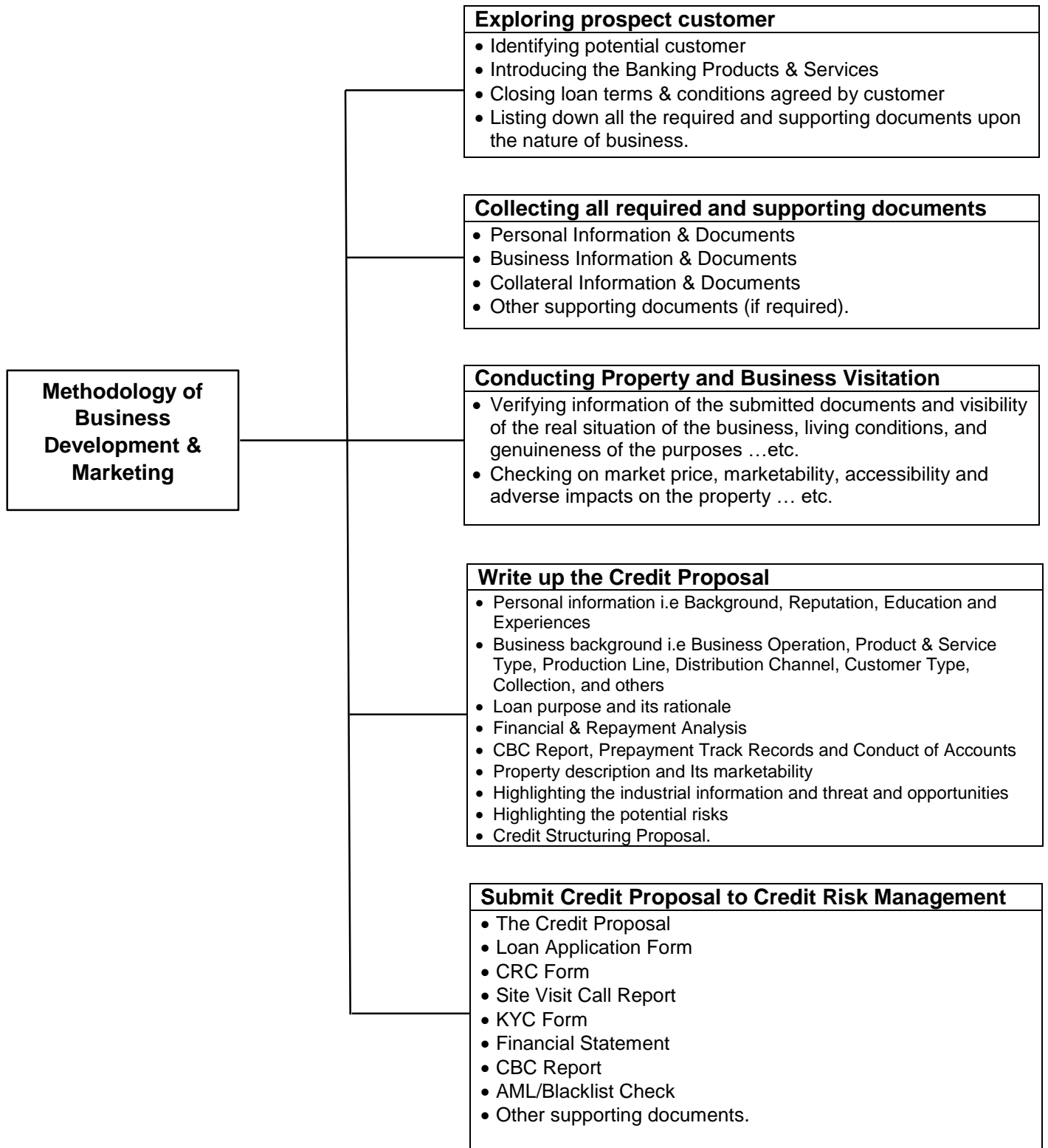
5. Loan Repayment: Describe the terms hope to receive (interest rate, terms & conditions, etc.). Show how can meet that repayment schedule based on sales and cash flow projections.

V. Submit Credit Proposal to Approving Authority

Once completely done on above 4 steps, the credit personnel/ARO has to be well-prepared related customer documentation by attached with bank's format such as: The Credit Proposal Form, Loan Application Form, Credit Risk Scoring Form, Site Visit Call Report, KYC Form, CBC Report, AML/Blacklist Check, and others submit to approving authority for get approval.

The ARO should inform the customers for any decision from approving authorities (approved or rejected). In case, the proposal is rejected, the ARO has to return all the documents to customer back.

1. Process Work Flow Chart



2. Approving Authority Matrix for Credit Facilities

Level	Business Side	Risk Side	Secured Loan	Unsecured Loan
Board of Credit Committee			Up to 20% of Net Worth	Nil
Credit Risk Committee			Up to USD3M	Nil
Level A	Deputy CEO	CEO	Up to USD1,000K	Nil
Level B	Deputy CEO	Head of CRM	Up to USD300K	Nil
Level C	Head of BDM	Head of CRM	Up to USD150K	Nil

Approving Authority for Compromised Settlement and Moratorium

Approval Authority	Compromised Settlement and Moratorium (Excluded Principal)
DCEO	≤ USD30K
CEO	≤ USD50K
CRC	≤ USD95K
BOD	> USD95K

Approving Authority for Credit Pricing

DA for Pricing Approval	Interest rate	Fee
Head of Business	Up to 0.15% p.a below BLR	Up to 0.25%
DCEO	Up to 0.25% p.a below BLR	Up to 0.3%
CEO	Up to 0.5% p.a below BLR	Up to 0.5%

Please refer to Bank's Products and Service Manual.

Note: Any deviation on the above loan pricing (fee and interest rate) shall be escalated one level higher based on the credit approval authority matrix with proper justification as per Bank's Products and Service Manual.

3. Criteria for Business Development Department

Business Development Department is to divide into three units **(Retail, SME and Corporate)** to roll out its respective strategies and action plans to focus on different market segment. The criteria are as below:

Units	Criteria		
	Customer Type	Facility	Credit Limit
Retail Banking	Individual	TL, OD, IL, HL, SL & BG	Up to USD300,000
SME Banking	Individual	TL, OD, IL, HL, SL & BG	Above USD300,001 to USD1,500,000
	Enterprise Registered Company <ul style="list-style-type: none"> ○ Sole Proprietorship ○ Single Membership Private Limited ○ Private Limited Liability 		Up to USD1,500,000
Corporate Banking	Individual	TL, OD, IL, SL & BG	Above USD1,500,001
	Enterprise Registered Company <ul style="list-style-type: none"> ○ Sole Proprietorship ○ Single Membership Private Limited ○ Private Limited Liability ○ Public Limited Liability 		

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