



M.G.N EMPEROR BANK PLC



CREDIT POLICY & GUIDELINE



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PART #1: OVERVIEW CREDIT PRINCIPLES

1.1. Introduction

This Credit Policy Manual sets out the policies and guidelines governing the management of credit in MGN Emperor Bank (“MGNEB” or “the Bank”). It provides guidance on the Bank’s expectations for all personnel engaged in the Bank’s credit functions and is to ensure that all such functions carried out are at all times based on sound understanding, principles, practices and prudence.

Although this manual is designed to cover the major components of the Bank’s credit activities, it is by no means exhaustive and it is not intended to cover all situations that may occur in a changing environment. It will be updated from time to time to adapt to the business environment and legislation.

All relevant personnel involved in the credit functions are required to be thoroughly conversant with and follow the spirit and intent of the manual stipulated (and their subsequent updates from time to time) as well as the banking practices, laws and regulations in the Kingdom of Cambodia.

Any violation of the credit policies, laws and regulations shall be deemed as a breach of discipline and could be subject to disciplinary action.

1.2. The Bank’s Credit Culture

In general, as a prudent commercial bank and a guardian of public funds in the Kingdom of Cambodia, the Bank shall only deal with borrowers of good character, reputation, credit standing and high integrity. For business credit, the borrowers must have good knowledge and experience in their trade or business.

The Bank should at all times avoid lending to persons with bad reputation and adverse past track record in respect to the conduct of their personal and business affairs. The Bank should avoid dealing with persons whose integrity and honesty is doubtful and questionable, no matter how good the collateral or how viable the credit proposal appears.

The Bank should ensure that the purpose of the credit proposal, the terms and conditions, and source of repayment are clear and well understood.

The Bank must be satisfied with the borrower’s repayment capability, after proper assessment on the borrower’s financial commitment and for business credit, borrower’s projected cash flow and financial position.

1.3. The Five ‘C’s of Credit

The generally accepted credit model in evaluating or assessing the potential borrower’s overall credit worthiness is by considering the five (5) ‘C’s of credit.

The five (5) ‘C’s are:

1.3.1. Character

This is among the most important despite being a difficult credit factor to assess.

The common approach to assess the character for lending purposes is by conducting a personal interview, assessing the management team particularly the top executives of the company and discreet market / trade checks on the potential borrower.

For the individual borrower, his / her personal profile such as age, marital status, occupation and past track record of conduct of account may provide indication of the potential borrower's character.

For the business borrower, the company's key management personnel, management style and their lifestyles, past track record on conduct of account as well as their industry reputation may provide indication on its character to honor its repayment obligations.

1.3.2. Capacity

In general, capacity refers to the ability to generate the necessary cash flow to fulfill the interest servicing commitment and principal repayment obligation. Therefore, it is important to identify the primary source of repayment and assess its adequacy and reliability.

For the individual borrower, the source of income for an employed wage earner is normally from the salary income. As the individual borrower may have other financial commitment, it is important to factor in the borrower's other financial commitments.

For the business borrower, the sources of revenue are normally generated from the business operation, which in turn depend on the nature of the company's business. To determine the capacity to service and repay both its interest and principal obligations, it is important to perform a comprehensive cash flow financial analysis on the company's operations and financial position.

Besides the financial capacity as mentioned above, this 'C' can also refer to management capacity to operate the business.

For the business borrower, management capacity assesses the company's management competency in terms of business knowledge, past track record, experience and its succession plan.

For the individual borrower, the stability of income and the nature of occupation / profession in relation to the industry where he / she is employed are among the important factors to consider when processing the credit proposal to determine the adequacy and reliability of the income stream.

Over and above the financial and management capacity, it is also important to consider the legal capacity of the borrower i.e. the legal age to borrow for individual borrower. In the case of the business borrower, it is required to examine the borrowing power and the authority to charge company assets as collateral support to the credit.

1.3.3. Capital

For the business borrower, it refers to the sufficiency of shareholders' financial commitment to their business, relative to the permanent assets owned by the business. Financial commitment is measured by its shareholders fund, subordinated loans from the shareholders or owners of the business as well as third party collateral provided by the owners of the business.

For the individual borrower, it refers to the borrower's backup capability or reserve to repay in the event that unfavorable circumstances occur, which is done by analyzing the assets and liabilities of the borrower.

1.3.4. Conditions

The changes in external conditions can affect the business borrower's ability to honor their financial obligation to the lenders. Therefore, it is important to assess the macro issues that may affect the borrower, such as globalization, economic changes in major trading partners, changes in legislation and regulatory framework, social trend / life style, demographics of the population, technological advancement, political environment, etc.

For the individual borrower, factors such as downsizing, relocation of business activities to another country, etc may affect the employment opportunity which may lead to loss of employment income necessary for interest servicing and principal repayment resulting in loan default.

1.3.5. Collateral

Collateral represents a means to recover the loan in the event of default when all other remedies are exhausted. It should not be treated as the primary source of take-out for the loan. It is meant to strengthen the credit proposal i.e. it is not a substitute for other credit requirements.

If the credit proposal is for the purpose of financing the acquisition of assets, these assets in turn should be taken as collateral support.

The Account Relationship Officer(s) should possess the knowledge in relation to the various types of acceptable collateral offered as security to the credit proposal.

1.4. Credit Risk Management Principles

Some of the fundamental credit risk management principles that credit personnel need to be aware and adopt when processing the credit proposal are:

1.4.1. Principle of 'Proportionate Stake'

For the business borrower, the business owners must be sufficiently committed in terms of capital to the business. Business owners would have something significant to lose if the business were to fail. This will ensure that they will do their utmost best to ensure that the business succeeds.

A common approach is to take the personal guarantee or joint and several guarantees from the business owners as their commitment to ensure the business success.

For the individual borrower, if it is for acquisition of assets, the borrower must contribute his / her portion to the purchase sum as commitment to the transaction. In other words, the margin of financing should be less than 100%.

1.4.2. Principle of 'Pari Passu'

Pari Passu means equal standing in Latin. When processing credit proposal, the credit personnel is required to ensure the Bank's collateral support arrangement in comparison to other lenders is not in a worse off position, unless the Bank is adopting a more aggressive lending strategy approach.

1.4.3. Principle of 'Protection'

This principle is about collateral support to the credit proposal, where after evaluating / assessing the business viability and credit risk of the borrower, the credit personnel must ensure there is adequate collateral support as a second way out in the event of default.

1.4.4. Principle of 'Control'

When processing the credit proposal, it is important to ensure that it is structured to ensure the Bank is in control of the utilization of the drawdown proceeds and the repayment source.

For example, the assigning of contract proceeds to the Bank for project or contract financing.

1.4.5. Principle of 'Well Spread Lending Portfolio'

It is prudent to avoid over concentration of credit exposure to a particular sector / industry of the economy.

The concentration risk of credit exposure to a particular sector / industry may have adverse impact on the Bank if that particular sector / industry experiences a downturn.

1.4.6. Principle of 'Good First Way Out'

When processing the credit proposal, it is important to identify the source of repayment and thereafter make necessary assessment to verify the adequacy and reliability of the repayment source.

For the business borrower, it involves the qualitative and quantitative analysis to determine the business' ability to generate adequate cash flow.

For the individual borrower, it is about the adequacy and stability of the salary income.

1.4.7. Principle of 'Appropriate Tenor of Financing'

When processing credit proposal, due consideration must be given to determine the appropriateness of the loan tenor that will match the need and repayment capacity of the borrower.

The loan will go into default if it is structured to a short tenor when after assessing the income stream and cash flow position, the borrower would require a longer tenor to repay.

1.4.8. Principle of 'Reflective of National Policy'

To support the government's initiative to develop the economy and elevate the standard of living of the country, it is important to provide credit particularly to the sector / industry that enjoys direct government support. From the credit risk perspective, such sector / industry would normally have a higher success rate.

1.5. General Credit Practices

1.5.1. Avoid Misrepresentation of Facts

When credit proposals are submitted for approval, the Account Relationship Officer must not withhold any material information or misrepresent or distort any facts. Otherwise, it is deemed a misrepresentation of facts and disciplinary action may be taken against the credit personnel.

1.5.2. Avoid 'Name Dropping'

All credit proposals are evaluated and appraised solely on the merit of each case. Any references from the applicants that they are known to the member of the Board of Directors or Senior Management must not be taken into consideration when evaluating the credit proposal.

1.5.3. Conveying Credit Decision

When conveying credit decision, whether it is approved or declined, it is important to stress that the name of specific members of the Board of Directors or name of the Senior Management are not disclosed to the applicant or borrower.

1.5.4. Trade / Market Checking

For business credit, as a good practice to ensure more thorough assessment of the new application received from the potential customer, credit personnel are encouraged, on best

effort basis, to perform trade / market checking from independent parties, such as applicant's competitors / buyers / sellers or any other independent sources.

The trade checking must be carried out as discreetly as possible, without revealing the purpose of the checking.

1.5.5. Site Visits

For business credit, the Account Relationship Officer is required to perform site visit to the borrower's operating premises / factory for new credit / additional application.

The Account Relationship Officer(s) must carry out periodic site visit to the borrower's operating premises / factory to review its operation at least once a year.

1.6. Credit Process Cycle

The credit process cycle typically has six (6) stages as mentioned below:

- i) Credit Origination
- ii) Credit Assessment
- iii) Credit Approval
- iv) Credit Administration
- v) Credit Supervision and Review
- vi) Credit Recovery

The credit cycle forms the credit value chain and is the underlying model by which the Bank directs its lending activities. The rest of this manual covers the respective credit processes which will enable the Bank to:

- a) maintain sound lending standards
- b) monitor and control credit risks
- c) properly evaluate new business proposals
- d) identify and administer problem credits

1.6.1. Credit Origination

This is the starting point of the credit process, where potential customers are identified and initial contact made. It is the responsibility of the Account Relationship Officer to prepare the credit proposal for approval submission. Prior to the credit proposal, the Account Relationship Officer shall perform interview and site visit (for business borrower) to assess the viability of the credit proposal and subsequent business relationship.

1.6.2. Credit Assessment

The credit assessment function where possible is to be independent of the credit marketing / relationship function. The Credit Risk Assessment Officer shall evaluate and appraise the credit proposal objectively from the credit risk's view point, particularly on the probability of default by borrower and its credit risk mitigation factors in the event of default. Accordingly, they will make the appropriate recommendation to the approving authorities for decision. Their function is fundamentally to highlight the credit risks and recommend mitigating measure to the approving authority for decision. The Credit Risk Assessment Officer's recommendation should not be influenced by features of collateral, relationship with parties of influence or other factors which are not relevant to the creditworthiness and ability to repay.

1.6.3. Credit Approval

The credit proposal together with the relevant comments and recommendation from the credit risk assessment personnel shall be presented to the approving authority for deliberation and approval consideration. The decision, whether it is approved, pending further information or rejected, shall be conveyed for the next course of action.

Consistency and sound decision making by the approving authority are essential for the success of the credit process. Therefore, it is important that the approving authority shall analyze thoroughly the content of the credit loan application and make decision consistent with Bank's credit policy.

1.6.4. Credit Administration

Once the credit proposal is approved by the approving authorities and the Letter of Offer is accepted by the borrower, the legal and security documentation process shall commence by Credit Operations Officer to prepare the necessary legal and security documents to protect Bank's interest with respect to the loan and witness by the appointment of the Bank's panel solicitor.

In addition, Credit Operations function also includes the disbursement of the loan, monitoring, loan system maintenance, collection, collateral management, periodic statistical reporting and other credit operations function.

1.6.5. Credit Supervision and Review

Subsequent to the disbursement of credit facilities is the process of administering and ongoing monitoring of the borrower, both on the individual borrower as well as the group of related borrowers basis including collating and reporting of data as part of the Bank's management information requirements on the borrower.

The Credit Operations unit must maintain a credit file which contains the relevant data and information of the borrower including the history of relationship and trail of correspondence. In order to identify and address potential risks and problems as soon as possible, regular credit reviews must be undertaken, at least annually or more frequently for credits with signs of quality deterioration. This will enable the Bank to arrest and regularize problem loan accounts at an early stage.

1.6.6. Credit Recovery

In the event of loan default, the collection, restructuring / rescheduling, legal recovery action, classification and loan loss provision shall be managed by the Credit Control & Recovery Unit.

1.7. Prevention of Non-Performing Loan ("NPL")

The Account Relationship Officer must continuously monitor all loans granted and keep track of the borrower's loan repayment ability and in accordance with the repayment schedule.

Any indication of deterioration on the credit standing of the borrower must be immediately highlighted for more stringent monitoring.

Immediate review on all these loans must be carried out without delay to determine the cause of deterioration and corrective actions to be recommended such as loan restructuring or re-scheduling its loan repayment. All recommendations or courses of action taken must be to the Bank's best interests as the primary objective.

The Account Relationship Officer must make serious efforts to rehabilitate these loans to prevent them from turning into non-performing loans.

1.8. Code of Conduct and Ethics on Credit

To promote sound and prudent banking business practices among credit personnel, it is important and essential that all credit personnel involved in the six (6) stages of the credit processing cycle are guided by the general principles of Code of Conduct and Ethics on credit as mentioned below.

The five (5) main principles of the Code of Conduct and Ethics are:

- i) Avoid conflict of interest
- ii) Avoid abuse of position / power
- iii) Completeness and accuracy of relevant records
- iv) Confidentiality of communication and transaction between the Bank and its customer
- v) Fair and equitable treatment of all customers

"It is the responsibility of every staff of the Bank to immediately report to the Bank's management if it has come to his / her knowledge that he / she or any staff has breached or been induced to breach the Code of Conduct and Ethics on Credit".

PART #2: POLICY GOVERNANCE AND OWNERSHIP

2.1. Ownership & Responsibilities

The final approval authority for adding, amending or deleting the policies in this document rests with the Board of Directors with endorsement from the Risk Management Committee and recommend by Credit Risk Committee.



2.2. Policy Approving Authority

This Policy and all the related changes, revisions, and/or deletions, except for the attachments, should be approved by the Board of Directors. The Board is the approving authority for the implementation of this Policy and its subsequent changes that carry policy impact. Incidental amendments that do not lower the risk management standard, such as typing errors, sentence reconstructions to achieve higher clarity are to be approved by the Chief Executive Officer.

2.3. Deviation from Policy

Unless specifically provided in this Policy, any deviation from this Policy or in Product Guideline must be documented and escalated through Chief Executive Officer, Credit Risk Committee to the Board for approval. Internal Auditors, Compliance Officers, should be noted whenever necessary.

2.4. Policy Review Frequency

To ensure its continued relevance and effectiveness, this Policy shall be reviewed by Credit Risk Committee regularly and approved by the Board of Directors on an annual basis, commencing from the last approval date

2.5. Roles of Responsibilities of Key Related Committee

2.5.1. The Board of Directors (BoD)

The Board of Directors serves as the forum for the discussion and review of strategic issues, such as business strategies and policies approval authority.

On credit issue, BoD serves as the forum for the discussion of all loans, advances or credit facilities and the approving authority for any credit exceeding the CRC's approval limits upon recommendation from Credit Risk Committee.

2.5.2. Credit Risk Committee (CRC)

Credit Risk Committee "CRC" serves as the forum for credit discussion and the approving authority for any credit exceeding limits of one million US dollar up to five million US dollar. The Committee is also responsible for decisions on credit risk aspects, risk reviews of existing and new business/products.

The committee will be held regular every two weeks with at least 75% of member quorum, while any urgent case can be circulated for CRC's approval.

Please refer to Term of Reference of Credit Risk Committee.

PART #3: CREDIT RISKS ASSESSMENT

3.1. Credit Risk Assessment

- a) Credit risk assessment refers to the process of analyzing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a reasonable level of return from financing the exposure.
- b) The decision to finance or extend credit should solely be dependent on the borrower's ability to generate positive cash flow, service the interest and repay the credit exposure on a timely basis. It should not be influenced by any of the following:
 - i. Features of collateral, such as type, amount and coverage;
 - ii. Relationship with any parties;
 - iii. Other factors not relevant to the counterparty's creditworthiness and ability to repay.
- c) Every credit proposal should pass an internal credit risk scoring, which need to be approved to adopt by the Board of Directors or committee delegated by the Board of Directors on annual basis. The tool represents the integral part of the Bank's credit process. The minimum scoring to be proposed for credit approval is 40 or grade 6. Credit proposal with grade 6, however, will need to escalate to higher level of approval authority, if any.

The Internal Credit Risk scoring is assigned as below: -

Score	Grade	Appraisal	Risk
Over 90 to 100	1	Excellent	Low
Over 80 to 90	2	Very good	Low
Over 70 to 80	3	Good	Low
Over 60 to 70	4	Satisfactory	Moderate
Over 50 to 60	5	Fair	Moderate
Over 40 to 50	6	Unsatisfactory / Escalate to higher level	High
Over 30 to 40	7	Unacceptable	High
Over 20 to 30	8	Uncollectible risk is medium	High
Over 10 to 20	9	Uncollectible risk is high	High
From 0 to 10	10	Uncollectible risk is very high	High

Please refer to Appendix 1 the Internal Credit Risk Scoring

- d) Methodology of Credit Risk Assessment - When conducting credit risk assessment, the Credit Risk Assessment Officer (CREO) may use the following methodology to ensure the entire scope of credit risk assessment is addressed:
 - i) **Purpose of the Credit**

As a general guide for commercial / business credit, the purpose of the credit proposal should be consistent with the borrower's nature of business operation

and to help the business to generate business revenue and cash flow sufficient to repay the credit facility.

The credit proposal that is not consistent with the borrower's nature of business operation and which does not generate revenue and sufficient cash flow to repay the credit facility should be discouraged.

Among the common purposes of the commercial / business credit request are working capital requirement, capital expenditure financing, trade financing, project and infrastructure financing.

As for the individual borrower, some of the common purposes include personal investment, acquisition / purchase of assets such as residential property for dwelling and purchase of motor vehicles.

ii) Structure of the Credit

A good credit structure must take into consideration the following factors:

- The proposed credit amount must be reasonable and sufficient to meet the borrower's requirement;
- The proposed credit tenor must be appropriate to borrower's cash cycle and capacity to meet the periodic payment;
- There must be collateral and security support;
- Imposition of terms and conditions, pre-disbursement and post-disbursement to mitigate risks.

iii) Fact Analysis on borrower

As a measure to ensure the Bank is dealing with a borrower with good credit profile record, it is important that the credit personnel where possible, conduct a credit profile checking with Credit Bureaus Cambodia (CBC) and searching with other sources which is available in Cambodia or other countries.

The CBC checking should also include all directors, major and substantial shareholders, security providers and guarantors.

However, if the director is not a key decision maker in daily operation of the business, and merely a nominee director (without shareholding / token shareholding) and is not agreeable to be a guarantor or if a particular director has requested to be excluded as guarantor, this must be stated clearly in the Credit Proposal for consideration of waiver by the approving authority.

The CBC report should not be more than two (2) months old at the point of proposal submission.

iv) Qualitative Analysis

When conducting a qualitative analysis on potential or existing business borrower, the qualitative factors to be assessed are:

- Management integrity and competence;

- Nature of the business in term of its manufacturing processes and production cycle;
- Type of product and services offered to generate revenue / cash flow;
- Supplier listing and its trade terms;
- Customer listing and its trade terms;
- Debtors Ageing listing and the operation of the credit collection function;
- The level of industry competition in which borrower is operating.

For the individual borrower, the qualitative analysis would be primarily on his / her occupation / profession, the stability and quality of the salary income, age, the nature of his / her employer's business and family profiling.

v) Quantitative Analysis

When conducting a quantitative analysis, the primary focus is essentially on the financial aspect of the borrower.

For the business borrower, it is the assessment on the earning capacity of the business venture (profit / loss statement), short term solvency and long term financial stability of the business (balance sheet), which includes ratio analysis and liquidity position of the business (cash flow statement).

For the individual borrower, it is essentially the assessment on the gross income against the monthly repayment commitment. As a general guide, the applicant's gross monthly income shall be at least 2 times the monthly repayment unless otherwise approved by the approving authority.

Quantitative analysis would provide the CREO an indication on the financial position of the borrower and to identify the financial risks with appropriate risk mitigation measures to safeguard the Bank's interest.

- e) Repayment Analysis - For all credit risk assessment, it is important to identify the sources of repayment to retire the credit extended to the borrower over a period of time.

Broadly, the sources of repayment can be categorized into primary and secondary sources of repayment.

For the business borrower, the primary source of repayment is normally from the operational revenue / cash flow or from specific business activities.

For the individual borrower, the primary source of repayment is normally from the employment income.

Secondary sources of repayment could include the pledged security and collateral.

Once the source of repayment is identified, whether it is a primary or secondary source, it is important that the CRAO should further assess the adequacy reliability and stability of the repayment sources.

- f) General eligibility criteria for Individual Borrower:

i) Age

Age of the main applicant must be between 18 and 65 years old at the end of loan period. The main applicant is the joint borrower that contributes the most in the repayment capacity.

ii) Monthly income

The applicant's gross monthly income shall be at least 1.8 times the combined monthly loan repayment unless otherwise approved by the approving authority.

iii) Occupation

The applicant's occupation is very essential in determining the applicant's income and hence his / her repayment ability.

Below some of the categories of applicants generally are preferred:

- Professionals such as Engineer, Architect, Banker, Accountant, Doctor, Lawyer.
- Employee from reputable companies, especially the multi-national companies doing business in Cambodia.
- Government's employee.
- Existing customers with good track record with the Bank.

iv) Internal Credit Risk Scoring

The applicant's ICR Scoring must be at least 45, while the scoring 50 and below need to escalate to higher DLA.

e) General eligibility criteria for Business Borrower:

i) Legality

All business borrowers are required to provide documentary evidence on the business registration with the relevant business registration bodies in the Kingdom of Cambodia.

- Sole-Proprietorship / Single Member Private Limited Company
- Partnership (either with limited or unlimited liabilities)
- Private Limited Company
- Public Limited Company

ii) Monthly EBITDA

The applicant's EBITDA shall be at least 1.5 times the combined monthly loan repayment unless otherwise approved by the approving authority.

iii) Internal Credit Risk Scoring

The applicant's ICR Scoring must be at least 45, while the scoring 50 and below need to escalate to higher DLA.

3.2. Collateral Assessment Process

Periodic valuations of collateral are required to ensure that the value assigned to the collateral at the time of initial valuation remains current. The frequency of revaluation (formal or indicative), should be driven by the extent to which the Bank is relying on the collateral for repayment, as well as on the type of collateral. More frequent valuation should be undertaken when the market condition is volatile.

Formal valuation of the collateral is required at inception of a credit facility, or any time at the directive of the Credit Risk Management for loan exposure below USD50,000. The guidelines of approved appraisers should be maintained by Credit Risk Management Department, reviewed and approved by Credit Risk Committee at least annually. Bank's panel valuer must also be recognized by the Ministry of Economic and Finance or National Bank of Cambodia, if applicable.

Account Relationship Officers should ensure the continued enforceability of the collateral throughout the tenure of the credit facilities. If any collateral or other supporting document comes with fixed expiry dates, extension must be obtained or a claim made prior to the expiration.

Collateral valuation reports are prepared by Bank's panel appraisers who perform on-site visit to collateral. These reports shall state the suggested market value of the collateral and nearby similar properties.

Collateral valuation report is normally valid for one year unless there is significant change of environment at the discretion of the Bank.

In order to renew the existing 1-year loan facility, the collateral valuation report could be valid for another year with the support of new indication in writing from one of the Bank's panel appraisers.

All business units need to have on-site visit to collateral to justify the collateral valuation report from appraisers and to recommend the suggested market value, which shall not be the highest suggested market value among all valuation reports unless with strong argument.

Credit Risk Assessment Unit is authorized to review and comment on the suggested market value in the collateral valuation report, by comparing with existing updated database providing by independent real estate agency, or existing data from existing customers.

3.2.1. Acceptability and Assessment of Collateral

The market value of the collateral shall be assessed on a prudent basis, considering factors such as the completeness, reliability, market value, depreciation, actual performance, marketability and the cyclicity for determining the security value.

Market value should be measured on the basis of up-to-date valuations and is defined by the average of the indicative or formal appraisal from at least two panels with differential of value no higher than 15% between the highest and lowest. For loan below USD50,000, which not required the issuance of valuation report, must obtain the indicative value from at least one panel, and to adopt the lowest indicative from the panel and our internal data base from independent valuer.

Collateral valuation must be considered under a liquidation scenario, taking into consideration of the potential erosion. Liquidation value is equal to the expected proceeds of a collateral monetization in base case scenario, wherein a fair price is achieved through careful preparation and orderly liquidation of the collateral.

3.2.2. Collateral Location

Except for vacant land, collateral must be in fully completed or will be in completed condition before the full drawdown and all collateral must set the first lien pledge/hypothec to bank.

Collateral must be located around bank operation cities/provinces.

The grade of the property is classified as below: -

No	Property Type	Grade A (define by)	Grade B (define by)	Grade C (define by)
1	Commercial	Within 1km radius from public market	Within 2km radius from public market	Within 3km radius from public market
2	Residential	Located in City itself/within 3km radius of downtown	Located in City itself/within 5km radius of downtown	Located in the Borey/Satellite city in the city/provincial town
3	Industry	Within 1km radius surrounding by SEZ/factory's zone	Within 3km radius from SEZ/Factory's zone	Within 5km radius from SEZ/Factory's zone
4	Agriculture	All vacant land to produce agriculture product four times a year	All vacant land to produce agriculture product twice a year	All vacant land to produce agriculture product only one times within a year.

The above grade can be proposed to revise by Business Development and Marketing Department to be concurred by Credit Risk Management Department and approval by Board of Directors or any committee delegated by the Board of Directors.

Collateral with the following negative situations should be avoided. For collateral with negative situations, Account Relationship Officer must mention its negative situations and accepting reason on credit proposal. Negative situations are:

1. Ease of deterioration or damage; or
 2. Difficult to be taken over in secondary market; or
 3. Under litigation notes via third party; or
- Near to any loathsome facility as per mention in Point 4, Section 4.6.2 (h) of Discouraged Credit.

3.2.3. Maximum Loan to Value

Due to different underwriting requirements to each industry/business segments, the maximum Loan-to-Value (LTV) varies for different types of collateral. The maximum LTV ratios must be reviewed by Credit Risk Committee at least on annual basis.

Unless the maximum LTV is regulated by local financial supervisory/ government authorities or justified by market practice, such as syndication deals, no deviation is allowed, except for program lending.

The maximum Loan to Value of Collateral is assigned as below: -

No.	Property Type & Grade	Max LTV (%)
1	Commercial with Grade "A"	80% of OMV
2	Commercial with Grade "B"	70% of OMV
3	Commercial with Grade "C"	70% of OMV

4	Residential with Grade “A”	70% of OMV
5	Residential with Grade “B”	70% of OMV
6	Residential with Grade “C”	60% of OMV
7	Industry with Grade “A”	70% of OMV
8	Industry with Grade “B”	60% of OMV
9	Industry with Grade “C”	40% of OMV
10	Agriculture with Grade “A”	50% of OMV
11	Agriculture with Grade “B”	40% of OMV
12	Agriculture with Grade “C”	30% of OMV

For loan facilities under Khmer Riel or any other foreign currencies, where the Loan amount and Collateral value are in different currencies, the loan amount equivalent in USD should be clearly state in the Credit Proposal using the assumed exchange rate on the submission date.

3.3. Facility Structuring

Having assessed the credit quality and risks of the proposal, the CRAO must ensure that appropriate terms and conditions such as loan tenor, review frequency and security requirements are included in the documentation of the loan facility. This is to ensure that the identified risks associated with the facility are mitigated and the overall risk is acceptable to the Bank. It is the responsibility of the CRAO to determine which of the Bank standard terms is and conditions will be applied for a particular loan facility.

As a general policy, all credit facilities should have a repayment schedule and such schedule should fall in line with the borrower’s credit quality and risk rating, cash flow projections, business plans and type of facility requested.

3.4. Higher Risk Credits

Certain credit transactions may require special attention as they are subject to or prohibited by laws and regulations, or can involve unusual credit, franchise and / or reputational risk which pose higher risk to the Bank and should therefore be avoided by the Bank.

3.4.1. Prohibited Credit/Lending

The following types of deals are strictly prohibited by the Bank because the deals present high degree of risks to the Bank:

- a) Loans for illegal purposes or to business or individuals whose source of income is illegal.
- b) Loans of high country risk which is not related to short term trade financing.
- c) Loans that knowingly result in violations of laws or regulations.
- d) Customers not met the sustainable development criteria (per Regulation Governing Sustainable Environment, Social, Governance for Corporate Loan)

Under no condition shall the Bank provide loans to finance unethical or illegal activities. One of the most important means by which the Bank can hope to avoid criminal exposure to the Bank by customers who use the Bank’s resources for illicit purposes is to have a clear and concise understanding of the customer’s practices. As a general rule, a business relationship with the Bank should not be established until the identity of a potential client is satisfactorily established.

If a potential client refuses to provide information requested by the Bank, the relationship should not be established. Likewise, if requested follow-up information is not forthcoming, the relationship which has been initiated must be terminated.

3.4.2. Discouraged Credits

A discouraged credit is one that presents a high degree of risk to the Bank. It requires special care and thorough credit due diligence. Because of its significant downside risk, a discouraged credit should be avoided where possible unless strongly justified.

Strategy of Business Units should focus on respective business with companies in the target markets set by the Bank. Discouraged credits including but not limited to:

- a) Loans to finance the establishment of businesses, wherein the bank advances an excessive proportion of the required capital relative to the equity investment of the owners.
- b) Loans based more on the expectation of successfully completing a business transaction than on existing worth.
- c) Loans for speculative purpose, purchase of securities, property, or goods.
- d) Collateral loans carried without adequate margins of security.
- e) Loans for carrying real estate against narrow equity ownership.
- f) Loans made because of other benefits, such as the control of large balances on deposit in the bank and not based on sound worth and collateral.
- g) Loans weakened by bad moral risk.
- h) Loans predicated on collateral of problematical liquidation value, at ease of deterioration or damage, difficult to be taken over in secondary market, under litigation notes via third party, or near to any loathsome facility.

Loathsome facilities include but not limited to: Unpleasant ditch, high voltage towers, substation, gas/oil storage tanks, funeral parlor, grave, airport, flight lanes, temple, altar, gas station, viaduct, garbage dumps, incinerator, chemical factories or special entertainment industry.

PART #4: CREDIT APPROVAL PROCESS

4.1. Approval

Credit Approval is the process of authorizing the underwriting of a credit exposure together with its terms and conditions, pricing, limit, covenants and collateral / security pledged, in accordance to the Bank's approval authority framework.

4.2. Delegated Approval Authority Framework

- a) The Bank's credit approval process is based upon a system where there must be not less than two independent officers, one as recommender and the other as approver for the approval of each exposure.

Please refer to Appendix 2 The Credit Approval Authority Matrix

- b) The basis of the process is that credit approval is functionally separated from the marketing initiatives and that credit is not extended on the judgment of one officer alone. Thus, all credit approvals will be signed, at a minimum by the recommending officer at the business unit or branch and the relevant approval authority approving the granting of the credit, each being individually responsible for the assessment of the credit, the acceptability of the customer and the adequacy of the pricing vis-à-vis the risks.
- c) The Delegated Approval Authorities Framework for new / additional credit proposals and variations of terms and conditions of approved credits are based on the approving authority framework as approved by the Board of Director.

It provides authority to approve the following based on the aggregate credit limit of the borrower or the group of related borrowers:

- i) New customer credit limits.
- ii) Changes to credit limits for existing customers.
- iii) Credit structuring, pricing and tenor.
- iv) Annual and ad hoc credit reviews.
- v) Release of security.
- vi) Changes to security.

The approval and removal of the approving authority within the Delegated Approval Authorities Framework is the prerogative of Board of Director.

- d) There may arise a certain credit situation requiring approval which is not specifically covered by this credit manual, or its characteristics do not clearly determine the approval process, in which case the credit personnel involved should use their conservative judgment as to the appropriate credit approval process to be taken. The personnel should then inform the **Management to ensure these** situations are addressed. However, the approval and / or actions proposed need not have to be deferred until new credit policy is created.
- e) Both the recommending and the approving personnel must be accountable for the decisions they make and must have the following responsibility:
 - i) Satisfy themselves that the credit risks are acceptable.

- ii) Submit the approved credit proposal for post-approval review by Credit Control and Recovery on monthly basis.
 - iii) Ensure that corrective action required by the post-approval reviewer is taken at the earliest suitable opportunity.
- f) The relevant approval authority involved in approving a loan must adhere to the following principles:
- i) Risk is at the core of all businesses. The act of credit risk management and approval is to mitigate risk and not to stop the Bank from engaging risk.
 - ii) The approval authority must not unduly reject a loan. If the decision is to reject a loan, the rationale for doing so must be completely justifiable and is to be communicated to the recommending Account Relationship Officer.
 - iii) The approval authority must not refrain from making a decision on approving a loan where the decision falls within his / her delegated powers in accordance to the Bank's approval authority framework i.e. he / she must not abscond from the delegated responsibility.

4.3. Appeal Process

- a) The recommender has the prerogative to appeal to the relevant approval authority should he / she disagrees with the decision.
- b) Reasons for appeal must be fully justified and documented, and to be provided for consideration.
- c) There will be no further appeal once the decision has been made on the appeal.

4.4. Managing Higher Risk Lending

- a) The bank adheres to the credit policy and guideline while employing internal credit risk scoring as a key indicator to determine the level of risk.
- b) Any credit proposal with internal credit risk scoring of 50 and below is considered as higher risk lending.
- c) The approved Higher Risk Lending must be reported to Risk Management Committee at least on quarterly basis to ensure Higher Risk Lending approvals are highlighted for Management's attention for better monitoring.
- d) In Higher Risk Lending report, the following must be clearly documented:
 - i) The additional risk factors considered;
 - ii) Justification for considering the proposal acceptable, despite the higher risk nature of the credit.

PART #5: PROGRAM LENDING PROCESS

Program Lending “Program” is one of marketing initiatives to expedite the credit process for a favored sector, in which existing policies and guidelines cannot response to market competition.

The example of Program Lending is End Financing to an under-construction housing project belong to a reputable developer or special pricing and tenor for housing buyers or construction material suppliers or rice millers or KHR Loan.

Program lending is to be approved by Board of Directors or any committee delegated by Board of Directors.

5.1. Program/Campaign Duration

The maximum campaign period of each program is one (1) year.

5.2. Program Portfolio Limit

The total program related limit is computed as:

a) Each Program Limit

Each program limit cannot be more than 30% of bank’s appetite for each sector, which shall be announce at least annually by the Compliance and Risk Management Department.

b) NPL Limit

Sector with NPL of more than 5% cannot initiate for program lending.

Any on-going program lending with more than 5 customers or 3% of approved limit, whichever is lower, from the program is classified as Special Mention and above must be suspended immediately.

5.3. Major Condition of each Program Lending

Program lending shall specify the objective of the proposal, the target customers, the financial considerations including target volumes or potential of the segment, projected profit and loss, marketing budget, and expected delinquency performance or delinquency cap.

Inputs should also be obtained from other units whose functional responsibilities cover key risk areas (e.g. Compliance and Risk Department, Finance and Strategy Department, Credit Operations, and so on) which must be adequately addressed in the program proposal.

All Program Lending must include:

- a) indicate the target market or customer segment the program will support and the business strategy;
- b) highlight and justify in a distinct section of the Program any deviations or exceptions from these policies;
- c) define major risk and risk mitigates of the business activity;
- d) identify the acceptable risk-rating criteria;
- e) setting the limits on the size of each Program;

- f) setting the NPL limit of each program as well as any other appropriate parameters;
- g) define a process to ensure compliance with any applicable Program limits;
- h) establish risk reporting requirements with at least monthly reporting against Program limits;
- i) describe any specific documentation standards, and identify any variances from standard documentation standards;
- j) specify review date.

Besides the condition mention above, each of the program should comply with relevant requirement in Credit Policy.

5.4. Approving authority

All Program Lending must be approved by the Board of Directors or any committee delegated by Board of Directors and reviewed periodically by the Credit Risk Management department. The review results shall be presented to the Board of Directors or any committee delegated by Board of Directors at least on a quarterly basis.

The approval process:

Business units or product development unit shall originate the proposal to be reviewed and concurred by credit risk management department prior to submitting the program for approval by the Board of Directors or any committee delegated by Board of Directors.

Once approval has been granted, dissemination of approval to the related units must be distributed to the concerned units to effect plans in place. Tagging for testing programs in either the origination or booking system must be ensured for tracking purposes.

5.5. Interim Review

Interim review must be evaluated for 3 months after the implementation of the program lending and presentation of the performance to Credit Risk Committee by either business or The Credit Risk Management Department.

The Credit Risk Management Department and Business Unit(s) must conduct performance reviews and provide credit policy recommendations suited for the testing market.

Interim Review should review each program lending limit, NPL limit and any significant changes in risk accepted criteria. If any breaches of limits (either exposure limit or NPL limit or any other limit) or major credit events are identified by Credit Risk Management, the specific program lending should be suspended immediately and escalated to BOD's in the next BOD meeting schedule.

Interim review must be continually conducted quarterly to monitor the program performance during the program duration plus 12 months from the end of the program through useful MIS submitted regularly to management.

5.6. Program Extension

Extension of each program lending can be made as per above original approval process.

Extension memo of each program lending should specify the performance of each program and justify the need for extension.

5.7. Normalize Product

For a Program Lending to be classified as normal product, all of the following conditions must be met:

- a) The program has been in existence for 1 years or more;
- b) It is performing as expected; and
- c) There is no material change in target market and risk acceptance criteria, as determined by bank.

Program Lending become a normal product should be reviewed by Credit Risk Management department and seek approval from the Board of Directors or any committee delegated by Board of Directors.

PART #6: CREDIT DOCUMENTATION & DISBURSEMENT

6.1. Objective

After a credit proposal has been approved, the process of documentation and disbursement must ensure that the Bank's rights, responsibilities and interests in the transaction are safeguarded and clearly documented. The main functions in the process are:

- a) Document preparation;
- b) Disbursement of facility;
- c) Security safekeeping / custody;
- d) Establishing and maintaining the facility in the Bank's loan system.

The following section provides a guide on the common types of security / collateral taking and the legal documentation involved before the loan is disbursed. It is important that all security documents required under the credit proposal are completed so as to avoid any unnecessary dispute in the event that recovery action is necessary.

6.2. Types of Security and Support Instrument

The term "security" is used to describe an agreement or transaction, which gives the Bank the rights exercisable against some specific assets or group of assets of the person giving the security. These rights are in addition to any rights the Bank may have against the person giving the security.

"Support document" refers to an agreement or contract that gives the Bank the rights exercisable against another party that execute the agreement or contract with no specific assets or group of assets to secure this agreement or contract.

6.3. Purpose of Security

The main purpose of security is to provide recourse for credit granted to the borrower. In the event of default, where the borrower is unable to repay its indebtedness, the Bank will realize the asset / property taken as security and the proceeds will be used to settle in part or in whole the indebtedness of the borrower.

In other words, security serves as the exit door for the Bank in the event of the borrower has lost its repayment capacity.

6.4. Who Can Give Security?

The party giving security must have legal capacity to agreement. Otherwise, the security given will not be legally binding and enforceable in the Court of law.

The parties that have legal capacity to agreement are as below:

a) Individual

Attain the age of 18 years old and above and be of sound mind i.e. not insane and not disqualified by law such as a bankrupt.

b) Sole Proprietorship

Sole proprietor is not a separate legal entity distinct from its owner. The owner is personally liable for all the firm's indebtedness as if it is his / her own debts.

c) Partnership

A partnership exists when two or more persons carry on business in common with the view of profit. Unlike a company, partnership is not a legal entity distinct from its partners. The partners are themselves the legal entities. As such, all partners are jointly and severally liable for debts of the partnership. The rights and responsibilities of the partnership are governed by the law on partnership. As between partners themselves, there may also be Partnership Agreement, which defined the rights, the obligations and liabilities of the partners in the partnership. A partnership may be a general partnership with unlimited liabilities or one with limited liabilities.

d) Company

All companies registered under the law are separate legal entities, which are distinct from the shareholders and the directors. It is the company that owns its own assets and properties, not the shareholders and its directors. A company may be a private limited company or a public limited company.

Its legal capacity to agreement is vested in the Memorandum & Articles of Association ("M&A"). The M&A spell out what the company can do and what it cannot do. If the company enters into an agreement, which is not allowed under the M&A, it is ultra vires i.e. beyond its power or authority, and will render the contract null and void.

6.5. Concept of "First Party" and "Third Party" Security

To differentiate the "First Party" and "Third Party" security, it is important to first identify who are the borrowing party and the party giving the security. If the borrowing party and the security party are the same party, then the security is "First Party" security. However, if the borrowing party and the party giving the security are different parties, the security is "Third Party" security.

6.6. Security Instruments

6.6.1. Charge / Hypothecation

A Charge (also known as Hypothecation) is a conveyance of legal or equitable interest in the property by the borrower or third party (known as Chargor) to the lender (known as Chargee) as security for payment of debt in the event of default. A charge does not transfer the ownership to the lender (Chargee) but merely registering the interest of the chargee on the property. Only an immovable property registered with the Land Registry may be the subject of a charge. The charge or hypothecation document/ contract must be registered with the appropriate land authority or cadastral administrative body.

As every charge takes effect upon its registration, a charge that is already registered would take precedence over charges which are subsequently registered. More than one charge can be created on the same property. However, the consent of the existing chargee must be obtained before the creation of the subsequent charges.

6.6.2. Banker's Lien

A Lien is the right of a person to hold the property of another person as security for the performance of an obligation e.g. repayment of debt. In the event of default, the person

holding the property under lien has the right to sell the property for repayment of debts. A banker's lien is a special form of lien which gives the Bank the right of sale of the customer's property that has come into the Bank's hand in the ordinary course of business, after a reasonable notice is given to the customer.

6.6.3. Set-Off

- a) A set-off gives the lender the right to set-off monies in credit balance against the debit balance of the borrower. Set-off is created by law as a banker's right to set-off under the common law or it can be created by borrower executing the Letter of Set-Off or an agreement which contains a set-off clause.
- b) For a Letter of Set-Off executed by a limited company under seal, it is to be witnessed by the company's officials e.g. secretary and a director, accompanied by a board resolution/extract of board resolution. However, if the Letter of Set-Off is executed under hand, it must be authorized by the board resolution/extract of board resolution, which must state clearly the name of the persons who are authorized to execute the Letter of Set-Off on behalf of the company. The above procedure is usually spelled out in the company's M&A.
- c) For a Letter of Set-Off executed by an individual, it is to be witnessed by the Bank's panel solicitor or the credit personnel of the Bank.

6.6.4. Assignment

An assignment is an agreement in writing between the assignor (borrower or third party) and the assignee (Bank), whereby the assignor agrees to transfer all the rights and benefits accrued to the assignee. The person who assigns the right and benefits is called an assignor. The person who accepts or receives the rights and benefits is called an assignee.

6.6.5. Debenture

Companies are allowed to create a debenture and it must be empowered by its M&A. In other words, an individual, sole proprietor and partnership do not have the legal capacity to create a debenture.

Debenture is basically a document of acknowledgement of indebtedness by the borrower to its lender as security for credit facilities granted. It is a charge created over all fixed and floating assets of the company both present and future, unless otherwise stated therein e.g. specific debenture, where a fixed charge is created over a specific assets of the company.

A debenture holder is the creditor of the company and is entitled to all remedies of a creditor to obtain payment of sum due.

As an added measure, the Bank's panel solicitor may lodge with the relevant statutory authority e.g. Ministry of Commerce a statement of the particulars of charge to be completed by the borrower company giving the debenture within a stipulated time from the date of creation of charge in order to ensure that the charge is not rendered void against the creditors and any liquidator of the company.

To further protect the Bank's interest, a Power of Attorney clause is incorporated in the Deed of Debenture. The Power of Attorney clause gives rights to the debenture-holder to appoint a Manager / Receiver to deal with the assets charged under the debenture in the event of default. The Power of Attorney may be required to be deposited with a Court of Law to be enforceable.

6.6.6. Memorandum of Deposit

Memorandum of Deposit is a charge instrument used to cover term or fixed deposits and any other securities pledged as security for the credit granted. A memorandum of deposit gives the lender the right to liquidate / sell the security in the event of default. If possible, the memorandum of deposit may be required to be lodged with the relevant authority in order to avoid it being rendered void against the liquidator in the event of liquidation / winding up.

6.7. Support Documents

6.7.1. Guarantee

A guarantee is a contract between the guarantor (third party) and the creditor (Bank), where the guarantor agreed to be liable to the creditor in the event of default by the principal debtor (borrower). It is a third-party security and it cannot be given by the borrower. It is a secondary obligation, which depends on the obligation of the principal debtor. In other words, if the principal debtor is not liable for the debt, the guarantor will not be held liable.

A guarantee can be obtained from an individual, group of individuals or companies. It is the Bank's policy that all directors of the borrowing company to be guarantors for credit facility granted to private limited company. The directors' guarantee is required even though the credit facility granted is fully secured. The rationale of this policy is to ensure full commitment and support of the directors in the event the borrowing company is not able to generate adequate cash flow to fulfill its debt obligation. However, if the director is merely a nominee director (without shareholding / token shareholding) and is not agreeable to be a guarantor or if a particular director has requested to be excluded as guarantor, this must be stated clearly in the Credit Proposal for consideration of waiver by the approving authority.

In the case of credit facility granted to partnership, the partners are not required to be guarantors as in the case of private limited company. However, to ensure the partners are severally liable for the debts of the partnership, they are required to execute Letter of Indemnity instead.

A guarantee by two or more parties must be in form of a joint and several guarantees. The advantage of joint and several guarantees is that it enables the lender to proceed with legal action against the guarantors individually, jointly or severally for the full guaranteed sum plus interest thereon.

a) Procedure of Executing Letter of Guarantee

The signature of each guarantor is to be dated individually and is to be attested / witnessed by Bank's panel solicitor.

b) Release or Discharge of One or More of the Guarantors

The release of one or more guarantors in a joint and several guarantees will not discharge the obligation of the remaining guarantors unless it is expressly allowed. To ensure the remaining guarantors are not discharged of their obligation as guarantors, it

is the Bank's policy to obtain Letters of Consent from the remaining guarantors before discharging the guarantor.

6.7.2. Indemnity

An indemnity is a promise made by one person (known as the indemnifier) to save another person from any losses arising from a transaction, which that another person enters into at the request of the indemnifier. The indemnifier is primary liable for the indebtedness as compared to guarantor, who is secondarily liable.

6.7.3. Banker's Guarantee and Standby Letter of Credit ("SBLC")

Both Banker's Guarantee and Standby Letter of Credit are issued by an Issuing Bank as security. In the event of default by the borrower, the beneficiary i.e. the Bank will claim against the Issuing Bank of this instrument in accordance to the terms and conditions therein.

Banker's Guarantee is governed under the National Bank of Cambodia's ("NBC") guidelines, whilst Standby Letter of Credit is governed under UCP 600 (Uniform Custom Practice 600).

To ensure the integrity of these security instruments, it is important to authenticate the Banker's Guarantee and Standby Letter of Credit and monitor its expiry date.

6.7.4. Letter of Comfort / Letter of Awareness / Letter of Support

There may be times when the Bank may be willing to take a lesser form of security instead of a full unconditional guarantee. The lesser support may be in the form of Letter of Comfort, Letter of Awareness and Letter of Support.

A Letter of Awareness is the weakest form of support because it only states the issuer's awareness of the nature and amount of the credit facility granted to the borrower. Sometimes, it may also mention the relationship between the borrower and the issuer.

A Letter of Comfort besides including what is normally stated in the Letter of Awareness, also states that the issuer will not reduce its shareholding in the borrowing company during the tenor of the credit facility without prior notification to the Bank.

A Letter of Support is the strongest form among the three. A Letter of Support may include the following statements:

- a) The issuer will supervise the management of the borrowing company and endeavor to ensure that the borrowing company meets its financial obligation.
- b) The issuer will endeavor to cause the credit facility to be fully repaid while the borrowing company is its subsidiary.
- c) In the event of default, the issuer will take appropriate steps to cause the borrowing company to repay the outstanding debts.

All forms of written support must be authorized by the Board of Directors supported with Board Resolution.

6.8. Types of Assets as Security / Collateral

6.8.1. Fixed Deposit / Cash

Fixed Deposits are monies placed in fixed deposit account with the Bank, where a fixed deposit certificate ("FDC") is issued as an acknowledgement by the Bank.

The security document for FDC given as security is the Memorandum of Deposit / Letter of Set-Off. All FDCs that are held by Bank as security must be stamped "Held under Lien" and must be endorsed at the reverse side of the certificate.

Cash is acceptable as security under the Letter of Set-Off.

FDC from other financial institutions is not acceptable as security. However, if it is approved by the approving authority, a notice of charge must be served to the financial institution with proper acknowledgement before it can be taken as good collateral.

6.8.2. Landed Properties

Charge / Hypothecation on Landed Property

Where there is an individual issued document of title to the landed property to be taken as security, the security arrangement over the landed property shall be via the custody of the hard title, a loan agreement, a letter to encumber the property and other documentation as advised by the Bank's panel solicitor.

When taking a legal charge (also known as hypothecation) on a landed property, take note of the following pointers:

- i) Where there is title issued to the land, the legal charge is to be given by the registered owner (who can be the borrower or another security party) in favor of the lender. If one is not the registered owner, one cannot deal with the land. As such, the legal charge must be executed by the registered owner or registered owner's Power of Attorney.
- ii) Creation of a legal charge over land is by way of registering the loan agreement and/or letter to encumber at the relevant land office / registry / cadastral administrative body.
- iii) The legal ownership of the property still remains with the registered owner where a charge is created in favor of the lender. Under a charge, there is no transfer of legal ownership. The Bank is the Chargee and the registered owner is the Chorgor.
- iv) Generally, it is not the policy of the Bank to take security by way of a second, third or subsequent charge on the landed property while the first charge on which is being held by other banks or financial institutions. However, the Bank may consider it on a case-to-case basis.

6.8.3. Debenture

- a) All assets of a limited company, including plant and machinery, inventory and others book debts, which forms the fixed and floating assets are covered under the debenture created for purpose of borrowing.
- b) Care should be exercised, if plant and machinery is charged to the Bank as security, to ensure that it does not form an integral part of the land on which it is erected or

located. This is especially important if the land is not charged to the Bank and the borrower is not the owner.

- c) If the plant and machinery are charged to the Bank as security, where the land is not charged to the Bank and is not owned by the borrower, it is mandatory to obtain a written acknowledgement from the land owner and / or chargee bank (if any) addressed to the Bank with the following terms before disbursement of credit facility can be made:

“the landowner and / or chargee bank acknowledges that the plant and machinery are charged to the Bank by way of fixed charge and the landowner has no claim whatsoever over the plant and machinery”

It is the Bank's policy that all plant and machinery / equipment financed by the Bank shall be covered under a specific Debenture. Value to be assigned shall be based on the current market price of the plant and machinery / equipment, as valued by the Bank's panel valuer.

6.8.4. Project / Contract / Rental Proceeds

- a) When project / contract / rental proceeds (collectively referred as assigned proceeds) are taken as security via Deed of Assignment, it represents an important source of repayment of the credit facility. Therefore, it is of utmost importance to monitor and track the inflow of these proceeds as well as its appropriation.
- b) For a credit facility which is revolving in nature e.g. Revolving Term Loan, and is against assignment of proceeds, a scheduled reduction program must be incorporated to ensure the Bank's exposure is reduced in accordance to the receipt of assigned proceeds and the loan is fully paid down upon receipt of the final portion of the assigned proceeds.
- c) It is mandatory for borrower to open a sinking fund account to capture all assigned proceeds. The borrower is to provide an irrevocable Letter of Authority to authorize Bank to utilize funds in this account for the purpose of interest servicing and principal repayment for the credit facility.
- d) A register must be maintained to track and record all inflow of assigned proceeds and its utilization.

6.9. Letter of Offer (“LOO”)

6.9.1. Issuance of Letter of Offer

- a) Upon approval of Credit Proposal by the relevant approving authority, the Credit Operations Unit are required to issue Letter of Offer and other necessary legal documents to the borrower within seven (7) working days using the Bank's Standard LOO format.
- b) It is important to peruse the Credit Proposal to ensure all imposed terms and conditions, which are set by the approving authorities are stated in the LOO.
- c) All accepted Letter of Offers must be safely kept in the security envelope of the borrower with a copy in the credit file for reference.

6.9.2. Signing of Letter of Offer

All Letters of Offer issued to borrower must be checked thoroughly before it is signed by two (2) authorized personnel, one of which must be the Head of Credit Risk Management and Head of Business Development and Marketing, or escalate to higher level in case of his / her absence

6.9.3. Expiry Date and Acceptance of Letter of Offer

- a) All Letters of Offer should carry an expiry date for acceptance i.e. 21 days from the date of the Letter of Offer or any other number of days extended by the Bank in written, but not exceeding 60 days. Extension of the LOO acceptance date over 30 days is required to recheck the CBC to make sure of no additional borrowing or adverse record of the borrower.
- b) All LOs must be accepted by the borrower within the stipulated time period i.e. before the expiry of the LO in the following manner:
 - Individual – To be accepted by the borrower.
 - Joint Individual – To be accepted by all joint borrowers.
 - Sole Proprietor – To be accepted by the sole proprietor with the firm's rubber stamp affixed.
 - Partnership – To be accepted by all partners with firm's rubber stamp affixed.
 - Limited Company – To be accepted by authorized signatories as stated in the Board Resolution with company's rubber stamp affixed.

6.10. Preparation of Legal Documents

Having determined the appropriate security with the terms and conditions, and upon getting the acceptance of the borrower via the letter of offer, all required documents must be promptly submitted to the Credit Operations Unit. The quality and accuracy of the documentation thereafter must be carefully reviewed by the responsible unit's personnel. All legal documents must be witnessed by the Bank's panel solicitor prior to execution.

6.11. Disbursement

Conditions precedent for disbursement form part of the terms and conditions of the Letter of Offer and Agreement between the borrower and the Bank. Non-compliance with these stipulated pre-disbursement conditions, in the event of default, may affect the Bank's claim against the borrower and the security party.

To protect the Bank's interest, it is therefore important to ensure all pre-disbursement conditions imposed by the Bank are strictly complied with before any disbursement of credit facility to borrower is allowed.

A pre-disbursement checklist or a credit documentation checklist must be completed to ensure that all security and legal documents are in order and conditions precedent fulfilled before disbursement of credit.

Disbursements must be evidenced by an advice to be signed for authorization. Generally, all disbursements should be made directly to the beneficiaries. For example, in the case of asset acquisition, the disbursement should be made to the vendor.

Disbursement must be properly authorized by Head of Credit Risk Management Department or escalate to higher level in his/her absence and recommended by authorized personnel from Credit Operations Unit.

Under certain circumstances and with valid reasons, disbursements prior to perfection of security and legal documentation or compliance of conditions precedent may be allowed. Such disbursements have to be authorized by the relevant approving authority that approved the credit with the reasons for such disbursements to be clearly documented and filed in the respective customer files.

Any approved credit facilities not partially disbursed 6 months after the facility approval date are subject to get approval from Deputy CEO or CEO to authorize Credit Operations Unit to proceed with the disbursement.

The request must come up with a site visit, fresh CBC report, updated condition of the borrower's/customer's related accounts/exposure with the Bank and other financial institutions to ensure that there are no adverse material changes.

6.12. Compliance of Post-Disbursement Conditions

Post-disbursement conditions are conditions that are to be complied with within a stipulated time frame after the disbursement of credit facility.

All post-disbursement conditions imposed by the approving authority must be monitored closely and to ensure compliance within the stipulated time frame. Otherwise, it is the responsibility of the Branches / Credit Control & Recovery to highlight it to the approving authority for deliberation and further action. Non-compliance is deemed an event of default, where Bank may invoke or exercise the facility / loan recall clause.

Some examples of post-disbursement conditions are:

- a) Increase in paid-up capital by X amount by Y date.
- b) Settlement of X amount of Loan by Y date.
- c) Periodic reduction program for credit facility.
- d) Borrower is to complete the acquisition exercise by Y date.
- e) Periodic submission of management accounts, debtor's ageing report, etc.

6.13. Custody of Security Documents

6.13.1. Maintenance of Security Register

All security documents must be recorded in the security register and be kept in the security envelope, which is to be placed in account sequence in fire resistant cabinet within the Bank's strong room.

6.13.2. Storage of Security Documents

Security documents represent the contractual rights of the Bank exercisable against some specific assets or group of assets of the person giving the assets. In the event of default by borrower, this document is produced in the Court of Law as evidence to support the Bank's claim.

In other words, security documents are very crucial to the Bank and if they are misplaced, lost or stolen, it may result in financial losses to the Bank. As part of the disaster recovery plan, a duplicate set of all security documents must be kept “offsite” i.e. in another premise located away from the branch / the Bank.

All security documents must be held under dual control by the Credit Operations Unit and / or Chief/Head Credit Risk Management / Chief Executive Officer, where applicable. Access to security documents is restricted to the Bank’s personnel whose specific functions require such access.

6.13.3. Retention Period of Documents

Documents in the Credit File must be kept for as long as the credit facility is outstanding. Upon settlement of the loan, the Credit File must be kept in the primary office area for 3 years. Then it must be kept at an offsite storage area for at least another 5 years.

6.13.4. Safekeeping of Credit File

When a Credit File is not in use it must be kept in the Filing Compactor or a fire-proof cabinet. Movement of Credit Files must be monitored by a File Custodian (Credit Operations), if available. The File Custodian should, if possible, maintain a register to track the movements of files.

6.13.5. Release of Documents

There may be requests to withdraw existing security documents for further documentation work by the Bank’s panel solicitor, or as requested by internal or external auditors. Security documents will only be released upon receipt of the appropriate approvals by the relevant authority. The credit operations in charge of the security documents must ensure that a clear audit trail is established for the removal and return of security documents.

6.13.6. System Maintenance

All current customer information and facility limits with the terms and conditions must be updated in the loan system by Credit Operations Unit. The user-profiles for system maintenance should be password-protected and any updates or new entries must be logged in the system. All system maintenance reports evidencing the new account creation or updates must be generated the following day to show the authorized users and are to be verified by Unit Head of Credit Operations, or his/her acting and Unit Head of Credit Control & Recovery or escalate to higher level in case of his/her absence before they are filed separately in order to establish a clear audit trail.

PART #7: CREDIT ADMINISTRATION & REVIEW

Subsequent to the disbursement of credit facilities is the process of administering to and ongoing monitoring of the borrower's repayment and conduct of account, including collation and reporting of information as required by the Bank's internal management and the external regulatory authorities.

7.1. Repayment

Generally, borrowers are required to make payment to the Bank on or before the first day of each month, quarter or half-year respectively, depending on the loan installment requirement.

The Bank may grant 7 days 'grace period' on loan installment payment period. The Account Relationship Officer may not disclose the length of grace period given to borrowers. Instead the Account Relationship Officer must persuade borrowers to repay the loan on or before the due date itself.

For overdraft facility, the borrower will receive a monthly Current / Overdraft Account Statement to inform him of his account position. The borrower may deposit any amount at any time to his current / overdraft account.

7.2. Insurance /Policy on Insurance Coverage for Property

- a) All completed properties charged to the Bank as security, and if the value of the land alone is less than 130% of the loan's exposure, are to be adequately insured against fire and other appropriate risks that the Bank deems necessary. The cost of the land of the property shall be excluded in the value to be insured as land is not insurable.
- b) For completed landed residential property with individual land title, the borrower / mortgagor is required to insure the charged property under Fire Insurance Policy. The insured sum should be the insurable value of the charged property as provided by the Bank's panel of insurers.
- c) For completed non-landed residential property and commercial building with strata title or pending issuance of strata title i.e. condominium, apartment, townhouse and office building, it is the responsibility of the Management Corporation to ensure the property under its Management is adequately insured. In this case, to avoid double insurance coverage, it is sufficient for the Bank to request a copy of the master insurance policy from Management Corporation with a certificate issued by the insurance company acknowledging the Bank's chargee interest on the specific unit, where the Bank has granted the credit facility.
- d) For completed non-landed commercial and industrial property e.g. shop house, shop lot and warehouse, with strata title or pending issuance of strata title and does not involve Management Corporation, the borrower / chargor is required to insure the charged property adequately against fire and other appropriate risk that the Bank deems necessary.
- e) For the charged property that is still under construction, where the Bank is providing bridging financing facility to complete the property development project, the borrower / chargor is to adequately insure the charged property under Contractor All Risks Insurance Policy.

- f) To protect the Bank's interest, the insurance company must endorse chargee interest clause on all insurance policies. This is to ensure all insurance claims are channeled through the Bank.
- g) An insurance premium is an expense to the borrower. To avoid the operation of premium warranty endorsement, which has the effect of automatically cancelling the insurance contract if the premium is not paid within sixty (60) days from the effective date of the insurance policy, a standing instruction should be given to the Bank for the prompt payment of the premium due.
- h) All insurance coverage on charged property must be obtained from the Bank's panel of insurers.
- i) Proper records must be maintained and regular reviews must be conducted to ensure all insurance policies on charged properties are not lapsed and the insured sums are adequate.

7.3. Credit Reviews / Renewal

7.3.1. General Guidelines on Credit Review / Renewal

Prior to undertaking the annual / semi-annual / quarterly / special review, the Account Relationship Officer(s) should collect the relevant information of the borrower which includes, but not limited to the following:

- a) The latest financial reports (including projections where possible)
- b) Account history
- c) Latest corporate structure of the company, including ownership details (where possible)
- d) Borrower's latest cash flow
- e) Latest CBC Report of borrowers/guarantors/directors
- f) Market outlook related to borrower's business sector

The analysis and credit review write-up by the Account Relationship Officer(s) should at least include the following:

- a) History of the Bank's relationship with borrower;
- b) Current exposure;
- c) Latest Credit Risk Scoring;
- d) Financial performance (for business and company loans);
- e) Projected cash flow for the next 12 months (for business and company loans);
- f) Sensitivity analysis;
- g) Any cause for concerns with the borrower.

Business Units should complete the annual review and submit to Credit Control and Recovery Unit at least One month from expiry date of the facility to allow for sufficient time for credit assessment and further recommendation to credit approval authority.

7.3.2. Simplified Annual Credit Reviews

Borrower with exposure below USD500,000 can be conducted annual review with the **simplified review format** subject to the following criteria: -

- i. Full review has been conducted for the 1st and 2nd year on the borrower
- ii. Internal Credit Risk Scoring is over 50 at last review
- iii. The facilities' repayment is on monthly installment basis.
- iv. The borrower's account is classified as Normal at the date of review
- v. No other request attached with the simplified review

7.3.3. Overdue Annual Credit Reviews

Deferments of annual reviews should not occur. Business Units and Credit Control & Recovery Unit are responsible for monitoring the timely review of all lending accounts. Reasonable justifications and approval are to be obtained from the relevant approving authorities for any delays in the scheduled account reviews.

7.3.4. Special Credit Reviews

Business Units and/or Credit Control & Recovery may initiate a special review to be undertaken for any customer upon identification of adverse developments affecting the particular customer or its market/industry segment. The Special Credit Review could be triggered by the following:

- a) Market or political information that has a significant adverse impact on the borrower;
- b) Market intelligence gathered by the Bank;
- c) External information, e.g. corporate announcements, analyst reports;
- d) Installment payments in arrears, or extended periods of excesses;
- e) Internal credit risk scoring has deteriorated to below grade 6 level
- f) Any customer seeking for further extension of credit.

7.4. Full Settlement of Credit Facilities

7.4.1. Settlement

Upon full settlement of credit facilities, the Credit Operations Unit must do the following:

- a) Withdraw the security documents from safekeeping;
- b) Make arrangement to discharge or reassign the collateral pledged;
- c) Return necessary documents to the borrower; and
- d) Keep the credit file in storage.

7.4.2. Discharge Letter

The discharge letter upon full settlement must be approved by Deputy Chief Executive Officer or escalate to higher officer in his/her absence.

7.4.3. Treatment of Security Documents

The following documents, where applicable, must be returned to the borrower, chargor or the solicitor appointed to handle the discharge or reassignment:

- a) Title deed to property;
- b) Insurance Policy;
- c) Original Sale and Purchase Agreement;
- d) FDC.

Other documents in the Security Envelope may be kept in the borrower's credit file. Thereafter the credit file must be kept in the primary office area for 3 years. Then it must be kept at an offsite storage area for at least another 5 years.

PART #8: CREDIT CONTROL & RECOVERY

This section outlines the Bank's guidelines on the management and recovery of problem loans.

Problem loans refer to loans where full recovery is in doubt. Accordingly, these loans are to be classified as Sub-standard, Doubtful or Bad / Loss. They may also be referred to as Impaired / Non-Performing Loans ("NPL").

Although identification of problem loans is the responsibility of the Account Relationship Officer, they may be alerted to potential problem accounts by other departments such as Credit Risk Management and Internal Audit in the course of carrying out reviews and / or internal audit.

8.1. Early Symptoms of Problem Loan

Some of the indicators and warning signs of problem loans that warrant further investigation and review are as listed below. Please note that it is not exhaustive and there may be other signs that may require further close attention.

- a) Financials
 - i) If there is an unexpected need for cash and working capital, and the Management is unable to justify its requirement satisfactorily.
 - ii) Reluctance to furnish the latest management account.
 - iii) High stock levels compared to previous years.
 - iv) Deterioration of key financial ratio e.g. high gearing and low profit margin.
- b) Site Visit
 - i) Borrower avoids meeting for some unknown reason.
 - ii) Number of workers at site and production rate does not matching with reported financial statement.
 - iii) Slowdown in production and abnormal level of stocks.
- c) Conduct of account
 - i) Continuous high utilization.
 - ii) Always in excess and account in arrears.
- d) Key Management
 - i) Sudden and frequent changes of key management staff e.g. Financial Controller / Accountant, Production Manager, etc.
 - ii) Key management staff avoiding our calls / visit.
 - iii) Heavily involved in speculation activities e.g. FX trading/Digital Currency.
- e) Other indicators
 - i) Sudden request to release of collateral within adequate substitution.
 - ii) Negative and adverse remarks from buyers, suppliers and competitors.

- iii) Credit Risk Scoring deteriorated.

8.2. Immediate Actions to be Taken upon Identification of Problem Loan

- a) Stay alert and prepare report to the relevant approval authority.
- b) Identify all credit exposures and outstanding, including other contingent liabilities.
- c) Take steps to ensure the position does not further deteriorate by suspending the account, if it is legally permitted.
- d) Review the terms of the credit facilities.
- e) Check the enforceability of all collaterals. If it is not perfected, proceed immediately to perfect it before taking action against borrower.
- f) Negotiate for additional collateral to cover any clean exposure, if possible.
- g) Review loan covenants and check if there is any breach. If there is, the Bank can use it as a negotiation tool and also as an event of default to recall the loan.

8.3. Impairment Assessment

All loans and assets of the Bank must be regularly evaluated, using an objective and prudential grading system and must comply with the appropriate Bank and latest guideline on *Asset Classification and Provisioning in Banking and Financial Institutions by National Bank of Cambodia* and conform with the principles and requirements specified in accounting standards of Cambodia.

Classification of loan accounts shall be carried out by the Credit Control & Recovery Unit on an ongoing basis, and in any case, the entire loan portfolio must be reviewed at least once annually, to identify those loans which require special attention.

An impairment assessment must include all factors, both internal and external, that may point out a reduced possibility or inability to collect all payments that are contractually due from borrowers.

These factors include:

- A deterioration in the payment status of the borrower in the case of individual provisioning, or group of counterparties in the case of collective provisioning;
- Local economic conditions that may affect the ability of counterparties to repay;
- Any information about local or international significant changes that would have an adverse impact on the local environment and the ability of counterparties to repay. This includes changes in technological, economic, market, legal and social environments;
- Adverse country risk indicators that might have a negative impact on the situation of counterparties.

A facility must be recognized as impaired regardless of whether it is 90 days (60 days for short-term facilities) or more past due, as soon as there is doubt as to whether the full amount due, including interest and other amount due, will be achieved in a timely manner. This is the case even if the full extent of the loss cannot be clearly determined.

The following factors will, as a minimum, constitute a doubt and require the outstanding amount of the facility to be regarded as impaired:

- a. As for facilities with monthly installment or less, the facility is 90 days (60 days for short-term facilities) past due without being sufficiently well secured;
- b. The borrower to which the facility has been granted is subject to failure or bankruptcy proceedings, unless the facility is sufficiently well secured;
- c. A partial write-off has been taken on the facility whatever the reason maybe.

Other factors that may evidence impairment include, without being limited to:

- a. A significant financial difficulty of the borrower;
- b. Concession that maybe have been granted by the Bank to the borrower due to financial difficulties of the latter; or
- c. Any observable data indicating a measurable decrease in estimated cash flows to be recovered from the borrower and any modification in global or local economic conditions that affects the estimated cash flows to be recovered from the borrower.

Repayment of each installment must have been made in full. A partial repayment made on an installment amount shall be deemed as late payment.

When repayments are scheduled on intervals of 90 days or longer, the facility is classified as impaired as soon as a default occurs, unless the Bank is able to demonstrate that the facility does not exhibit any weakness that would justify it to be classified as substandard or worse. In the present case, the default shall be considered as having occurred within 5 working day after the payment due date.

Overdrafts or other revolving facilities that have remained continuously outside approved limit for 90 consecutive days (60 days for short term facilities) or more shall be treated, for the total outstanding amount, as impaired.

Irrevocable loan commitment facilities must also be classified as impaired when creditworthiness of the borrower has deteriorated to the extent that there is doubt about the timely repayment in full by the borrower of any potential loan drawdown and/or associated interest payments or fees.

Other off-balance sheet facilities are also governed by this Prakas. Direct Credit Substitute such as guarantees and letters of credit are usually converted into on-balance sheet exposures when they are drawn. The Bank shall classify the facility as impaired when the Bank is reasonably certain that such instruments will be called upon at a future date under circumstances that cause the Bank to believe it may not be able to recover, in a timely manner, the full amount it will be required to advance.

Exposure to potential losses may also be arise from other off-balance sheet facilities such as derivative transactions, particularly when credit standing of the borrower declines. When an Institution has doubt regarding the receipt in full and in a timely manner of cash flows entitlements which are not will be due from a borrower in relation to such off-balance sheet facilities, the Institution must regard the facility as impaired.

For a single borrower or group of related counterparties with multiple facilities, if one facility is assessed as impaired, the Institution shall also classify the other facilities as impaired. Extension of impairment to other facilities is not required only if:

1. The various facilities are not cross-collateralized and there are no cross-guarantee arrangement between the related counterparties; or
2. There are cross-collaterals and/or guarantees but, in aggregate, the borrower or the group of related counterparties have enough security to ensure the collectability of all

payment dues, principal, interest and others, on both impaired and non-impaired facilities.

8.4. Classification of Facilities

In accordance with the latest Prakas No. B7-017-344 Pro.Kor on Asset Classification and Provisioning in Banking and Financial Institutions by National Bank of Cambodia, the loan is to be classified into five categories as Normal, Special Mention, Substandard, Doubtful, and Loss.

Facilities that are classified as Substandard, Doubtful and Loss will be considered as non-performing facilities. Facilities that are classified as Normal and Special mention will be considered as performing facilities.

8.4.1. Facilities having an original term of more than one year:

(i) **Normal:**

A facility is classified as normal when the repayment has been paid promptly and there is no doubt on future repayment. Repayment is steadily made in accordance with contractual terms and the facility does not exhibit any potential weakness in repayment capacity, business, cash flow and financial condition of the borrower.

(ii) **Special Mention:**

Any facility which is 30 days overdue or more shall be classified as Special Mention.

In the event interest payment for 30 days to 90 days has been capitalized, refinanced, or rolled over into a new facility, such facility shall be classified as Special Mention or worse.

The facility classified as Special Mention shall be under watchlist and may has yet to past due date but it exhibits potential weaknesses which may adversely affect future repayment of the borrower if there no timely corrective actions and close attention from the Bank. Examples of such weaknesses include, but not limited to, the declining trend in the operations of the borrower or in its financial condition, adverse economic and market conditions that will affect its profitability and its future repayment capacity or the drop of collateral value. This classification shall be based on clear reasons and should not be used as a compromise between Normal and Sub-standard.

(iii) **Substandard:**

Any facility which is 90 days overdue or more shall be classified as Substandard.

In the event interest payment for 90 days to 179 days has been capitalized or rolled over into a new facility, such facility shall be classified as Substandard or worse.

The facility classified as Substandard exhibits noticeable weakness and is not adequately protected by the current business or financial position and repayment capacity of the borrower. Essentially, the primary source of repayment is not sufficient to service the debt repayment without considering other secondary sources of income i.e. sales of collateral and so on. Factors leading to a Substandard classification include:

- Inability of the borrower to meet repayment obligations according to the contract;
- Unfavorable economic and market conditions that would affect the business and profitability of the borrower in the future;
- Weakened financial conditions and/or inability of the borrower to generate enough cash flows to service the payments;
- Difficulties experienced by the borrower in repaying other facilities granted by the Bank or by other institutions when the information is available.
- Breach of financial covenants by the borrower.

(iv) **Doubtful:**

Any facility which is 180 days overdue or more shall be classified as Doubtful.

In the event interest payment for 180 days to 359 days has been capitalized or rolled over into a new facility, such facility shall be classified as Doubtful or worse.

The facility classified in this category exhibits more severe weaknesses than the Substandard facility and its full collection on the basis of existing facts, conditions or collateral value is highly questionable or improbable. The prospect of loss is high, even if the exact amount remains undermined for now.

(v) **Loss:**

Any facility which is 360 days overdue or more shall be classified as Loss.

In the event interest payment for 360 days or more has been capitalized, rolled over into a new facility, such facility shall be classified as Loss.

The facility is classified as Loss when it is not collectable and little or nothing can be done to recover the outstanding amount from the borrower.

8.4.2. Facilities having an original term of one year or less

Facility that has an original term of one year or less is considered as a short term facility. Determination of maximum days for each classification is shorten as follows:

- a. **Normal:** repayment is made as per agreed schedule;
- b. **Special mention:** repayment is past due for 30 days;
- c. **Substandard:** repayment is past due for 60 days;
- d. **Doubtful:** repayment is past due for 90 days;
- e. **Loss:** repayment is past due for 180 days.

Overdrafts regardless of their maturity shall be considered as short term facilities and must be used to fund short term needs only.

Overdraft shall be categorized according to different classifications as determined above depending on

- 1) The Overdraft was excess or utilized over the approved limit;
- 2) The overdraft account is dormant (no cash movement);

3) Net inflows in the account have not been enough to cover capitalized interest.

The Bank shall restructure any overdraft facility that has no net inflow for 60 days into a term loan.

Numbers of overdue days mentioned above shall only be considered as maximum ones, while the Bank can classify worse when the Bank deems appropriate.

8.4.3. Long term facilities with repayments on quarterly or longer basis

Any facility with repayments on a quarterly, semi-annual or longer basis, the facility shall be classified as Substandard or worse depends on the situation of the borrower as soon as the facility is overdue more than 5 working days, unless the Bank is able to demonstrate that the facility does not exhibit any weakness. The classification as substandard will be allowed only in case where the borrower has clearly demonstrated that its inability to repay on time is temporary.

8.5. Provision for Loan

8.5.1. General Provisions

Timely and appropriate provisions and write-offs must be made to the reserve for loan loss account in order to accurately reflect the true condition and operating results of the Bank.

Above guidelines apply to all loans, advances and similar assets, including to affiliates and related parties.

Non-performing loans potentially impact on the solvency, liquidity and income condition of the Bank. Senior management and the Board must exercise risk-based and forward-looking judgment based on the observed trends of classified assets.

8.5.2. Specific Provisions

The bank shall maintain an Allowance for Loan Losses at a level adequate to absorb expected losses in the loan portfolio.

- (a) Twice a year, or more frequently if warranted, the Board of Director shall require management to conduct an assessment on the collectability of all loans, including any accrued and unpaid interest, and shall require that appropriate entries be made to (i) accurately report earnings, and (ii) assure that the Provision for Loan Losses is adequate to absorb potential losses. Management must maintain reasonable records in support of their assessments and entries and shall make them available for on-site inspection by NBC examiners, external auditors and Internal Audit.
- (b) Increases and decreases in the Allowances for Loan Losses account shall be made through charges to the Provision for Loan Losses in the income statement.
- (c) In determining the amount of potential loss in specific loans or in the aggregate loan portfolio, all relevant factors shall be considered, including, but not limited to: historical loan loss experience, current economic conditions, delinquency trends, the effectiveness of the bank's lending policies and collection procedures, and the timelines and accuracy of its loan review function.

The following minimum percentage amounts for provisioning are to be maintained according to assigned classification. Where reliable information suggests that losses are likely to be more than these minimum amounts, larger provisions shall be made :-

	Classification	Provision based on gross loan
(i)	General provision	1%
	- for loans graded "Normal"	
(ii)	Specific provision for loan graded: -	
	- "Special Mention"	3%
	- "Substandard"	20%
	- "Doubtful"	50%
	- "Loss"	100%

8.5.3. Management of adversely classified accounts

A. Responsibility

Owing to the greater risk and exposure associated with adversely classified accounts and consequently the care and attention required on these accounts, Rehabilitation/Recovery Units within the credit department shall be responsible for undertaking loan rehabilitation and loan recovery work.

B. Re-examination of Account

Immediate measures must be taken to halt or avoid further deterioration of an adversely classified account. The following are considerations in the initiation of credit but must be re-examined to assure the Bank's ability to work out a remedial action successfully: -

- (a) All documentation and collateral relating to the loan must be reviewed and completed as needed. Where an account is classified doubtful or bad independent legal counsel (from the Bank's panel of advocates and solicitors) must be consulted on the adequacy and sufficiency of basic and security documents;
- (b) Financial statements must be re-analyzed with the possibility of a liquidation in mind;
- (c) The potential preferred position of other Banks and lenders must be carefully scrutinized;
- (d) Priority debts must be determined;
- (e) The personal situation of management and guarantors must be re-examined;
- (f) Alternative courses of action must be considered and work-out programme developed;
- (g) Need for special expertise, internal and external, where appropriate.

C. Corrective Action Plan

Once re-examination has been completed, a formal corrective action plan must be established with target dates. Decisions as to the most beneficial course of action must have the Bank's best interest as the primary objective. These include:-

- (a) A rehabilitation programmed with budgets and forecasts closely followed by the designated credit officers;
 - (b) Obtaining additional financial support from credit worthy parties, such as owners, customers, suppliers, relatives, etc., who may have an interest in the continuance of the business;
 - (c) Selling collateral and obtaining new or additional collateral;
 - (d) Renegotiating the terms and/or tenor of existing credit facilities
 - (e) Takeout by another financial institution
 - (f) Sale of the business
 - (g) Reorganization, bankruptcy or receivership
- D. Developments must be closely followed and alternative measures implemented if the credit continues to deteriorate.
- E. If corrective actions are not having the desired result, consideration must then be given to other forms of settlement:-
- (a) Compromise settlement with the borrower
 - (b) Bankruptcy, receivership or foreclosure
 - (c) Others form of legal action, such as suing guarantors.

8.5.4. Compromised Settlement and Moratorium

- A. Compromised settlement refers to a scenario whereby there is full adjustment of the liability in lieu of which the borrower is given a discount or 'forgive' amount.

Moratorium is a workout scheme wherein the borrower is given the option to defer/postpone the payment of principal and/or interest.

(i) Approval Authority

Approval Authority for Compromised Settlement and Moratorium shall be determined as below:-

Approval Authority	Compromised Settlement and Moratorium (Excluded Principal)
DCEO	≤ USD30K
CEO	≤ USD50K
CRC	≤ USD100K
BOD	> USD100K

(ii) Validity

Validity of compromised settlements will be based on approval by the relevant authority.

(ii) Reporting - Quarterly

A quarterly report to be tabled to Risk Management Committee before tabling to the Board itemizing all the compromised settlements approved during the quarter.

- B.** In the case of a group relationship, the total outstanding to be taken in determining the compromised settlement is that of the borrowing unit, not that of the aggregate group.

8.6. Loan Recovery

In the event of credit default, the collection, restructuring / rescheduling, legal recovery action, classification and loan loss provision shall be managed by the Credit Control & Recovery Unit.

8.6.1. Strategy of Recovery

- a) In deciding a strategy for corrective action, the key consideration is to maximize recovery prospects for the Bank.

In evaluating alternate strategies, discounted cash flow methods adjusted for differences in risk profiles should be employed. The strategy with the highest economic net present value is to be given the highest consideration. The estimated probabilities of success of the alternate strategies must be taken into consideration when evaluating the expected recovery value.

- b) Some of the issues to be considered when proposing action plan to Management are:
- i) Strength of cash flow generation to sustain the business and reliability of its future projected cash flow.
 - ii) Additional injection of funds from existing or new shareholders or any other sources.
 - iii) Strategy to improve debt collection.
 - iv) Additional collaterals.
 - v) Current financial position of the company.
 - vi) Commitment and integrity of the management.
 - vii) New business prospect / contract.
- c) Some of the courses of action include:
- i) A restructuring program, with budgets and cash flows forecasts being closely monitored.
 - ii) Rescheduling of payments.
 - iii) Obtaining financial support from interested parties (e.g. owners, governments, customers, suppliers, relatives) who have an interest in the business continuing.
 - iv) Obtaining new or additional security or realizing security.
 - v) Renegotiating the terms of the credit facilities.
 - vi) Seeking take-out by another financial institution.
 - vii) Encouraging changes in management if incumbents have shown they are not able to take appropriate action.
 - viii) Requiring sale of the business / collateral.

- ix) Appointing Manager and Receiver (if debenture has given to the Bank)
- d) In deciding on a strategy, the longer-term advantages and disadvantages must be considered. The attraction of an expeditious settlement that provides less than full recovery must be measured against the prospects for an enhanced recovery (and increased uncertainty of recovery) that may result from a longer-term strategy.
- e) If the corrective action is not having the desired result, last resort solutions must be considered, including:
 - i) Filing for bankruptcy or winding-up of companies.
 - ii) Filing application to freeze borrower's other properties (properties not being charged to the Bank)
 - iii) Other forms of legal action (e.g. suing guarantors).
 - iv) Compromise settlement with the customer if there are good business reasons for such action.
- f) Before initiating legal action against a borrower, consideration should be given to the amount involved and the realizable value of the security or collateral pledged.

Where recoverable accounts of realizable values are small or insignificant, then it may not be prudent to go for legal action in which could prove to be lengthy and costly to the Bank

- g) The following approach on the restructuring and rescheduling of problem loans is adopted by the Bank, based broadly on NBC's Prakas:

8.6.2. Restructured / Rescheduled Facilities

- A restructured facility is a facility the original contractual terms of which have been modified to provide concessions to the debtors experiencing financial difficulty temporarily. The example of restructured facility are:
 - (i) Reduction of the principal amount of the facility, or of the amount payable at maturity;
 - (ii) Decrease of interest rate below the terms of the original facility's agreement;
 - (iii) Deferral or extension of interest or principal payment, including interest capitalization;
 - (iv) Extension of the maturity date; or
 - (v) Addition and/or change of co-borrower and/or guarantor, if any.
- A rescheduled facility is where, repayment terms have been modified, but the principal terms and conditions of the agreement have not changed significantly. This includes lengthening the repayment tenure of the loan.
- Debt Restructuring and Rescheduling may only be undertaken towards debtors that still have good business prospects and have or are expected to experience temporary difficulties in repayment of credit principal and/or interest.

- Banks are prohibited from conducting Debt Restructuring or Rescheduling merely for the purpose of avoiding:
 - (i) Downgrading in classification of credit; or
 - (ii) Formation of increased allowance for earning assets losses; or
 - (iii) Discontinued recognition of interest income on an accrual basis.
- Facilities to be restructured or rescheduled shall be analyzed on the basis of the business prospects and repayment capacity of the debtor according to new cash flow projections supported by updated business perspectives and overall market conditions being based on realistic and prudent assumptions.
- Debt Restructuring and Rescheduling shall be carried out by Credit Control & Recovery Unit which is a separate unit from the lending process. Approval of the restructured or rescheduled facilities must be made by involving Deputy CEO as joint approver, at a minimum.
- To avoid “evergreening” the loan facilities, the Bank is only permitted to reschedule/restructure a performing loan once in two years. The Bank can only reschedule/restructure a performing loan at more frequent intervals under conditions as mentioned below:
 - i) The loan facility must already be classified as non-performing loan;
 - ii) The Bank has reassessed the borrower’s financial condition and made a full credit assessment of the borrower’s financial condition and repayment capacity to support the subsequent rescheduling; and
 - iii) The rescheduling/restructuring of the loan must be approved by the relevant approving authorities.

Following are guidelines for restructuring loans:

- i) The borrower should request the restructure in writing;
 - ii) The request should indicate specific reasons for the restructure, defining why there is a problem and how it impacted the original loan recommendation, financial condition and future projections;
 - iii) The request should be accompanied with a current balance sheet, income statement and accounts receivable and accounts payable aging;
 - iv) The request should demonstrate how the restructure would solve the problem causing the request;
 - v) The borrower should be willing to extend additional collateral to cover the added risk;
 - vi) Terms and conditions should be tightened to reflect the now riskier lending scenario. Consideration should also be given to requiring increased financial reporting to the bank;
 - vii) Additional interest on the outstanding balance should be considered in view of the additional risk.
- The new terms and conditions of restructuring facility shall be defined on the basis of the repayment capacity according to new financial projection, which is supported by prudent and reasonable assumptions of its financial or business position.

- For the facility to be categorized as restructured, the bank and debtor must formally agree on new terms of agreement. In event of new terms and conditions is not formally executed, the facility must be not restructured facility, but considered as impaired facility.
- A facility should not be restructured more than once. If nevertheless this occurs more than one time, the facility shall, as a minimum, be considered as substandard.
- Following the completion of its restructuring, a facility shall keep its classification until it may be upgraded in accordance with the requirements as stated in Article 81 and Article 82 of the NBC Prakas B14-017-344 Br.K dated 04 Dec 2017 as below: -
 - (i) The classification of a facility that has been restructured shall not be improved unless the debtor has fully complied with the restructured terms of agreement and:
 - a. Has serviced all principal and interest payments for a minimum period of six (6) months, in the case of a facility with monthly repayments; or
 - b. Has serviced all principal and interest payments for a minimum period of 01 year, in the case of a facility with quarterly or semi-annual repayments.
 - c. Has serviced all principal and interest payments for a minimum one repayment period, in the case of a facility with annual repayments or longer.
- The classification of a restructured facility that was previously classified as substandard, doubtful or loss shall not be improved to better classification than substandard. In any case, the classification of any facility that would have been restructured more than once shall not be improved.

8.6.3. Refinancing/Supersede Facilities

- Refinancing or supersede refers to any practice or mechanism that allows for the replacement of an existing obligation with another debt obligation under new terms of agreement.
- Refinancing shall not be used to reclassify credit facilities of poor quality that should either be provisioned or written-off. The Bank must be able to explain the National Bank of Cambodia the rational for multiple refinancing that would have been made in favor of a borrower. For that purpose, the Bank shall keep a full set of historical data related to refinanced facility and its periodical and final repayments. The Bank must be able to demonstrate that the succession of these facilities has benefited from a well-defined and sound credit granting process and from a formal approval at the proper management level.
- Similarly to the initial granting of a facility, factors to be considered and documented in refinancing include:-
 - 1) purpose of the facility and sources of repayment;
 - 2) the current risk profile of the borrower including its repayment's history and current repayment capacity; and
 - 3) the adequacy and enforceability of the collateral or guarantee.

8.6.4. Recovery Procedures for Delinquent Loans

The following are the procedures for the management of loans in different delinquent stages:

1 day to less than 30 days

Days in delinquent	Action to be taken
1 st day to 7 th day	Daily call to borrower to inform borrower of the overdue position and advise the amount to regularize the overdue
8 th day	<ul style="list-style-type: none"> • Issue 1st 7 days Reminder Letter to borrower at last known address. • Letter to be delivered to borrower and copy duly acknowledged (if possible) by borrower.
16 th day	<ul style="list-style-type: none"> • Issue 2nd 7 days Reminder Letter to borrower at last known address. • Letter to be delivered to borrower and copy duly acknowledged (if possible) by borrower.
24 th day	<ul style="list-style-type: none"> • Issue 3rd & Final 7 days Reminder Letter to borrower at last known address. • Borrower has 7 days to regularize the loan position

30 days to less than 90 days (during which the loan is classified as Special Mention or worse)

31 st day	Instruct panel lawyer to issue 7 days Legal Notice of Demand (LNOD) to borrower & guarantor (if any)
35 th days	Panel lawyer issues 7 days LNOD to borrower & guarantor / corporate guarantor (if any)
45 th day	<ul style="list-style-type: none"> • Issue Notification Letter to borrower with intention to recall facility • Copy of the Notification Letter to borrower copied to panel lawyer
61 st day	Instruct panel lawyer to issue Legal Notice of Recall (LNOR) to borrower & guarantor / corporate guarantor (if any)
65 th day	Panel Solicitor issues LNOR to borrower & guarantor / corporate guarantor (if any)

8.6.5. Transfer of Non-Performing Loans to Standard Loans

(a) A non-performing loan may be reclassified as a standard loan when the following conditions are fulfilled: -

- The loan has not been restructured, specifications of the loans must be unchanged (in particular, outstanding, interest rate, length and amount of installments);
- All the arrears (be it either interest or principal, or both interests and principal) are fully settled.
- After settlement or arrears, loans have been normally repaid during three consecutive months (interest and capital)
- Arrears have not been paid by a new loan, an increase of approved limit on an overdraft granted to the customer or to a related party.

(b) A non-performing overdraft may be reclassified as a standard overdraft when the following conditions are fulfilled:

- The overdraft, including all the past due interest, reverts within the approved limits for at least 3 months consecutively.
- There is no change in the conditions and in particular approved limits and interest rates. In this case, it must be regarded as a restructured overdraft (e.f. below).

When an overdraft has been classified as non-performing, the bank will not be allowed to increase the approved limits, unless it is justified by an increase of the customer activity.

8.6.6. Partial Repayment

When a partial payment is received, it must be posted in the following order:

- Interest recognized as an income (before classification as a non-performing loan) but not collected.
- Interest not recognized as an income and classified as an interest in suspense.
- Principal.

For each one of these categories, payment must be applied by priority on the eldest arrears. As indicated above, as long all the arrears have not been fully paid, loan must be classified as a non-performing loan.

8.6.7. Legal Action and Foreclosure

A. General

Before initiating legal action against the borrower, consideration must be given to the amount involved and the realizable value of security/collateral pledged, including the satisfactory completion of existing security documentation. Where recoverable amounts of realizable values are small or insignificant, whilst it would be prudent to write off, the bank will still be pursuing with legal action, unless the procedure is too tedious. In case of doubt, the appropriate credit authority and solicitors must be consulted.

B. Authority

- The approving authority for initiating legal action, withholding, postponing or abandoning legal action including foreclosure proceedings lies with respective Delegated Authority.
- Determination of whether a certain litigation proceeding is to be withheld / postponed / abandoned differ from case to case. The following factors will be considered:
 - (a) Views of attending solicitors for that particular case;
 - (b) At which stage the case stands;
 - (c) Chances of recovery including costs, etc.
- For a civil action, it is advisable to obtain at least a consent judgement prior to deferring further action. If the borrower fails to comply with his commitment, the Bank will proceed with execution proceedings without having to file fresh proceedings.
- In execution proceedings under civil action and foreclosure proceedings, insist on

payment of substantial amount of outstanding plus legal costs and disbursements incurred and a firm written commitment executed by the borrower to settle the balance outstanding before aborting the proceedings.

- In the case of compromised settlement under negotiation with the borrower, the authority to withhold legal action rests with the authority responsible for negotiating such settlements.

8.6.8. Write-off of Loans/Advances

- A. Authority for approving write-off of bad debts rests with the Board of Directors.
- B. Bank shall remove a loan/advance or a portion of a loan from its balance sheet when it loses control of the contractual rights over the loan or when all or part of a loan is deemed uncollectible; or there is no realistic prospect of recovery. This is normally evident at a stage where: -
 - (a) The bank has lost control over the contractual rights that comprise the loan or part of the loan as determined by a court of law.
 - (b) All forms of securities or collateral have been called, realized but proceed failed to cover the entire facility outstanding.
 - (c) The bank is unable to collect or there is no longer reasonable assurance that the bank will collect all amounts due according to the contractual terms of the loan/advances agreement.
 - (d) The bank is unable to collect or there is no longer reasonable assurance that the bank will collect all amounts due according to the contractual terms of the loan/advances agreement.
 - (e) The borrower becomes bankrupt or is undergoing other forms of financial restructuring and is having difficulty in servicing the facility.
 - (f) The loan is classified under loss category.
 - (g) The cost of taking legal action is higher than the amount of loan outstanding

C. Frequency

Write-off exercise is carried out on a quarterly basis. The list of affected accounts must be submitted to Internal Audit for review, Audit Committee for concurrence followed by the Board of Directors for approval.

PART #9: APPENDIX

9.1. Appendix 1: Internal Credit Risk Scoring

Internal Credit Risk Scoring has been made in a comprehensive, clear and adequate manner to grade credit risk of each borrower and in compliance to NBC's guideline date 08 Dec 2017 (Article 16), which state the criteria shall at least include: -

1. Repayment track record
2. Current and projected financial conditions of the counterparty;
3. Business prospective and cash-flow projections basing on realistic and prudent assumption;
4. Repayment ability and willingness of the counterparty;
5. Economic environment; and
6. Quality of documentations.

With the above criteria, we have fit our risk appetite by incorporate three more criteria to perfectly score and grade the risk level of each borrower.

7. Borrower's Profile
8. Type of Loan and tenor of facility
9. Offered Security

1. Individual Customer

1.1. ICR Scoring Criteria

Given the repayment capacity of each borrower and the LTV for each borrower are the two most important parameters, the highest weight of 15% has been given for the scoring calculation.

No	Risk Factor	Weight
I. Borrower's Profile		30%
1	Net worth	10%
2	Age	10%
3	Employment with current Employer / Experience of Current Business	10%
II. Loan and Security		35%
4	Tenure	10%
5	Security	10%
6	Margin of advance	15%
III. Repayment Capacity		25%
7	Debt Service Ratio	15%
8	Income Verification	10%
IV. Repayment Record		10%
9	Number of excess or late payment in the last 12 months	10%
Total		100%

1.2. Scorecard

The scoring of each parameter is provided as below: -

Net worth	Scoring
> USD500k	100
USD300k < NW ≤ USD500k	75

USD100k < NW ≤ USD300k	50
USD50k < NW ≤ USD100k	25
NW < USD50k	0
Age	Scoring
30 ≤ AGE ≤ 50	100
50 < AGE ≤ 60	75
20 ≤ AGE < 30	50
60 < AGE ≤ 70	25
AGE below 20 or above 70	0
Employment with current Employer / Experience of Current Business	Scoring
More than 10 years	100
5 to 10 years	75
2 to 5 years	50
3 months to 2 year	25
Less than 3 months	0
Tenure	Scoring
5 years and below	100
6 to 10 years	75
11 to 15 years	50
16 to 20 years	25
Above 20 years	0
Security	Scoring
Cash / SBLC	100
Residential / Commercial Building	75
All types of vacant development land (Residential/ Industrial/ Commercial/ Factory lots), Office lots/ Shoplots in complexes/ Apartments/ Condominiums, all types of cultivated/ vacant agricultural land	50
Debenture, Assignment of cashflow, negative pledge, guarantee	25
Clean	0
Margin of advance	Scoring
50% and below / Fully secured by FD and/or SBLC	100
More than 50% to 60%	75
More than 60% to 70%	50
More than 70% to 80%	25
More than 80% or clean	0
Debt Service Ratio	Scoring
DSR > 3.0	100
2.5 < DSR ≤ 3.0	75
1.8 < DSR ≤ 2.5	50
1.5 < DSR ≤ 1.8	25
DSR < 1.5	0
Income Verification	Scoring
Audited by qualified professional	100
Verified by bank statement	75
Pay slip only	50
Unsubstantiated / No documents	25
Number of excess or late payment in the last 12 months	Scoring
No excess / arrears (late payment)	100
1 to 2 times / No borrowing record	75
3 to 4 times	50
5 to 6 times	25

> 6 times	0
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1.3. Risk Grading

The high score usually implies low-risk and conversely. The risk grades below apply to the borrower and collateral.

Score	Grade	Appraisal	Risk
Over 90 to 100	1	Excellent	Low
Over 80 to 90	2	Very Good	Low
Over 70 to 80	3	Good	Low
Over 60 to 70	4	Satisfactory	Moderate
Over 50 to 60	5	Fair	Moderate
Over 40 to 50	6	Unsatisfactory / Escalate to higher level	High
Over 30 to 40	7	Unacceptable	High
Over 20 to 30	8	Uncollectible risk is medium	High
Over 10 to 20	9	Uncollectible risk is high	High
From 0 to 10	10	Uncollectible risk is very high	High

Credit Proposal with grade 6 and below is not encouraged to submit for approval. In principle, credit proposal with ICR Scoring of less than 50 is to be rejected at front line level or by Head of Business Unit. However, credit proposal of encouraged sector with ICR Scoring of less than 50 can be referred to the next level of Approving Authority for approval, subject to strong recommendation from Head of Business Unit with appropriate justification to mitigate the high risk of the borrower.

2. Corporate Entity Customer

2.1. ICR Scoring Criteria

Given the corporate's profile is different from individual profile, the focus on the corporate credit risk scoring is on the prime mover of the company, nature of business, and the financial position of the entity. As such, borrower's profile, which include the gearing ratio, current ratio, year of business operation, age of prime mover, and dependency of the business, is given a significant weight up to 40% overall.

No	Risk Factor	Weight
I. Borrower's Profile		40%
1	Gearing Ratio = (Long term debt + Short term debt) ÷ Shareholders' equity	10%
2	Current Ratio = Current Assets ÷ Current Liabilities	10%
3	Year-Business Operation	5%
4	Age of Prime Mover	5%
5	Industry Outlook	5%
6	Nature of Dependencies	5%
II. Loan and Security		25%
7	Tenure	5%
8	Security	10%

9	Margin of advance	10%
III. Repayment Capacity		25%
10	Debt Service Ratio	15%
11	Income Verification	10%
IV. Repayment Record		10%
12	Number of excess or late payment in the last 12 months	10%
	Total	100%

2.2. Scorecard

The scoring of each parameter is provided as below: -

Gearing Ratio = (Long term debt + Short term debt) ÷ Shareholders' equity	Scoring
Gearing Ratio > 4	100
2.0 < Gearing Ratio ≤ 4	75
1.0 < Gearing Ratio ≤ 2.0	50
0.5 < Gearing Ratio ≤ 1.0	25
Gearing Ratio < 0.5	0
Current Ratio = Current Assets ÷ Current Liabilities	Scoring
Current Ratio > 2	100
1.0 < Current Ratio ≤ 2	75
0.5 < Current Ratio ≤ 1.0	50
0 < Current Ratio ≤ 0.5	25
Current Ratio is Negative	0
Age of Prime Mover	Scoring
45 < AGE ≤ 55	100
35 ≤ AGE ≤ 45	75
30 ≤ AGE < 35	50
55 < AGE ≤ 65	25
AGE below 30 or above 65	0
Industry Outlook	
Very Positive outlook. Increasing demand with significant barrier of entry. Substitute is not available.	100
Positive outlook. Less significant barrier of entry. Substitute is available, but not a threat.	75
Stable outlook. Stable demand. Manageable competition from rival in the industry.	50
Uncertain outlook. Able to identify niche segment in the industry. Highly competitive industry with many players offering the same product/services i.e. availability of many substitutes.	25
Negative outlook. Sunset industry, no barrier of entry. Availability of many substitutes.	0
Nature of Dependencies	Scoring
Broad customer base. Could easily change supplier.	100
Not subject to any particular dependencies on sales or procurement.	75
Dependent on a few companies for sales and procurement. However, has long established relationship with these companies for more than 5 years.	50
Dependent on a few companies for sales and procurement. Newly established relationship.	25
Highly dependent. Failure of any party will lead to collapse of the company.	0

Year-Business Operation	Scoring
More than 10 years	100
5 to 10 years	75
3 to 5 years	50
1 to 3 years	25
Less than 1 year	0
Tenure	Scoring
5 years and below	100
6 to 10 years	75
11 to 15 years	50
16 to 20 years	25
Above 20 years	0
Security	Scoring
Cash / SBLC	100
Residential / Commercial Building	75
All types of vacant development land (Residential/ Industrial/ Commercial/ Factory lots), Office lots/ Shop lots in complexes/ Apartments/ Condominiums, all types of cultivated/ vacant agricultural land	50
Debenture, Assignment of cashflow, negative pledge, guarantee	25
Clean	0
Margin of advance	Scoring
50% and below / Fully secured by FD and/or SBLC	100
More than 50% to 60%	75
More than 60% to 70%	50
More than 70% to 80%	25
More than 80% or clean	0
Debt Service Ratio	Scoring
DSR > 3.0	100
2.5 < DSR ≤ 3.0	75
1.8 < DSR ≤ 2.5	50
1.5 < DSR ≤ 1.8	25
DSR < 1.5	0
Income Verification	Scoring
Audited by qualified professional	100
Management Account	50
Unsubstantiated / No documents	0
Number of excess or late payment in the last 12 months	Scoring
No excess / arrears (late payment)	100
1 to 2 times / No Borrowing Record	75
3 to 4 times	50
5 to 6 times	25
> 6 times	0

2.3. Risk Grading

The high score usually implies low-risk and conversely. Any borrower cannot get scoring over 50 is considered as high risk borrower and should be avoid.

Score	Grade	Appraisal	Risk
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Over 90 to 100	1	Excellent	Low
Over 80 to 90	2	Very Good	Low
Over 70 to 80	3	Good	Low
Over 60 to 70	4	Satisfactory	Moderate
Over 50 to 60	5	Fair	Moderate
Over 40 to 50	6	Unsatisfactory / Escalate to higher level	High
Over 30 to 40	7	Unacceptable	High
Over 20 to 30	8	Uncollectible risk is medium	High
Over 10 to 20	9	Uncollectible risk is high	High
From 0 to 10	10	Uncollectible risk is very high	High

Credit Proposal with grade 6 and below is not encouraged to submit for approval. In principle, credit proposal with ICR Scoring of less than 50 is to be rejected at front line level or by Head of Business Unit. However, credit proposal of encouraged sector with ICR Scoring of less than 50 can be referred to the next level of Approving Authority for approval, subject to strong recommendation from Head of Business Unit with appropriate justification to mitigate the high risk of the borrower.

3. Compliance of Scoring Models

Scorecard models must be complied with loan evaluation criteria based on the bank credit policy and guideline and it is necessary to follow the standard requirement of National Bank of Cambodia (NBC).

4. Usage of the ICR Scoring

- (1) The credit scorecard shall be used to assess the risk of loan applications and a grade is provided to every loan application.
- (2) The grade is provided automatically depends on the applicant's conditions.
- (3) The assessment criteria are referred to inputting of the realistic information of the loan applicants' each criterion.
- (4) Credit rating process is done by Credit Originator during loan underwriting process through checking on relevant supporting document of the loan application.
- (5) Customers are assessed consistently as identical evaluations and rules are applied within the same scorecards.

5. Confidentiality

Scorecard variables and corresponding weights must be held in strictest confidentiality among all units. Leakage, particularly to the clients, must be avoided to prevent rendering the scorecard ineffective.

Access to scorecard must be limited and monitored to prevent compromise of scoring model security.

6. Amendment of Scorecard

The scorecard model developed, or amendment must be approved by the Credit Risk Committee prior to implementation. The scorecard must be used as a part of decision tool for business unit to proceed with the credit proposal or not. Business Unit can gently reject the applicant

Credit Risk Management will continue to identify the weak points of the scorecard and to amend at any point or seek approval of to renew the ICR scoring from Credit Risk Committee on annual base.

7. Credit Score Management

Each modification or version on credit scorecards should be securely stored and managed properly. A record of the implementation date and ceased date should be kept for each modification or version on all credit scorecards, and the current credit scorecards in-use should be consistent with the records.

9.2. Appendix 2: Credit Approval Authority Matrix

1. Delegated Lending Authority

Credit Approval is the process of authorizing the underwriting of a credit exposure together with its terms and conditions, pricing, limit, covenants and collateral / security pledged, in accordance to the Bank's delegated approval authority framework.

The bank's lending functions are delegated according to the following hierarchical frame work:

- (i) Board of Director
- (ii) Credit Risk Committee.
- (iii) Joint Approval

a) Board of Directors

- The Board of Directors shall consider all loans, advances or credit facilities upon recommendation of Cambodia Credit Committee and concurrence/endorsement by Regional Credit Committee.
- All loans, advances or credit facilities in excess of limits vested in the Cambodia Credit Committee shall require the approval of the Board of Directors.

b) Credit Risk Committee (CRC)

CRC is empowered as follows for Credit Approval:

- Approve loans up to USD5 million (group basis).
- Approve appointment of Panel of Professional firms: Valuers, Insurance Companies, and Solicitors

- Recommend for Board approval, where appropriate, all credit proposals, which exceed CCC's approval limit.
- To formalize the selection of criteria for empanelment of valuers and solicitors.

c) Joint Approval

There are 3 levels for Joint Approval, which can approve credit proposal up to USD1.0mil.

2. Delegated Authority and Limits

Approving Authority	Secured Loan (New/Additional/ Review)	Unsecured Loan/ Temporary A/C Excess
Board of Directors	Up to Single Customer Limit	Over USD300k
Credit Risk Committee	Up to USD5.0mil	Up to USD300k
DCEO & CEO	Up to USD1.0mil	Up to USD100k
Head of CRM & DCEO	Up to USD500k	Nil
Head of CRM & Head of BDM	Up to USD150k	Nil

Notes:

- Secured Loan are loan secured by collateral with LTV not more than 80% and the margin is changed as per mention in the collateral section of the credit policy and guideline;*
- Any credit proposal with deviation from the credit product guideline and/or credit policy guideline shall be escalate to higher DLA, at least one level up.*
- A summary of loans approved shall be escalated to Executive Committee for notification on monthly basis, including any deviation to the policy and guideline.*
- The Single Customer Limit is set at 20% of Bank's net worth. The Bank may seek approval to increase exposure limit up to 35% of bank's net worth subject to Article 6 of Prakas on Controlling Banks and Financial Institutions Large Exposure.*

Prepared by	Concurred by	Approved by
Full name: Position: Date:	Full name: Position: Date:	Full name: Position: Date: