**CREDIT POLICY**

1. **OVERVIEW**

Cash flow and liquidity management is of paramount importance for **[COMPANY NAME]**. This credit policy has been designed to maximize profits and profits on sales revenue while minimizing exposure to slow-paying customers and business losses, thereby ensuring a healthy cash and working capital position.

1. **SCOPE**

This policy applies to all sales of **[COMPANY NAME]** products to customers. All departments within **[COMPANY NAME]** responsible for the sale, marketing, contract approval, order acceptance; scheduling and shipment of products must adhere to the policy and guidelines below.

1. **TERMS OF SALE**

The terms and conditions of sale are determined on the basis of current sales programs and promotions. The credit department works closely with the sales department to establish and modify appropriate conditions that maximize sales results. Standard payment terms are: net 30; net 45 for sales greater than **[SPECIFY]**, or four equal quarterly payments due on days 1, 90, 180, and 270.

Terms for orders already shipped cannot be altered or modified without approval from the credit department. Any changes from standard payment terms requires a variance request form.

1. **CREDIT RISK MANAGEMENT**

In the context of this policy, some receivables may not be recovered as expected. The method of assessing risk and determining a credit limit to customers varies depending on the amount of credit requested and the type of product or service sold.

Low credit limits, generally described as accounts with a credit limit of up to $ **[SPECIFY]** or the equivalent in local currency, represent a reduced exposure and generally require limited information to assign a credit limit.

Larger limits require higher levels of risk analysis and may use risk scoring models using internal and external risk elements and methodology. Limits can also be determined based on the payment experience of customers as well as annual sales and payment terms to arrive at a risk-adjusted limit that considers normal customer purchasing activities.

For credit limits exceeding the maximum amounts defined in this policy (or in the absence of commonly available risk elements), further financial analysis is required. This analysis will include (but is not limited to) the analysis of financial statement ratios, cash flow analysis, evaluation of the availability of external financing and evaluation of future activities by the company's management.

Typical minimum components of risk assessment include:

* Demographic assessment;
* Payment history (especially at comparable exposure levels).;
* Length of time in business;
* Business reputation (absence of adverse public information, i.e. court cases, judgments, etc);
* Knowledgeable assessment of company management;
* Financial analysis i.e. analysis of historical financial data, company accounts (based upon anticipated credit limit);
* External credit risk rating;
* Business analysis i.e. the situation of the economic sector the customer is in and their market position within it;
* Adequacy and enforceability of collateral/guarantee where applicable.
1. **ROLE AND RESPONSIBILITIES**

In order to facilitate the flow of orders and the shipment of products, **[COMPANY NAME]**'s policy is that credit should be extended to all customers who demonstrate both the ability to pay and a history of timely debt payment. Credit limits will be determined by comparing the following averages: the customer's working capital, the average credit limits granted by the trade references and the customer's credit line needs.

1. **Credit department** – The credit department will outline the requirements for establishing trade credit for new customers and maintaining lines of credit and limits for active accounts and returning customers with appropriate payment terms.
* The VP Credit has overall credit and collections responsibility for the credit department.
* Employees in these roles have authority to approve credit lines up to $**[SPECIFY]**. Anything exceeding this amount needs approval from the VP Credit.
* The credit department will evaluate all new customers to determine the terms and methods of payment that will be required and the level of credit that will be established.
* The credit department will also seek to offer optional payment methods to facilitate sales to customers with sub-optimal credit histories.
* Credit department will periodically review and reassess the payment terms and lines of credit of existing customers to meet new customer requirements and manage risks as financial and business conditions change.
* The credit managers are responsible for managing the credit evaluation, review, and approval process, as well as managing overall risk to the portfolio. Only credit managers are authorized to issue communications with customers concerning credit-related issues.
1. **Sales department** – The sales department is responsible for ensuring that the credit application form is submitted to the credit department by a prospective new customer, in advance of order acceptance. The sales representative also is responsible for instructing the customer regarding the respective roles and requirements of the credit, order administration and sales departments for introducing the customer to the appropriate representative of these departments.
2. **Accounts receivable** – This position/team reports to the credit manager and is responsible for daily accounts receivable activity, including invoicing and cash posting.
3. **Collections manager** – This position/team oversees collections and works with contracted collections agencies.
4. **CUSTOMER CREDIT REVIEWS**

The process involves assessing a customer's ability and willingness to pay under the terms of sale and the likelihood of late or defaulted payment. The credit limit is a measure of the customer's creditworthiness and is based on the ability to pay amounts due on time.

For existing customers, the credit department reviews credit limits as needed. All limits may be modified according to the evolution of the customer's creditworthiness. Customer credit limits and payment terms must be recorded in the operational and financial systems that are linked to the accounting systems that manage the activities of customer accounts.

Any adverse changes to the customer’s creditworthiness or risk rating will trigger a review of the customer credit limit in accordance with the guidelines set in this policy. The credit analysis will:

* Determine amount of credit needed based on estimated purchases (including seasonality) and proposed payment terms provided by country.
* Review customer risk analysis (credit report or manual assessment).
* Assess business analytical information. The end result is the determination of a credit limit for that customer consistent with the risk assessment, expected purchase levels, and payment terms

Customer accounts must be forwarded to the credit department when an account exceeds its credit limit and/or the customer is in arrears and every effort has been made to obtain a payment. If satisfactory arrangements cannot be made, the account must be placed on a credit hold and the order must be held or cancelled.

1. **MONITORING OF CREDIT CUSTOMERS LIMIT**

Monitoring and review must be performed for all credit customers whose accounts receivable balances exceed a certain amount. Credit limit monitoring will be supported by the credit management system in use. It is the responsibility of the accounts receivable department to maintain rules in such a way that the credit limit monitoring policy is adhered to.

The monitoring process includes:

* All customer credit limits should be reviewed periodically. The maximum period between reviews is one year. Shorter periods can set at the time of the issuance of the credit limit or when adverse information becomes available.
* Monthly analysis of aged balances, payment behaviour ranking, queries. The monthly monitoring of credit customers can result in renewals of credit limits in cases of substantial credit deterioration or rating downgrade.
* Continuous monitoring of major accounts/partners. Any adverse changes reported by the credit reference agency will trigger a credit limit review.
1. **Credit limit review**

All credit limits for active customers will be reviewed in accordance with the criteria in this section and considers the following factors:

* Credit risk exposure as reported by external credit reporting service
* Internal payment history/days sales outstanding (DSO)
* Changes in credit limit utilisation to include in business volume
* Time between credit reviews
1. **Risk assessment for existing customers**

Once the initial credit limit has been established for a new customer, the most up-to-date and reliable information available to the credit analyst is payment performance and credit reports.

Depending on the payment performance, it may be decided either to increase the credit limit when the payment performance is satisfactory or to suspend the account when the payment performance is not satisfactory.

Account managers and/or collection agents may request to increase and/or decrease the credit limits of the account by sending an email to the credit department. The credit limit should not be used to control old debts and credit limits should not be kept artificially low as a method of cash collection. Timely payment should be achieved through an overall collection strategy based on the customer profile.

Credit analysts monitor risk on existing accounts based on the following suggested reports or events:

* Risk report based on industry – this quarterly report is provided by a credit reporting agency to assist in evaluating the risk level of the portfolio based on industry.
* First payment default report – this report lists new accounts who have not paid on their first invoice (calculated at 30 days past due), to evaluate whether their credit limit should be reduced, or their orders placed on hold.
* Daily report of returned / Non-Sufficient Funds (NSF) report – this report identifies NSF checks to alert the credit department to place account on immediate credit hold.
* Daily report of reversed direct debits – this report provides a list of customers whose direct debit payments have been reversed.
* Watch list report – a monthly report used to identify accounts that should be reviewed for potential credit risk.
* External information - new information is received which prompts a review of the credit limit.
1. **Limit overdraft**

The limit overdraft applies to customers whose account balance exceeds the credit limit established in accordance with the credit and collection policy. In principle, no customer is allowed to exceed the credit limits and customers will therefore be put on hold. If an extension of credit is required, the customer's credit limit will be reviewed in accordance with the procedure for increasing the credit limit. If the credit limit cannot be increased, the customer may be asked to provide additional collateral or make advance payments.

1. **Increasing the limit in case of collateral**

Where the recommended credit limit is less than the potential exposure, the credit manager may request extra guarantees/methods of security may be requested taking collateral from a customer is a way of reducing credit risk and can hence be used to increase credit limits. Collateral is an asset / group of assets or cash flow given as security by an obligor to client in the form of a legally enforceable pledge for payment of a credit or any other contractual obligation. Collateral at client may take the form of a Parent guarantee, if the Parent has sufficient financial strength:

* Third party guarantee (such as bank guarantees) / standby letter of credit
* Securities / cash deposit at a bank account guarantees are only accepted, if the rating/recommended credit limit of the provider of the guarantee is better than the rating of the original obligor of a credit. The collateral documents must be drawn in accordance with the laws of the country in which collateral is held. Client will only take collateral if the administrative costs are reasonable and if it can be valued and enforced easily and timely. This must be agreed with the retained organization. A review of collateral will be performed every 12 months unless otherwise stipulated. If the account is a very high risk, this review may be more frequent.
1. **Delinquent accounts**

When an account has an outstanding balance of more than 90 days, it is classified as a "severely delinquent" account. In this situation, the credit team notifies the sales team of the outstanding balance and the credit team sends a letter marked Final Notice to the customer.

The account is placed on credit hold, which prevents future orders from being processed or shipped. The sales and credit team will work with the customer to resolve the issue. If the outstanding balance is not paid with the payment, the revenue is cancelled and the account must now be processed in accordance with the company's bad debt policy.

1. **Bad debt/ collection**

When a severely delinquent account (91+ days past due) is not resolved with a good faith effort of payment, the expense may be written off to bad debt. The definition of bad debt is an uncollectible balance owed from a customer experiencing financial hardship such as bankruptcy. Non-paying accounts can be written off to bad debt only after the customer has gone out of business, has filed for bankruptcy, or has been placed for collections and payment has not been secured after six months (180 days).

If every attempt at collection fails, otherwise outstanding balances are turned over to our company’s collections agency (a third party) if approved by both the Finance Director and the Sales Director.

1. **Merger and acquisition**

When a customer purchases the business of another customer, the acquired business is transferred to the account of the acquiring or surviving entity. It is the responsibility of the sales and credit representative of the acquired business to ensure that the acquired account is in good standing.

Problems such as bad debts, outstanding balances, purchase orders, etc. must be resolved before the transfer. These issues should be documented and addressed and/or resolved during planning between the two teams.