DEVELOPMENT BANK OF ETHIOPIA
INTERNAL MEMO

PO/memo/031/2018 February 7, 2018

V/Presidents **Work Units Under President** **President Advisor** **Districts**	**President**

Subject: - Revised Credit Policy

Attached please find the Bank's revised credit policy approved by the National Bank of Ethiopia. The policy will soon be presented to the Board for endorsement.

As you know, the revisions are made in consultation with the Government and thus are effective since July 17, 2017 (immediatly after the meeting Chair by H.E. The Prime Minister.)

Thus you are hereby instructed to continue the application of the revised policy as approved by the National Bank of Ethiopia.

Best Regards

Getahun Nana

DEVELOPMENT BANK OF ETHIOPIA

CREDIT POLICY

CP/001/2017

December 2017

Addis Ababa

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DEVELOPMENT BANK OF ETHIOPIA

Acronyms/Abbreviation

1. **"BOM"** the Board of Management of Development Bank of Ethiopia
2. **"DBE"** the Development Bank of Ethiopia
3. **"NBE"** the National Bank of Ethiopia
4. **"SMEs"** Small and Medium Enterprises

1. Preamble

Development Bank of Ethiopia's (DBE) mission is supporting economic growth and development in Ethiopia by providing medium and long-term finance to investment projects in the Government priority areas. The Bank provides finance to encourage mainly private sector investment in commercial agriculture, agro-processing, manufacturing and mining and extractive industries. It also supports SMEs through capital goods lease/hire purchase financing. Furthermore, though, DBE generally doesn't consider service sector as its priority areas for lending, it exceptionally finances hospital projects.

The Bank shall finance only viable/bankable development projects. In financing development projects, the Bank ensures that it is sustainable. To this end, it puts in place a sound credit policy, as such policy is a cornerstone for safe and healthy banking practices.

Accordingly, the Bank issued this credit policy to define its lending priorities and risk appetite; clarify the way it manages credit risk; and enhance transparency, accountability and responsibility in credit provision process.

2. Issuing Authority

This Credit Policy is issued by the BOM of DBE in line with authorities vested in it by article 14 (4) of Public Enterprises Proclamation No. 25 of 1992.

3. Short Title

This Policy may be cited as "Credit Policy of Development Bank of Ethiopia No. CP 001/2017.

4. Definition of Terms

For the purpose of this Policy:

4.1. **domestic investor** means a natural person of Ethiopian citizen/ Ethiopian origin or a company where Ethiopian citizens or foreign nationals of Ethiopian origin own at least 51% of its capital or maintain at least 51% of voting rights in general meeting of the company;

4.2. **interest incentives** means interest rate advantages to be given to the borrowers of the Bank who meet pre-defined requirements set by the Bank or relevant government authority;

4.3. **lease financing** means capital goods lease/hire purchase financing modality for SMEs whose total capital is between Birr 500,000 (inclusive) and Birr 7.5 million (exclusive).

4.4. **lending officer** means the Bank's performer involved in loan process: application receiving, document screening, negotiation, due diligence assessment, appraisal, recommendation, approval, disbursement, follow up and loan collection activities;

4.5. **loan portfolio** means total loans and advances extended to all borrowers categorized into any sectors, form of business ownership, geographical location or otherwise;

4.6. **president** means the President of the DBE;

4.7. **project appraisal** means analyzing, assessing and evaluating the viability of a loan project submitted by a customer;

4.8. **project financing** means a loan arrangement for development project whose paid up capital is Birr 7.5 million and above; in such financing modality, the loan repayment is derived primarily from the project's cash flow on completion, and where the project's assets, rights, and interests are held as collateral;

4.9. **project rehabilitation and loan recovery** means a process by which the Bank attempts to improve the health of a sick project so as the project can pay the Bank's loans; or in case of failure to rehabilitate take legal actions to recover loans;

4.10. **single borrower limit** means the aggregate loan or extension of credit by the Bank to any one borrower, whether a natural person or business organization;

4.11. **small and medium enterprise (SMEs)** means an enterprise in the commercial agriculture, agro-processing, manufacturing, construction, mining and quarries and tour industries that operates with above 6 employees and has paid up capital of Birr 500,000 at a minimum and less than Birr 7.5 million at a maximum;

4.12. **Total capita** means paid up capital, legal reserves and retained earnings of the Bank excluding provisional profit, but including provisional losses.

5. Scope of the Credit Policy

This credit policy is applicable to all credit processing and administration functions of the Bank.

6. Authorities & Responsibilities

Without prejudice to the specific responsibilities indicated elsewhere in this credit policy or other laws, the following are the authorities & responsibilities vested on different organs of the Bank in relation to its credit function.

6.1. Board of Directors (BOM)

The BOM:

6.1.1. decides on all credit policy issues and thus approves Credit Policy of the Bank;

6.1.2. oversees the implementation of this Credit Policy and the overall credit management of the Bank;

6.1.3. approves loan portfolio exposure limits, credit risk tolerance and new credit products; and

6.1.4. Sets credit target and priorities.

6.2. The President

The President:

6.2.1. approves Credit Procedures/Guidelines in line with credit policy;

6.2.2. decides on credit approval and non-performing loans resolution mechanisms; however, he/she can delegate such functions to his/her deputies, other bank employees, and/or committees and/teams established for this purpose, as the case may be;

6.2.3. ensures the application of credit related laws, regulations, and directives issued by the pertinent authorities, as well as, proper implementation of this Policy;

6.2.4. puts in place a system that aligns credit functions of the Bank with other core and support units;

6.2.5. monitors overall credit risk identification, measurement and mitigation process is sound and safe;

6.2.6. initiates, when deemed necessary, changes on Credit Policy, new credit products, loan portfolio exposure limits, and credit pricing;

6.2.7. ensures continuation and practices of team based credit processing;

6.2.8. approves exceptions from this Credit Policy;

6.2.9. approves reimbursement of fund; and

6.2.10. Performs such other similar activities.

7. Loan Exposure Limits

7.1. Single Borrower Loan Limit

The total liabilities to an individual or a business organization resulting from extension of one or more loans by DBE shall be limited to a maximum of 25% of the total capital of the Bank.

7.2. Group Loan Limit

The total liabilities to a group or groups of borrowers connected by ownership or control resulting from extension of one or more credit by DBE shall at no time exceed 35% of the total capital of the Bank. Connected ownership or control is defined as two or more companies that fall under single ownership by possessing 10% and above equity shares in one, the other, or each other; or through parent ownership structure.

7.3. Loan Concentration Limit

All large exposures, which are loans that represent 10% or more of the Bank's total capital, shall be limited to 600% of the total capital of the Bank.

7.4. Loan Approval and Administration Limit

The Bank shall set loan approval and administration limits for its lending units.

7.5. Sector/Sub - Sector Limit

The Bank shall set its own sectoral / sub-sectoral limits as part of its portfolio risk management.

8. Credit Products, Services and Mode of Financing

8.1. Term Loans

The Bank shall extend medium and long term investment loans as well as short term credit to projects in the priority areas set by the BOM in consultation with the concerned government organs. Financing of such projects shall be made to borrowers/promoters who have passed through proper due diligence assessment and found out creditworthy. Furthermore, all projects to be financed by the Bank must be financially and economically viable and socially desirable. Viability and desirability of the projects shall be verified through the Bank's detail appraisal and approval process.

8.1.1. Long-Term Loan

Long term loan is a type of credit facility repayable within five to twenty years, including interest thereof, additional loans, grace period, and rescheduling or loan workout.

8.1.2. Medium Term Loan

A medium-term loan is a type of loan to be repayable within two to five years including interest thereof and grace period. However, medium term loan may be converted to long-term loan in the process of loan workout. Under such circumstances, the maximum loan repayment period, including interest thereof, shall not exceed twenty years starting from the date the contract for the original medium term is signed.

8.1.3. Short Term Working Capital Loan

The Bank may provide working capital loan to its existing projects or exporters for a maximum of two years. The details of types and related terms and conditions of short term working capital shall be stipulated in loan procedure manual of the Bank.

8.2. Other Credit Services/Facilities

8.2.1. Co-Financing /Syndicate Financing

8.2.1.1. To maintain the exposure limit, minimize risks and to overcome liquidity problems, the Bank may finance projects involving very large amount of investment capital under co-financing arrangements with other national or international financial institutions.

8.2.1.2. The Bank can enter into syndicate financing as a lead Bank or co-financer provided that the interest of the Bank is fully secured on first degree basis, in either case, in proportion to credit risks taken.

8.2.2. Guarantee Services

The Bank may provide guarantee services to its reliable borrowers and its former borrowers with proven track record.

8.2.3. Special Program Loans

DBE may finance special program loans, as and when directed by the Government or concerned authority (such as Integrated Agro-Industrial Park).

8.2.4. Managed Funds

8.2.4.1. DBE may undertake specific lending operations as managed fund on behalf of other entities subject to authorization from concerned government authority in support of development programs/projects.

8.2.4.2. Managed fund projects may not be required to adhere to DBE's standard Credit Policy where this is the requirement of the agency entrusting the fund and where such requirement is agreed with relevant government authority.

8.2.4.3. Loans under managed fund program shall be kept off balance sheet.

8.2.4.4. Managed fund administration shall be undertaken only under the following conditions:

a. DBE is provided with funds for the specific purpose;

b. DBE bears no financial risk, whatsoever, as a result of granting such loans to borrowers; and
c. The Government/donors pay DBE a fee, commission or both for undertaking the function.

8.2.5. Whole Sale Lending

All foreign concessional loans/grants for SMEs, which have wholesale nature, shall be treated in line with the lease financing policy of the Bank, unless the Government agrees with the financier otherwise.

8.2.6. Lease Financing

DBE shall provide lease/hire purchase financing to SMEs based on its lease financing policy and procedure.

8.2.7. Loan Buy Out

DBE may buy-out SMEs loans financed by microfinance institutions and regional capital lease financing companies, graduated and proved to be beyond the financing capacity of those financial institutions due to project expansion.

8.3. Mode of Financing

The Bank shall extend credit in the form of new, additional or expansion loans to projects in the priority areas of the government up on fulfillment of its requirements.

8.3.1. New Loan

A new loan is a loan granted to finance projects to be established or under implementation (i.e. projects which did not commence operation).

8.3.2. Additional Loan

Additional loans are granted only to projects under implementation being financed by the Bank. Additional loans may be granted to projects under implementation to cover additional investment costs acceptable to the Bank that may result from items over looked during appraisal and budgeting, cost over-run, change in design or replacement of machinery.

8.3.3. Expansion Loan

8.3.3.1 The Bank may provide an expansion loan for all priority area projects which have been properly implemented and proved to be successful financially as well as in the areas of project management/administration.

8.3.3.2 The Bank shall not provide expansion loans for projects making losses for two consecutive years or caring non-performing loans.

9. Areas of Lending

9.1. Project Financing

DBE's core function is financing medium and long-term priority area development projects. The Bank, therefore, finances projects in commercial agriculture, agro-processing, manufacturing, and mining and extractive industries. The Bank generally doesn't finance projects in the service sector. However, DBE exceptionally finances hospital projects. In such financing modality, the loan repayment is derived primarily from the project's cash flow during its life. To qualify for project financing in priority areas, applicants should raise a minimum paid up capital of Birr 7.5 million.

9.1.1. Commercial Agriculture

DBE finances commercial agriculture projects. Such businesses should be carried out in large scale and involve mechanized and modern farming.

9.1.2. Agro-processing Industries

DBE finances agro-processing industries engaged in processing and value addition of agricultural products for market.

9.1.3. Manufacturing Industries

DBE finances manufacturing industries engaged in converting raw materials, components, or parts into semi-finished or finished goods. To be eligible, a manufacturing project shall meet minimum value addition requirement set by Ministry of Industry or concerned Government organ.

9.1.4. Mining and Extractive Industries

DBE finances mining and extractive industries engaged in the extraction of minerals, ores, and raw materials or any other thing that has economic value from the earth.

9.1.5. Hospital Services

Though, service sector is not considered as priority/areas of lending for DBE, it exceptionally finances referral / tertiary hospital projects.

9.2. Lease Financing

DBE provides financial leasing/ hire purchase services to SMEs. This service is governed by a separate Financial Leasing Policy and procedure of the Bank. To be eligible for financial leasing services, an applicant shall raise a minimum paid up capital of Birr 500,000 but less than Birr 7.5 million.

10. Lending Terms and Conditions

10.1. Proportion of Debt and Equity in Project Financing

DBE finances projects in priority areas in collaboration with investors. This article reflects the overall risk appetite of the Bank in terms of project cost coverage. The article sets the maximum amount of loans that may be granted by the Bank in relation to equity contribution of the borrower. Thus, depending on risk rating of the project under consideration, the Bank may opt to grant loans lower than the maximum and require borrowers to contribute higher than the minimum equity. The terms and conditions set in this article apply only for project financing (not for lease financing).

10.1.1. Domestic investors or borrowers (other than those housed inside industrial park buildings owned by third party/lessor) who seek to establish new projects are required to cover at least 25% of the total project cost. The Bank may finance the remaining balance up to a maximum of 75% of the total project cost.

10.1.2. DBE may cover up to a maximum of 85% of investment cost of machineries & equipment of domestic investors housed inside industrial parks owned by third parties, while a minimum of 15% of the such costs shall be covered by equity contribution of the investors.

10.1.3. Foreign investors or borrowers from the Bank for new projects (excluding those projects operating inside industrial parks) are required to cover at least 50% of the total project cost. The Bank may finance the remaining balance up to a maximum of 50% of the total project cost.

10.1.4. DBE shall not finance foreign investors housed inside industrial parks owned by third parties. In case foreign investors who wish to establish a project with own shed/civil work inside an industrial park compound, the bank may finance up to a maximum of 50% of the project cost (that may include construction of civil work as well as purchase and installation of machineries) and expect the remaining balance to be covered by the investor.

10.1.5. Notwithstanding the provision under sub article 10.1.3 herein above, the Bank may finance foreign investment in horticulture with a maximum debt – to-equity ratio of 70:30.

10.1.6. The Bank may finance Government owned integrated agro-industrial parks with a maximum debt-to-equity ratio of 80:20.

10.1.7. DBE may finance projects owned by domestic investors engaged in export business in textile, garment, and leather and leather products that plan to expand through a backward or forward linkage within the sector or sub-sector in which the existing project operates under a maximum of 70:30 debt to equity ratio.

10.1.8. Domestic borrowers who wish to obtain financing for the expansion of an existing priority area project and whose fixed assets are not collateralized may access up to a maximum of 100% of the expansion cost if the value of the existing assets, excluding machineries and equipment, covers a minimum of 40% of the total project cost. For any cash equity contribution made by domestic promoter to cover the shortfall, the Bank may grant additional loan maintaining debt to equity ratio of 60:40.

10.1.9. Borrowers who wish to obtain financing for a new or expansion priority area project who can pledge uncollateralized fixed assets, other than machinery and equipment, outside the project (other than the project to be financed) in which at least they own 51% equity or ownership right, may access 100% financing if the value of such fixed assets amount to 40% of the total project cost (that is new plus existing) and are run as a business that generate regular income flow (e.g. generates rental income). Under such circumstance, the fixed asset(s) pledged, the new project and existing project shall be held as first degree collateral.

10.1.10. DBE may receive in-kind equity contribution for new and existing investment projects. In-kind contribution can consist of new equipment/machinery, lease amount paid for land, the value of developed freehold land with immovable assets, cost of land development, vehicles and buildings that are used/ to be used for the sole purpose of the project to be financially supported by DBE. The conditions to be fulfilled to obtain such financing include the following:

10.1.10.1. used machineries and equipment are not eligible for in kind equity contribution, while used vehicles are;

10.1.10.2. vehicles to be considered as in kind equity contribution should have book value of not less than 40 percent of original manufacturing cost at the date of application to DBE;

10.1.10.3. applicants shall present original commercial invoices for machineries, equipment and vehicles;

10.1.10.4. for existing investment projects that shift their business from services to agriculture, agro-processing or manufacturing sectors, in-kind contributions in the form of building and construction brought from the existing investment could be considered subject to fitness for the new purpose; and

10.1.10.5. Valuation of the in-kind contributions should be critically conducted by the Bank.

10.1.11 Bank loan financing of operational projects for the replacement of machinery shall not exceed 50% of the cost of the machinery.

10.1.12 For projects with investment cost of less than Birr one billion, cash equity contribution shall be placed upfront at once or gradually over a period not exceeding six months from the loan contract signing date. For projects with total project cost of Birr one billion and above, however, the cash contribution shall be placed upfront or gradually. In case of gradual cash contribution, 1/3 of the total equity contribution shall be submitted within the first 6 months, the other 1/3 within 9 months, and the final 1/3 within 12 months from the date of loan contract signing. In all cases, however, the project implementation activities should proceed as agreed and not be negatively affected as a consequence of gradual equity contribution.

10.1.13 Notwithstanding provisions under sub articles of this article, the Bank may grant loans to its borrowers whose physical collaterals (fixed assets) do not cover the loan amount with lower debt- to- equity ratio

10.1.14 Compatible to the level of the risk that the Bank is taking or requires additional collateral outside the project.

10.2. Interest Rates, Fees and Charges

10.2.1. Interest Rate

10.2.1.1. Interest rate on credit facilities of the Bank shall be set by the BOM in consultation with concerned government authorities.

10.2.1.2. The Bank may provide interest incentive in the form of interest rate to projects engaged in export, import substitution, agro-processing and other sectors as decided by the BOM in consultation with the concerned government authorities.

10.2.1.3. For projects under implementation, pre-operating interest shall be paid monthly.

10.2.1.4. For commissioned projects, however, the time for payment of accrued interest shall be fixed on the basis of the project's cash flow.

10.2.2. Penalty Fee and Other Charges

10.2.2.1. The Bank may set a penalty interest rate that it may charge borrowers who fail to pay loans or fulfill commitments/requirements.

10.2.2.2. The Bank may also set loan commitment, service and other charges as deemed necessary.

10.2.3. Grace Period

A grace period is a time in a project's life when a borrower may not be required to make principal loan repayment. The Bank sets grace period for principal loan repayment based on the time required for project implementation, commencement of operation and generation of cash. Such grace period, however, shall not exceed a maximum six years for tree fruits and five years for all others.

10.3. Repayment Period

The repayment period of loans shall be determined based on the type of credit product, cash flow of the project and the economic life of major investment components. The maximum repayment period of a loan shall not exceed 20 years including any grace period.

10.4. Accelerated Debt Repayment

The Bank may not allow accelerated debt repayments to its borrowers especially for projects in export business.

10.5. Collateral

10.5.1. The Bank relies primarily on the financial viability of the project it finances.

10.5.2. Notwithstanding provisions under sub article 10.5.1herein above, the Bank may require additional collateral outside the project:

10.5.2.1. if default risk of the project is found to be high or the project's viability is questionable,

10.5.2.2. in case collateral strength of the project is found to be below 100%of total loan balance, or

10.5.2.3. Upon defaulting and thus rescheduling or restructuring of the previously extended loan.

10.5.3. The Bank shall hold projects it financed and any other assets pledged to it as first-degree collateral security at all times.

10.5.4. The Bank shall ensure the proper registration as well as timely renewal of the mortgage right.

10.5.5. Projects operating in privately owned rented premises are required to present additional collateral outside the project amounting to 100% of the loan. However, this shall not apply for projects operating inside government owned premises, including government owned industrial parks, provided that such projects produce a written undertaking from the owner of the premises that the rent right can be transferred to third party in case of default.

10.5.6. The Bank shall revalue assets held as collateral regularly and ensure that the value of fixed assets of the project is at least equal to total outstanding loan balances, including unpaid interest accrued thereof, claimed from the project.

10.6. Insurance

To safeguard the project as well as any other property outside the project held as collateral, the Bank should ensure that all such assets are insured with DBE as co-beneficiary, and the insurance policy should be renewed upon expiry until the loan is fully settled. Insurance must be adequate for all potentially identified, perceptible and insurable risks and events which the project could face.

10.7. Other Terms and Conditions

Notwithstanding provisions under sub articles of this article, the Bank may set additional terms and conditions if deemed necessary depending on the nature of a specific project.

11. Loan Process

11.1. Customer Sourcing

The Bank accepts applications from both recruited and walk-in customers if they fulfill its loan requirements.

11.2. Due Diligence or Know your Customer (KYC) Assessments

All projects to be financed by the Bank must pass through meticulous due diligence assessment to assure the creditworthiness of applicants including their integrity. This is done to protect the Bank from entering into relationships with inappropriate borrowers and to check the borrower's credit worthiness in compliance with Financial Intelligence Center Anti -Money Laundering (AML) and Counter- Terrorism Financing (CTF) Compliance Directives.

11.3. Project Appraisal and Loan approval

11.3.1. The Bank shall finance only technically feasible, financially/economically viable and socially desirable projects after undertaking comprehensive project appraisal focusing on technical, marketing, financial, managerial and environmental aspects of the project. The Bank shall develop standard project appraisal guidelines to be used in project appraisal process. Furthermore, the Bank may outsource due diligence assessment and project appraisal activities of projects beyond its capacity as deemed necessary.

11.3.2. No loan shall be approved without undertaking comprehensive project appraisal process.

11.4. Concern for the Environment

The Bank shall ensure that projects to be financed are environmentally friendly.

12. Credit Administration

12.1. Compliance Checks for Equity /Loan Utilization

Compliance check for equity release/loan disbursement must be made to ensure that the borrower has fulfilled all the requirements as per the terms and conditions stipulated in the loan contract.

12.2. Projects Costs and Financing

12.2.1. The costs of a project eligible for loan shall be financed by both the Bank and the borrower.

12.2.2. Borrower's equity contribution must fully be raised/blocked and or utilized prior to loan disbursement. Borrower's equity contribution shall be used to cover pre-operating expenses and fixed investment costs.

12.2.3. The following may be recognized as part of project pre-operating costs during project appraisal process:

i. temporary project office costs that include relevant and verifiable salary, training and other supporting facilities like office furniture and equipment, which can be applied for future use of the project; and which shall be determined at project appraisal stage;

ii. pre-operating interest;

iii. costs for feasibility studies and other related activities;

iv. land lease paid; and

v. Such other similar costs that may be determined during project appraisal process.

12.2.4. Pre-operating costs, excluding land lease payment and pre-operating interest, shall fall within the range of 0.5% to 1% of the project's total investment costs.

12.2.5. Disbursement of DBE loan shall not start before the establishment of fully staffed and equipped project office with adequate organizational structure and systems as per project proposal/appraisal document.

12.2.6. Refinancing or retroactive financing shall not be accepted for already implemented projects in operation or for privatization.

12.3. Project Supervision and Follow-Up

12.3.1. The Bank supervises and follows projects through both on-site and off-site methods.

12.3.2. The Bank produces a full-fledged follow-up reports on projects periodically.

12.3.3. The Bank during its regular project follow-ups shall confirm the availability and proper upholding of collateral assets.

12.3.4. Projects with loan in arrears should be closely followed and necessary action must be taken as deemed necessary.

12.4. Loan Reallocation /Rearrangement

12.4.1. The Bank may accept re-allocation of loan/equity from one component of the project to another of the same project. However, funds shall not be reallocated from fixed costs to working capital.

12.4.2. The Bank may allow re-arrangement of the sequence of spending equity /loan funds within the project budget.

12.4.3. Re-imbursement of fund for projects under implementation may be accepted up on sufficient justification to satisfaction of the Bank.

12.4.4. Left over budget of commissioned projects should be cancelled up on commencement of operation.

12.5. Loan Rescheduling

The Bank may reschedule delayed projects under implementation or operational projects with temporary problems provided that they are viable and meet rescheduling requirements of the Bank as stipulated in its guidelines/procedure.

12.6. Interest Capitalization

Interest due on loans shall be paid by the borrower as agreed. However, in case of temporary problems and as part of a solution to the problems, the Bank may exceptionally accept interest capitalization request as deemed necessary.

12.7. Loan Review, Grading and Loan Loss Provisioning

The Bank reviews, grades and holds loan loss provision periodically to ensure the soundness of its loan portfolio and balance sheet.

12.8. Loan Transfer

A healthy loan of the Bank can be transferred to a new client upon written request of the original borrower. However, the new client shall be credit worthy and shall have adequate management and financial capability to run the project.

12.9. Presentation of Proforma Invoices or Approved Bid Analysis Documents

12.9.1. At the time of application, applicants should present a single proforma invoice from legitimate suppliers for the purposes of budgeting (or planning project costs). For all projects, appraisal and cost determination should depend on proforma invoices, detailed project design and feasibility study.

12.9.2. Proforma invoice shall only be collected for project component which has value of 5% and above of the total project cost.

12.9.3. All capital goods shall be purchased from domestic producers as long as their quality or performance is similar with imported ones. However, if the required machinery/equipment is not produced locally, it can be imported.

12.9.4. For turnkey projects, the Bank should involve in the bid analysis. All the bid analysis documents and contractual agreements shall be presented to the Bank before loan disbursement is started.

12.9.5. If suppliers are dealers, the Bank shall request them to provide authenticated authorization letter from the manufacturer.

12.10. Releasing Fund for the Procurement of Machinery and Equipment

12.10.1. Although the Bank requires customers to present proforma invoices from different suppliers to check the fairness of prices of the investment items, the prime focus should be the preparation of a reliable and up to date database for the prices of machinery and equipment and the creation of close contact with suppliers and where possible manufacturers to cross-check prices.

12.10.2. A single proforma will suffice when the price of the planned item to be procured is less than the price of the same item in the Bank's database.

12.10.3. Customers should submit three proforma invoices from legitimate suppliers when the price of the planned item to be procured is not available in the Bank's database.

12.10.4. Loan disbursement for all procurements of rationally inseparable imported goods and or services with values more than USD one million should comply with the NBE Directives. Without prejudice to the international agreements entered into by the Government, procurement of goods and services required by a project for which the Bank's loan facility is being extended shall normally be made in compliance with the NBE Directives.

12.10.5. The Bank in any case shall not finance/procure second hand machineries and equipment.

12.10.6. The Bank may force borrowers to comply with its own procurement policy and procedure in procuring goods and services to projects being financed by the Bank.

12.11. Maintenance and Provision of Financial and Other Records

12.11.1. The Bank requires all its borrowers to maintain accurate and adequate financial records.

12.11.2. Loans shall not be disbursed before making sure that the borrower has put in place proper accounting and record keeping systems along with adequate and capable human resource as well as office facilities.

12.11.3. The Bank may issue accounting and record keeping guidelines and force its borrowers to use the guidelines during project implementation phase.

12.12. Opening Current Account

12.12.1. A borrower must open a current account with the Bank to facilitate equity blocking and loan disbursement.

12.12.2. Borrowers of DBE must ensure that all project proceeds are deposited with DBE.

12.12.3. Borrowers who secured financing from the Bank based on other sources of revenue generating income must ensure that all proceeds are deposited with DBE as per prior agreement on the sources of finance for loan repayments.

12.13. Import /Export Transactions

Borrowers, unless exempted by DBE or the NBE, shall process their export and import business transaction through DBE.

12.14. Events of Default

Any deviation from the agreed terms and conditions such as misappropriation of investment (project) funds, over invoicing, misrepresentation shall be considered as an event of default. The details of event of default shall be specified in the loan manual and agreement.

13. Project Rehabilitation and Loan Recovery

The objective of rehabilitating sick projects is to minimize project failures and loan default risks (costs) and to maximize loan recovery. The Bank undertakes rehabilitation of sick projects only if the project's problems are deemed to be resolvable, the project is viable, and the loan is believed to be recoverable after due rehabilitation.

13.1. Rehabilitation of Sick Projects and Loan Recovery

13.1.1. The Bank shall monitor continuously the performance of all its loans to timely identify and amend project sickness per established early warning signals. The Bank makes close scrutiny on projects at the screening, implementation and operation phases to forestall and/or amend project sicknesses, which could otherwise lead to ultimate failure of a project.

13.1.2. A project is defined as sick when its loan turns out to be non-performing per NBE's definition. More specifically, projects that meet the following conditions should be immediately put under project rehabilitation and loan recovery function of the Bank:

i. if the loan, at a minimum, is classified as doubtful;

ii. if the project exhibits continuous loss for more than two financial years after being commissioned unless expected in the initial study; or

iii. If the project is technically insolvent (where liabilities are greater than assets) or actually insolvent (where the project is bankrupt and thus subject to liquidation).

13.1.3. Once a project is put under rehabilitation and loan recovery, stipulations in this Credit Policy may not apply. Rather the Bank shall strive to recover its loans by rehabilitating the project or taking legal measures, whichever is the best to the Bank's interest.

13.1.4. The details of project rehabilitation and loan recovery shall be stipulated in loan procedure manual.

13.1.5. Projects failed to be rehabilitated shall be foreclosed /acquired as per the foreclosure proclamation.

14. Administration of Taken -Over Projects

14.1. The Bank may transfer the administration of acquired projects or projects under foreclosure to its Subsidiary Asset Management Company.

14.2. The Bank may finance taken-over projects which are operating on going concern basis.

14.3. The detail duties and responsibilities of the DBE and the Subsidiary Asset Management Company in managing assets taken over or foreclosed shall be stated in agreement to be made between the two parties.

15. Write-off/Write Back

15.1. Write- off

Non-performing loans deemed to be unrecoverable after exhausting all necessary actions per the established procedure shall be written-off as per the write-off policy of the Bank.

15.2. Write Back

Where collections from previously written-off bad debts are made, the proceeds shall be recognized as income as per the write back policy of the Bank.

16. Handling of Exception

16.1. Guiding Principle

Exceptions are loans and advances or part thereof approved, disbursed, or handled without adhering to this credit policy. However, it must be understood that exceptions should be undertaken within the intent, spirit, and context of this credit policy. An exception shall be granted if and only if it is in the best interest of the Bank. Exceptions granted during a certain period must be very few in number.

16.2. Approval of Exceptions

16.2.1. No policy exception (including debt-equity ratio) shall be granted to new or expansion projects at the time of loan underwriting or processing stage (i.e. application, due diligence, document review, appraisal, approval and contract agreement).

16.2.2. Only issues of projects under implementation and operational which are found to be imperative and obliging for smooth execution/operation of projects may be considered exceptionally.

16.2.3. There shall be no policy exceptions on areas of lending and lending interest rate to be charged on loans. In other words, the Bank shall only lend to projects designated as priority areas by the concerned government organ.

16.2.4. Any approved policy exception shall be reported to BOM and the NBE with a copy to Internal Audit Directorate of the Bank within five business days. Internal Audit Directorate of the Bank shall collect policy exceptions made and report to the BOM quarterly.

16.2.5. Policy exceptions granted repeatedly should be presented to BOM for consideration to be included in the Credit Policy or terminate the practice.

DBE

17. Accountability

All officials and/or lending officers of the Bank, engaged in credit processing and management activities, are individually and/or jointly responsible for understanding this Credit Policy and complying with it. And they are accountable for any actions or inactions against the policy; or negligence and/or ignorance of the stipulations in the Policy.

18. Auditing

18.1. The Internal Audit Directorate of the Bank shall conduct an audit periodically on the credit performances of the Bank.

18.2. Borrowers shall produce annual external audit report no later than six months after the closure of the financial year.

19. Appeals by Customers

Borrowers, potential borrowers or other stakeholders of the Bank have the right to submit appeals in writing to relevant work unit (s) or escalate the case to vertically one step higher or directly to the highest organ of the Bank.

20. Repeal

The revised credit policy issued in October 2015 is hereby repealed and replaced by this credit policy.

21. Effective Date and Issuing Authority

This credit policy is approved by the BOM on …………, 2017 and shall be effective commencing on ………., 2017.

Annex 1

Acknowledgment by an Executer

I ______________________, an employee of DBE acknowledge that I have received a copy of DBE's Credit Policy and understand and agree to abide to the policies contained in the document.

____

Name (please print)

Position ______________________

Signature _____________________

Date ___________________________