

# **CREDIT POLICY**

## **- SAMPLE -**

### **De 5 adviezen van de VVCM**

1. Definieer de doelstellingen van de kredietverlening in het kader van de ondernemingsstrategie en organisatiestructuur
2. Definieer duidelijk de bevoegdheden en verantwoordelijkheden voor de kredietverlening. Geef planmatig weer de vaststelling, de uiteenlopende voorwaarden en de timing van het debiteurenbeheer
3. Verstrek gedocumenteerde procedures en communiceer deze aan alle medewerkers
4. Zorg voor goed opgeleid kredietpersoneel, middels prestatiedoelstellingen en opleidingsbeleid
5. Versterk in de gehele organisatiestructuur: "één klant, één bedrijf"

Auteur: **VVCM**

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# 1. Scope

This Collections Policy is part of the documentation of the Credit and Collections management covering all aspects of the Credit Management activities. The Credit Policy specifies guidelines, standard practices, and authorization limits and incorporates the guidelines defined in the delegation of authority.

## 1.1 Objective

This Collections Policy is designed to maximise earnings and profit from sales revenue and minimise exposure to slow paying customers and trade losses ensuring a healthy cash and working capital position. This is accomplished by applying consistent practices being cognizant of country, and regional differences in operations, customs, and resources.

Policy compliance will be evaluated through independent audit reviews based upon this Collections Policy.

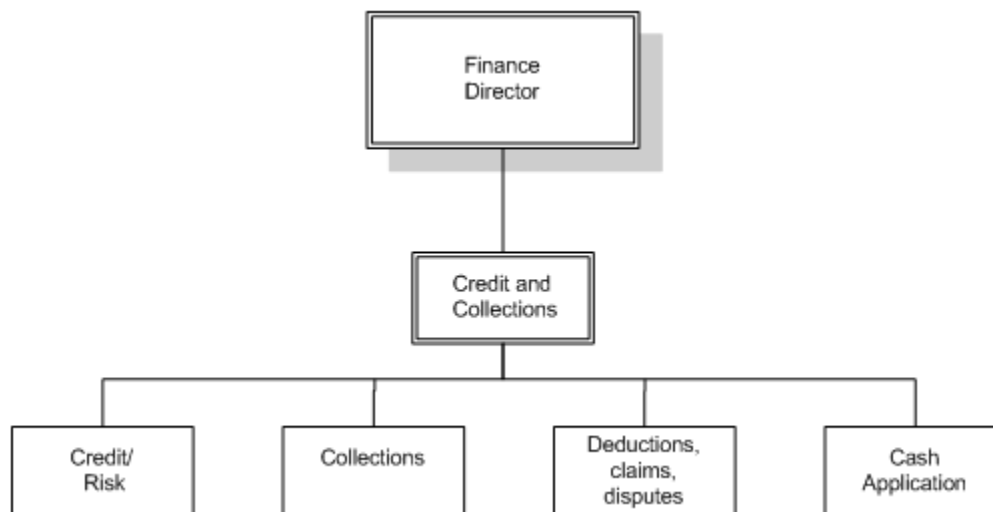
This template Collections Policy describes the procedures which will be followed by the Outsourced Staff, together with the interactions with the organization.

This Policy will be reviewed periodically and adjusted as required dependent upon:

- Market conditions
- Economic conditions
- Working Capital requirements.

## 1.2 Organisation

The Credit and Collection activities will be structured as per the following Organisation chart:



### **1.3 Responsibility**

The Order to Cash (O2C) Global Process Owner has the overall responsibility for the Credit Policy. This includes any policy modifications. The policy will always be in compliance with the Group Policies and Procedures.

The Finance Manager O2C Manager acts as the administrator of the Policy. Changes to the policy can only be made upon agreement of the Global Process Owner.

### **1.4 Overview of the Credit and Collection responsibilities**

The Outsourced Credit and Collections Strategy aims at optimizing the effectiveness and the efficiency of the Credit and Collections Department whilst adhering to the Credit and Collections Strategic Objectives of the group.

The O2C Global Process Owner remains responsible overall for the O2C processes of Customer Master Data, Credit Management, Collections and Cash Application, even though the individual tasks are performed by the Outsourced organization.

## **2. Customer Master Data**

### **2.1 Customer Setup**

Following an authorised request from the retained organisation, in line with the policies outlined in this document, the Outsourced Organisation will maintain the Customer master data in all Customer Systems.

### **2.2 Process Documents**

The principal customer data has to be entered into the systems before the first order of a new customer has been taken. The Outsourced Organisation is responsible for entering credit related data (limits, terms and parent child relationship) into the system.

Only authorized personnel in the Outsourced Organisation will be allowed to maintain the data. The data has to be up-to-date and should reflect changes to the customer (e.g. address changes) immediately as they are known. Once the customer has gone through the credit approval process, the customer account will need to be maintained to reflect the current credit status (limits, terms and risk category).

As a minimum, Customer Master Data files should be organized into the following sections:

- Customer Profile (Name, Address, Industry, review cycles etc.);
- For public sector entities: Clear confirmation should be available that validates the customer as a public sector entity;
- Copy of Certificate of Incorporation or equivalent (Companies House, Handelsregister);
- Signed copy of Contract or accepted Terms and Conditions;
- List of authorized signatures;
- Signed Direct Debit Mandate (if applicable);
- Country specific information .

All customer assigned to the category Standard Accounts as defined in paragraph 3.3 are expected to accept payment via Direct Debit, if a Direct Debit process is available in the country of the customer.

In case a credit limit has been granted to a customer, a Credit file will be maintained for all customers and guarantor.

Credit files must include sufficient information in order to be able to document the history of the customer relationship, to track the decisions made and to ascertain the current financial condition of the credit customer. These files must be accessible by the Retained organization.

Credit files should contain the following information:

- Credit approval documents;
- Correspondence and internal memoranda;
- Documentation of performed credit reviews;
- Duns number (if available);
- Credit Limit Recommendation and Risk score;
- Official Report of ... (Handelsinformatiebureau);
- Internal reports and payment history.

If required, the following additional information should be added:

- Financial information including customer financial accounts;
- Collateral documents.

The Global Process Owner monitors and audits credit limit recommendations, and will have the right to make changes.

## **2.3 Payment Terms**

All customers have agreed to and accepted the payment terms and expects payment by the due date. Any requests/queries around payment terms outside of the standard should go to the Finance Manager for review.

## **2.4 Record Retention**

All Information must be retained in electronic format for a length of time which is required by local law, at a minimum for 7 years.

The Credit information on the customer has to be filed in electronic format and must be readily available to the Outsourcing Credit Analyst team and the retained organisation.

# **3. Credit Risk Management**

## **3.1 Introduction**

In the context of this policy, there may be receivables that may not be collected as expected.

The methodology of evaluating risk and determining a credit limit will vary by the amount of credit requested and the type of product or services sold. Low credit limits (generally described as accounts with a credit limit up to xxx (e.g. €25,000)

or equivalent in local currency represent reduced exposure and typically have limited information to assign a credit limit).

Larger limits require increasing levels of risk analysis and may employ risk-scoring models using internal and external risk elements and methodology. Limits may also be determined using customer payment experience along with annual sales and payment term to arrive at a risk adjusted limit that accommodates normal customer purchase activity.

For credit limits exceeding maximum amounts as defined in this Policy (or in the absence of typically available risk elements) more in-depth financial analysis is required.

This analysis will include (but not be limited to) financial statement ratio analysis, cash flow analysis, evaluation of outside financing availability, and company management's assessment of future operations.

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.

### **3.2 Customer Credit Reviews**

The process involves the assessment of a customer's ongoing ability and willingness to pay within terms of sale and the likelihood of slow payment or default.

The credit limit is a measure of the creditworthiness of the customer and is set in relation to the ability to pay amounts due on time.

Credit limits and payment terms must be established for every customer who has an account with a company in the group. Both customer credit limits and payment terms must be recorded in operational and finance systems which are interfaced into the accounting systems managing Accounts Receivable activities.

All Key customers/partners will be setup with the Credit Reference Agency on continual monitoring. 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.

### **3.3 Customer Segments**

Customer segmentation is an important element of the credit and collections process. It segments the market along market dimensions which clearly differentiate clients according to meaningful attributes.

Additionally, local systems have to be able to provide at any time an overview of Accounts Receivable, based on the customer classification which forms customer segmentation according to annual net revenue (invoiced amount with customer of respective legal entity excluding duty/VAT).

The Finance Manager O2C manager has the responsibility to maintain this data. Categorizing a customer in a segment needs to be made with the consideration of the size of the business and the total revenue stream, this will be maintained by the outsourced organisation within the systems managing the Credit and Collections processes.

The national segmentation represents the level of significance to the local country based on the aforementioned factors

Customer segments allow the collectors to focus on high value accounts, whilst the reminder process of lower value accounts is more automated. These accounts will be contacted by collectors when these accounts move to later past due stages.

Within , there will be 2 customer segments:

- Public accounts ( contracts directly)
- Key accounts. Key accounts are accounts with an annual turnover of €xxx or more or who have been categorised as Key Accounts by the Sales Organization.
- Standard accounts

The assignment of customers to a customer segment will be done by the Finance Manager Collections team. Sales can recommend that an individual customer be assigned to a different category. The Finance Manager will be required to approve this request.

### **3.4 Credit Limit**

A Credit limit is the maximum total amount of accounts receivable balances a customer may have with a company of the group.

The Outsourced organisation will be responsible for calculating and recommending credit limits in accordance with the rules defined in this section. Granted limits might be smaller or greater than the requested limit.

For all credit limit requests that are not in accordance with the authorization matrix, a recommendation supported by an explanation needs to be sent for approval to the Finance Manager.

### **3.5 Calculation of Credit Limit**

For credit application purposes the credit limit is calculated based on the following:

#### **3.5.1 Public sector**

For Public Sector Accounts, the requested Credit Limit should be equal to € xxx [e.g. x % of annual sales plus VAT].

Clear confirmation should be available that validates the customer as a public sector entity.

The outsourced organisation can approve credit limits if within their authority level.

#### **3.5.2 Key Accounts**

For Key accounts, the requested Credit Limit should be equal to € xxx [e.g. x % of annual sales plus VAT].

The Finance Manager Credit analysts can approve credit limits meeting all of the following criteria if within their authority level:

- Credit limit does not exceed the Credit Limit recommended by Handelsinformatiebureau;
- During the 12 months prior to issuing the credit limit, the customer has not had any outstanding, non-disputed invoices in excess of 30 days after due date;
- For public entities, credit limit can always be granted .

For all credit limit requests that are not in accordance with the authorization matrix, a recommendation supported by an explanation needs to be sent for approval to the Finance Manager. The proposal to the Finance Manager should at least include the following data:

- Recommended credit limit from the Agency's report
- The Customer's revenue for the last six (agreed) months
- The Customer's working capital
- Amount billed to the client for the previous 12 (agreed) months and the % of invoices paid within 5 days of the due date of the invoices
- Customer DSO covering the last 12 months

#### **3.5.3 Standard accounts**

For Standard accounts, the requested Credit Limit should be equal to € xxx [e.g. x % of annual sales plus VAT].

The Finance Manager Credit analysts can approve credit limits meeting all of the following criteria if within their authority level:

- Credit limit does not exceed the Credit Limit, check handelsinformatiebureau
- During the 12 months prior to issuing the credit limit, the customer has not had any outstanding, non-disputed invoices in excess of 30 days after due date
- For public entities, credit limit can always be granted



For all credit limit requests that are not in accordance with the authorization matrix, a recommendation supported by an explanation needs to be sent for approval to the Finance Manager. The proposal to the Finance Manager should at least include the following data:

- Recommended credit limit from the Agency's report;
- The Customer's revenue for the last six (agreed) months ;
- The Customer's working capital;
- Amount billed to the client for the previous 12 (agreed) months and the % of invoices paid within 5 days of the due date of the invoices;
- Customer DSO covering the last 12 months.

### 3.5.4 Exceptions

To the calculation rules detailed in the previous paragraphs, the following exceptions are accepted:

- For new customers: a credit limit up to [€xxx] or the local currency equivalent can be granted without further credit checks if no adverse information is known.
- For existing customers: as above a credit limit up to € 100,000 or the local currency equivalent can be granted without further credit checks provided that, during the three months preceding the credit application, the customer has paid all invoices within 5 days of the due date and no adverse information is known.

## 3.6 Credit Limit Proposal & Approval

The credit approval process starts at Analyst level and is escalated if the proposed credit limit is above the approval threshold.

### 3.6.1 Approval Authorities

Credit Approval Authority is granted to individuals on the basis of:

Position	Tier 1 Entities
Finance Manager, Analyst Outsourced Credit Department	€ 25,000
CG OTC Manager	€ 50,000
Finance Manager / Country MD	€ 250,000
Group CSO / Group CSSO	€ 750,000
Group CFO	€ 1,000,000
Group CEO	≥ € 1,000,000

The following types of customer will not be approved for credit by the Outsourced team:

- Customers who are on credit hold in accounts receivable;
- Specific industry sectors that pose high potential for financial risk as communicated from time to time by management;
- Private individuals;
- Customers without a delivery address;
- Customers on known COD basis;
- Customers who have posted additional collateral ;
- Customers with a Financial stress score equal or worse than 4(review by country)

If a credit limit cannot be assigned by the Outsourced Organization in accordance with the rules in the previous paragraph, the Outsourced Credit Analyst will produce a manual customer account review and propose a credit limit in accordance with the rules in the Credit Limit section of this document.

Manual customer account reviews will need to be performed as expeditiously as possible, normally within (2 working) (or as agreed within SLA negotiations) days from the receipt of a complete package of data.

For purposes of tracking turn-around-time, a complete package of data will include all the relevant customer information. The credit analyst performing the review can obtain all other data, including financials in some regions, electronically.

The degree of analysis required to appropriately document a manual customer review will depend upon the size of the credit limit, the credit risk of the customer, as well as the regional risk where the invoicing occurs.

The appropriate level of documentation will typically fall into three (3) basic categories:

- Short Report,
- Medium Report
- Extended Report.

The following table provides a general guideline for determining the level of documentation to apply. It is the expectation that analysts will use their best judgment in determining the actual level of documentation for a given situation.

Credit Limit	Type of report
< € 15,000	•Internal Payment experience
> € 15,000 ≤ 50,000	•Limit recommendation •Internal payment experience
< €50,000 ≤ € 100,000	•Full Report •Internal payment experience
> €100,000	•Full Report •Internal Payment experience •In case additional information is required: Customer Financial accounts

### 3.6.2 Additional guidelines

- For all publicly-traded companies: Background information obtained from the customer's website, which may also contain their filed accounts and details of any associated companies
- Additionally, new accounts for relatively small businesses placing early orders with an unusually high volume of technology items should be evaluated for suspicion of fraud (e.g. technology items might include hardware).
- Best practice is to ensure that the information utilized in the credit limit review is the most up to date and accurate available as the level of risk increases. Risk is a factor of the value of our exposure and the perceived risk of business failure, i.e., a customer requiring a credit limit of €100,000 poses a far higher risk than a customer with the same perceived risk of failure but only seeking a credit limit of €5,000.
- For the customer in the first example, the risk assessment could include the majority of the sources of information listed above if there were concerns over their credit worthiness, whereas less source information would be required for the customer in the second example. The relevant decision tool from the appropriate credit agency can also be utilised for an improved monitoring process.
- The underlying principle in granting credit is that we will make every effort to establish credit based on the most up to date verifiable information available. In situations where account billing is not offered because a credit limit cannot be granted, the prospective customer should be encouraged to be set up to pay with their own credit card or COD. Once a pattern of on time payments has been established using this method, a credit limit may be granted to provide account billing.

### 3.7 Standard Payment Terms

The objective of setting standard payment terms is to have the ability to regulate the time sales are outstanding at the company level.

Extends all contract customers "Net 30" day terms. Payment is due 30 days from the invoice date. It is the responsibility of the Sales organization to communicate the standard "Net 30" day terms to all customers.

Any exceptions to this policy should be an exception and require approval from Corporate Legal or Corporate Finance/Treasury if between 30 and 60 days or by the Group CFO if more than 60 days.

### 3.8 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. The Finance Manager O2C manager is responsible for the

maintenance of periodic review lists to identify all material credit customers and/or exposures due for review.

- Daily exposure controlling on legal entity level and country level for all customers to track any over-limit situation from the very beginning (also indicated through online credit check at order taking process)
- 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 Key Accounts/Partners. Any adverse changes reported by the Credit Reference Agency will trigger a Credit limit review.

### **3.8.1 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/DSO
- Changes in credit limit utilisation to include in business volume
- Time between credit reviews

### **3.8.2 Risk Assessment for Established 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 upon payment performance, decisions may be made to either increase the credit limit when payment performance is satisfactory or place the account on credit hold when payment performance is not satisfactory.

Account Managers and/or Collectors can request to increase and/or decrease the account credit limits by sending an email to the Credit Department.

The credit limit should not be used to control aged debt and credit limits should not be kept artificially low as a method of cash collection. Timely payment should be achieved by a comprehensive collections strategy based on 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 reports 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.

### **3.8.3 Limit Overdraft**

Limit overdraft refers to customers whose account balance exceeds the Credit Limit set in accordance with the Credit and Collections Policy. In principle, no customers are allowed to exceed credit limits therefore Customers will be placed on hold. If a credit extension is needed then the Credit Limit for the customer will be reviewed in accordance with the procedure for credit limit increases.

If the Credit Limit cannot be increased, the customer may be asked to provide additional collateral or to make pre-payments.

### **3.8.4 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.