

## INSTRUCTION ON CREDIT DOCUMENTATION

### I. AUTHORITY

This instruction is issued by the Central Payments Office of East Timor (hereinafter, "CPO") pursuant to Section 27.2 of *Regulation No. 2000/8 on Bank Licensing and Supervision of the United Nations Transitional Administration in East Timor* (hereinafter, "Regulation").

### II. APPLICABILITY

This instruction applies to all banks organized in East Timor.

### III. DEFINITIONS

- A. **Credit** is defined in Section 49(g) of the Regulation as any direct or indirect commitment to disburse a sum of money in exchange for a right to repayment of the amount disbursed and outstanding and to payment of interest or other charges on such amount, any extension of the due date of a debt, any debt payment guarantee issued, and any commitment to acquire a right to payment of a sum of money. The term "credit" shall not include bank deposits and the purchase of debt securities in the secondary market.
- B. **Credit Documentation** is defined in Section 49(h) of the Regulation. Pursuant to the authority granted to the CPO in Section 27.2 of the Regulation, the requirements for credit documentation have been expanded and are itemized in Section V, Requirements, of this instruction.
- C. **Credit Granting Standards** means the criteria established by the bank for approving credits offered by the bank including the purpose and structure of the credit, its source of repayment, a thorough understanding of the credit-worthiness of the borrower.

### IV. POLICIES AND PROCEDURES

The Governing Board of each bank shall adopt, and ensure that senior management implements, a written policy on the bank's credit documentation which shall be in line with the bank's risk management policy (or separate credit and asset and liability management policies) and which shall comply with the Regulation and the instructions and guidelines of the CPO. Processes should be established within the bank to allow the Governing Board to monitor compliance with the policy. The Governing Board shall review the policy on at least an annual basis.

Each bank shall also maintain detailed written instructions which cover the entire process of credit administration and documentation for each type of credit offered by the bank including the initial credit application, the assessment of the applicant's financial position and creditworthiness, valuation and securitization of any collateral, the disbursement process, and the monitoring and collection process throughout the term of the credit. The bank shall have an

organized system for obtaining and maintaining credit documentation which is accessible by those staff members responsible for the periodic review of the credit, by the bank's internal and external auditors, and by inspectors, examiners, or auditors appointed by the CPO.

## V. REQUIREMENTS

- A. Banks must maintain, at the head office of the bank in East Timor, proper credit documentation for each credit.
- B. Credit documentation requirements for each type of credit offered by the bank shall be set forth in the bank's credit granting standards. Credit documentation requirements shall be based on the type of the credit, the complexity of the credit transaction, and the extent of the borrower's credit relationship with the bank. However, at a minimum, credit documentation for each credit shall include:
- An application signed and dated by the borrower stating the amount of credit requested, the borrower's objective or purpose for borrowing, and the source(s) of repayment.
  - Current financial statements of the borrower as of a date not more than 180 days from the date of credit application or more recent if required by the bank's credit granting standards.
  - Current financial statements of any guarantor of the borrower's indebtedness as of a date not more than 180 days from the date of credit application or more recent if required by the bank's credit granting standards.
  - A description of any collateral over which the lender has any mortgage or charge as security for the due payment of the indebtedness to it and an appraisal of its value.
  - The borrower's credit repayment history with other lenders and documentation of the borrower's credit history with the bank.
  - Documentation of all verifications performed on the information provided by the borrower.
  - Documentation of the analysis of the borrower and of the credit transaction performed by the bank and written conclusions based on that analysis.
  - The credit contract or agreement showing: (1) the date and principal amount of the credit; (2) the purpose of the credit; (3) the rate of interest; (4) schedule of repayments including the maturity date; (5) other terms and conditions of the credit; (6) description of the collateral and the legal right to the collateral in the event of the borrower's default; (7) any required insurance to be contracted by the borrower; and (8) date(s) on which the credit proceeds will be made available to the borrower.
  - Documentation showing the recommendation of the credit staff for approval or denial.
  - Documentation of credit approval, including the signature of each person who authorized the credit on behalf of the bank.
  - Other documents or information required by the bank's own policy and/or credit granting standards.