

# CREDIT and COLLECTIONS POLICY

## ABSTRACT

**KNOW THAT**, Credit is a valuable and necessary tool for maintaining and growing a business. In establishing the criteria for credit extension, a careful balance must be maintained so that quality business is not lost while also minimizing our exposure to credit losses such as bad debts. Credit must also be viewed as an investment, the return on which is entirely dependent on the judgment used in extending credit and the effectiveness of collection efforts.

**KNOW THAT**, This credit policy was created to provide a healthy cash and working capital position for the Company. Also it is a formalized system of rules that spell out how credit is extended to customers, how it must be repaid, and how it will be collected from them.

**KNOW THAT**, The Company cares and values its customers and strives to give them every benefit available.

**HOWEVER**, Cash flow and liquidity management is of paramount importance for the Company.

## DEFINITION OF TERMS

**BUILDCREDIT (REGISTERED PARTNER APPLICATION FORM)**. An electronic form that is to be filled up by the customer to be able to qualify in applying for credit terms in the company.

**STANDARD CREDIT LIMITS**. This is generally described as accounts with a credit limit of up to 300,000. This credit limit is usually offered and given to new customers.

**ELITE CREDIT LIMITS**. This is described as accounts with a credit limit of 300,000.01 to 3,000,000. This credit limit is usually offered and given to customers who have good credit scores

**ELITE CREDIT PLUS LIMITS**. This is described as accounts with a credit limit of 3,000,000.01 and above. This credit limit is usually offered and given to customers who have extraordinary credit scores

**PRO CREDIT LIMITS**. This is a per project credit facility up to 10,000,000 for private projects

**BAYANI CREDIT LIMITS**. This is a per project credit facility up to 10,000,000 for government projects



**SUB CREDIT LIMITS.** A credit limit that is calculated as a percentage of the total credit limit granted to the customer by the approver.

**CASE TO CASE.** Situation based credit and term limits that are higher than the maximum amounts approved by the management in the BUILD CREDIT. This is normally used as a last resort if urgency is paramount or if requirements are uncompletable by an applicant with extraordinary capacity to perform.

**BUILDHUB APP (ELECTRONIC ORDER SLIP).** A document containing information about the item/s ordered by a customer from the company.

**SAP(SYSTEM ANALYSIS PROGRAM DEVELOPMENT).** The software used by the Finance Department to facilitate effective data processing and information flow within the company.

**ADB (AVERAGE DAILY BALANCE).** The sum of an account's daily balances divided by the number of days in the month.

**PDC (POST DATED CHEQUES).** It is a type of check with a future date written on it.

**CREDIT APPROVAL FORM.** A credit application form that can be submitted by a customer to any sales department representative of the company in case the BUILD CREDIT cannot be accessed or accomplished by a customer.

**NON-SUFFICIENT FUNDS (NSF).** This refers to the status of a checking account that does not have enough money to cover all transactions.

**MD.** This refers to the Managing Director

**CMD.** This refers to the Co-Managing Director

**CRECOM.** This refers to the Credit Committee composed of members including but not limited to the Collections and Credit Department. This is Chaired by the Credit Manager

**MANCOM.** This refers to the Management Committee composed of members including but not limited to the Heads of the different departments, affiliates or divisions of the group. This is chaired by the Managing Director or CEO of the group



## SCOPE

This policy applies to all Registered Partners of the Company. All departments within the Company who are responsible for Sales, Contract Approval, Order Acceptance, Payments of products/items sold and encoding of Collections must adhere to the policy and guidelines stated in this policy.

## TERMS OF SALE

Current sales initiatives and promotions serve as the basis for determining the terms and conditions of the sale. To build and alter suitable conditions that enhance sales outcomes, the credit department closely collaborates with the sales department.

The following Payment Terms are offered to customers, depending on the terms set during negotiations and their capabilities to pay. All payments in cash, cheques, bank transfers or any equivalents must be made before or upon pick-up or delivery:

- COD (Cash On Delivery) / COP (Cash On Pick-Up)
- Bank Transfer before Pick-Up or Delivery
- Dated Check – any cheque with the date equivalent to the date received or earlier as long as not staled.
- Pre-Payment
- PDCs (Post-Dated Cheque) before or upon pick-up or delivery:
  - 7 Days
  - 15 Days
  - 30 Days
  - 45 Days
  - 60 Days
  - 90 Days

Without permission from the credit department, terms for orders that have already been sent cannot be changed or modified. A variance request form is necessary for any deviations from the normal payment conditions.

## ROLE AND RESPONSIBILITIES

### a) **FINANCE DEPARTMENT**

**CREDIT TEAM.** Strictly enforce and comply with Credit Policies and Procedures before the customer's credit account is approved and as credit is extended. 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.

**COLLECTIONS TEAM.** Carries out Credit Policy & Procedures established, and will regularly call, visit and collect from creditors who are outside our trading terms to establish when payment will be received.

### b) **SALES DEPARTMENT**

**AREA SALES REPRESENTATIVE.** Coordinate with the Retail Specialist to ensure the knowledge of customers with regards to Credit Policy & Procedures. Responsible for ensuring that the BUILD CREDIT and Credit Application Form is submitted to the finance department or management committee by a prospective new customer, in advance of order acceptance.

**RETAIL SPECIALIST.** Inform the customer about the Credit Policy & Procedures before their registration to BUILD CREDIT. 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.

### c) **MANAGEMENT**

**MANAGING DIRECTOR AND THE CO-MANAGING DIRECTOR.** Strictly implement the Company's Credit Policy and Procedures.

**CREDIT HEAD.** Ensures the adherence to the Company's Credit Policy and Procedures.

## CREDIT RISK MANAGEMENT and CRITERIA FOR NEW ACCOUNTS



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.

| CREDIT LIMIT                                                                                                                                                                                                                                                                                                                                                      | RISK ANALYSIS                                                                                                                                                                                                                                                                              | POINT PERSON                                                                                                                                                         | AMOUNT COVERED          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| <b>STANDARD CREDIT LIMIT</b><br><i>Requirements:</i> <ul style="list-style-type: none"> <li>Min. of <b>two to three (2-3) years</b> since the account has opened (age of bank account)</li> <li>Min. of <b>two (2) years</b> without bounce cheques</li> <li>ADB must be <b>50%</b> of the applied credit account.</li> <li>BC-S Requirements in Annex</li> </ul> | Average Risk Analysis is recommended for this credit limit. Must fulfill all mandated requirements of the company.                                                                                                                                                                         | Approval from the <i>Credit Officer</i><br><br>Final Approval from the <i>Credit Manager</i>                                                                         | 300,000.00 AND BELOW    |
| <b>ELITE CREDIT LIMIT</b><br><i>Requirements:</i> <ul style="list-style-type: none"> <li>Min. of <b>three to five (3-5) years</b> since the account has opened (age of bank account)</li> <li>Min. of <b>three (3) years</b> without bounce cheques</li> <li>ADB must be <b>50%</b> of the applied credit account.</li> <li>BC-E Requirements in Annex</li> </ul> | Higher degrees of risk analysis are necessary for this credit limit. In order to produce a risk-adjusted limit that takes into account typical consumer purchasing behaviors, limits can also be established based on the payment history of customers, annual sales, and payment periods. | Recommendation from the <i>Credit Officer</i><br><br>Approval of the Credit Manager<br><br>Final Approval from the <i>Managing Director and Co Managing Director</i> | 300,000.01 to 3,000,000 |
| <b>ELITE PLUS CREDIT LIMIT</b><br><i>Requirements:</i>                                                                                                                                                                                                                                                                                                            | Higher degrees of risk analysis are necessary for this credit limit. In order to                                                                                                                                                                                                           | Recommendation from the <i>Credit Officer and Credit Manager</i>                                                                                                     | 3,000,000 above         |

|                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                 |                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Min. of <b>five (5) years</b> since the account has opened (age of bank account)</li> <li>Min. of <b>three (3) years</b> without bounce cheques</li> <li>ADB must be <b>50%</b> of the applied credit account.</li> <li>BC-EP Requirements in Annex</li> </ul>                                                    | produce a risk-adjusted limit that takes into account typical consumer purchasing behaviors, limits can also be established based on the payment history of customers, annual sales, and payment periods.                                                                                  | <p><i>Must be discussed in Mancom Meeting</i></p> <p>Approval of the Co Managing Director</p> <p>Final Approval from the Managing Director</p>                                                                  |                                                       |
| <b>PRO CREDIT LIMIT</b><br>Requirements: <ul style="list-style-type: none"> <li>Min. of <b>three to five (3-5) years</b> since the account has opened (age of bank account)</li> <li>Min. of <b>three (3) years</b> without bounce cheques</li> <li>ADB must be <b>50%</b> of the applied credit account.</li> <li>BC-P Requirements in Annex</li> </ul> | Higher degrees of risk analysis are necessary for this credit limit. In order to produce a risk-adjusted limit that takes into account typical consumer purchasing behaviors, limits can also be established based on the payment history of customers, annual sales, and payment periods. | <p>Recommendation from the Credit Officer and Credit Manager</p> <p><i>Must be discussed in Mancom Meeting</i></p> <p>Approval of the Co Managing Director</p> <p>Final Approval from the Managing Director</p> | Up to 10M or Contract Size case to case approve by MD |
| <b>BAYANI CREDIT LIMIT</b><br>Requirements: <ul style="list-style-type: none"> <li>Min. of <b>three to five (3-5) years</b> since the account has opened (age of bank account)</li> <li>Min. of <b>three (3) years</b> without bounce cheques</li> </ul>                                                                                                 | Higher degrees of risk analysis are necessary for this credit limit. In order to produce a risk-adjusted limit that takes into account typical consumer purchasing behaviors, limits can also be established based on the payment history of customers,                                    | <p>Recommendation from the Credit Officer and Credit Manager</p> <p><i>Must be discussed in Mancom Meeting</i></p> <p>Approval of the Co Managing Director</p>                                                  | 10M or contract size case to case approve by MD       |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                    |                                                  |  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------------------------------------|--|
| <ul style="list-style-type: none"> <li>ADB must be <b>50%</b> of the applied credit account.</li> <li>BC-B Requirements in Annex</li> </ul>                                                                                                                                                                                                                                                                                                                                   | annual sales, and payment periods. | Final Approval from the <i>Managing Director</i> |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                    |                                                  |  |
| <ul style="list-style-type: none"> <li><b>SUB CREDIT LIMITS</b> are usually applied when partners have shown extraordinary capability to fulfill payments beyond their existing requirements.</li> <li><b>CASE TO CASE</b> customers should undergo the approval of the <i>Co-Managing Director</i> and final approval of the <i>Managing Director</i>. For new customers, they must be verified by the Credit and Collections Team and sign the case to case form</li> </ul> |                                    |                                                  |  |

Factors to consider the approval of any credit account:

- 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);
- 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.

## PROCEDURE

### BUILDCREDIT REGISTRATION for Customers with Standard Credit Limit

1. New customers must fill-up the BUILDCREDIT to qualify in applying for a credit account in the company.

Company details and Credit Account requirements such as:

- a. Company' Basic Information
- b. Credit Terms
- c. Credit Limit
- d. Bank Information
- e. Bank Authorization for Credit Check

must be completed thoroughly by the customers.

2. New customers must submit the necessary documents needed and requested in the BUILDCREDIT to qualify in applying for a credit account in the company.
  - a. Store or Hardware Picture



- b. BIR Form 2303
  - c. Business Permit/Mayor's Permit
  - d. Bank Statement (reflecting the past 3 months)
  - e. DTI Business Permit or SEC Certificate of Incorporation
3. BUILDRCREDIT would be reviewed by the Credit Officer
4. The Credit Officer will call the bank contact person given by the customer to solicit a bank comment regarding the account holder.
5. Upon verification, BUILDRCREDIT would be approved by the Credit Manager

*In the event a customer can't access or fill-up the BUILDRCREDIT Form, they would be asked to fill-up and sign the Credit Approval Form, submit hard copy of the requirements indicated at the BUILDRCREDIT and a valid ID of the signatory. The assigned Retail Specialist would be the one to fill-up the BUILDRCREDIT and attach the soft copy of all requirements from the customer as well as the scanned copy of the signed Credit Approval Form. \*Case to Case Approval may be given by Managing Director or Co Managing Director*

#### **BUILDRCREDIT REGISTRATION for Customers with Elite Credit Limit**

1. New customers must fill-up the BUILDRCREDIT to qualify in applying for a credit account in the company.  
Company details and Credit Account requirements such as:
  - a. Company' Basic Information
  - b. Credit Terms
  - c. Credit Limit
  - d. Bank Information
  - e. Bank Authorization for Credit Checkmust be completed thoroughly by the customers.
2. New customers must submit the necessary documents needed and requested in the BUILDRCREDIT to qualify in applying for a credit account in the company.
  - a. Store or Hardware Picture
  - b. BIR Form 2303
  - c. Business Permit/Mayor's Permit
  - d. Bank Statement (reflecting the past 3 months)
  - e. DTI Business Permit or SEC Certificate of Incorporation
3. BUILDRCREDIT would be reviewed by the Credit Officer
4. Credit Officer will call the bank contact person given by the customer to solicit a bank comment regarding the account holder.
5. Upon verification, BUILDRCREDIT would be reviewed by the Credit Officer and process his/her recommendation.
6. Approval from Credit Manager
7. Final Approval from MD or CMD during Mancom Meeting

*In the event a customer can't access or fill-up the BUILD CREDIT Form, they would be asked to fill-up and sign the Credit Approval Form, submit hard copy of the requirements indicated at the BUILD CREDIT and a valid ID of the signatory. The assigned Retail Specialist would be the one to fill-up the BUILD CREDIT and attach the soft copy of all requirements from the customer as well as the scanned copy of the signed Credit Approval Form. \*Case to Case Approval may be given by Managing Director*

#### **BUILD CREDIT REGISTRATION for Customers with Elite Plus, Pro, Bayani Credit Limit**

1. New customers must fill-up the BUILD CREDIT to qualify in applying for a credit account in the company.  
Company details and Credit Account requirements such as:
  - a. Company' Basic Information
  - b. Credit Terms
  - c. Credit Limit
  - d. Bank Information
  - e. Bank Authorization for Credit Checkmust be completed thoroughly by the customers.
2. New customers must submit the necessary documents needed and requested in the BUILD CREDIT to qualify in applying for a credit account in the company.
  - a. Store or Hardware Picture
  - b. BIR Form 2303
  - c. Business Permit/Mayor's Permit
  - d. Bank Statement (reflecting the past 3 months)
  - e. DTI Business Permit or SEC Certificate of Incorporation
3. BUILD CREDIT would be reviewed by the Credit Officer
4. Credit Officer will call the bank contact person given by the customer to solicit a bank comment regarding the account holder.
5. Upon verification, BUILD CREDIT would be reviewed by the Credit Officer and process his/her recommendation.
6. Approval from Credit Manager
7. Final Approval from MD during Mancom meeting

*In the event a customer can't access or fill-up the BUILD CREDIT Form, they would be asked to fill-up and sign the Credit Approval Form, submit a hard copy of the requirements indicated at the BUILD CREDIT and a valid ID of the signatory. The assigned Retail Specialist would be the one to fill-up the BUILD CREDIT and attach the soft copy of all requirements from the customer as well as the scanned copy of the signed Credit Approval Form. \*Case to Case Approval may be given by Managing Director*

## CUSTOMER CREDIT REVIEWS

A customer's ability and willingness to pay in accordance with the conditions of the transaction, as well as the likelihood of a late or defaulted payment, are evaluated during the process. The credit limit is an indicator of a customer's creditworthiness and is determined by their capacity to make payments when they are due.

The Credit Committee and/or the Management Committee periodically examine credit limits for current clients. According to the development of the customer's creditworthiness, all restrictions are subject to change. The operational and financial systems that are connected to the accounting systems that oversee the activities of customer accounts must be used to record client credit limits and payment periods.

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 be:

- Based on projected purchases (including seasonality) and proposed payment conditions offered by the country, which will determine the amount of credit required.
- Examine customer risk assessment (credit report or manual assessment).
- Examine data from business analytics. As a result, a credit limit for that consumer is established in accordance with the risk assessment, anticipated purchase levels, and payment terms.

## MONITORING OF CREDIT CUSTOMERS LIMIT

When a client account exceeds its credit limit or the customer is delinquent and every effort has been made to collect payment, the account must be submitted to the Management Committee. The order must be held or canceled and the account must be put on credit hold if appropriate arrangements cannot be achieved.

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 finance department to maintain rules in such a way that the credit limit monitoring policy is adhered to.

The monitoring process includes:



- Every customer's credit limit should be routinely evaluated. One year is the maximum amount of time between reviews. Shorter durations may be established when the credit limit is issued or when unfavorable information becomes known.
- Monthly examination of outstanding amounts, ranking of payment behavior, and enquiries. When there has been a significant decline in credit quality or credit rating, the monthly monitoring of credit customers may result in the renewal of credit limits.
- Constant monitoring of important partners and accounts. A credit limit review will be initiated if the credit team reports any unfavorable developments.

#### **a. CREDIT LIMIT REVIEW**

The following elements are taken into account when reviewing all credit limits for active clients in accordance with the criteria in this section:

- Credit risk exposure as reported by external credit reporting service
- Internal Payment History
- Modifications in the use of credit limits to reflect changes in business volume
- Intervals between credit reports

#### **b. 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 the credit team 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 or given PDC on their first invoice (calculated at 7 days past due), to evaluate whether their credit limit should be reduced, or their orders placed on hold.
- **PDC EXTENSION/DISCREPANCY REPORT.** This report is a summary of 1 (one) week requests of extensions by the customer who already submitted their PDCs and has cheque discrepancy. All requests of extensions by the customer must be reported on the management as soon as the request was mentioned.
- **DAILY REPORT OF RETURNED / 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.

### c. 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.

Customers who are on this state can apply for case to case credit limit as a last resort.

### d. 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 like requesting collateral from a customer. It 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 a customer in the form of a legally enforceable pledge for payment of a credit or any other contractual obligation. Collateral at customer 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 law. Customers 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.
- The company prefers a TCT or Transfer Certificate of Title as collateral. Must be original TCT

## e. DELINQUENT ACCOUNTS

### DELINQUENT ACCOUNTS WITH PDC

Registered Partners' payments that would reflect as: **Bounced (Cheques), NSF, Closed Accounts or Suspended Account, Drawn against Uncleared Deposit (DAUD), Drawn against Insufficient Deposit (DAIF), Signature Mismatch, Difference in Amount Mentioned in Number and Words** would be put on hold.

The account would be 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.

For Customer requested extensions of PDC and/or unpaid balances they would be charge with standard interest rate of 3% per month unless rate approved by the Co-Managing Director or the Managing Director.

## DELINQUENT ACCOUNTS WITHOUT PDC

When an account has an outstanding balance of more than 30 days without PDCs, 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.

| DAYS PAST DUE | ACTION                                         | WHO SHOULD CONTACT THE CUSTOMER | WHO MUST BE INFORMED |
|---------------|------------------------------------------------|---------------------------------|----------------------|
| 1 DAY         | CALL AND SEND MESSAGE                          | COLLECTIONS                     | RECEIPTS             |
| 7 DAYS        | INITIAL NOTICE(EMAIL); CALL;<br>SEND A MESSAGE | COLLECTIONS                     | RECEIPTS             |
| 15 DAYS       | FOLLOW UP(EMAIL); CALL;<br>SEND A MESSAGE      | RECEIPTS                        | FH                   |
| 30 DAYS       | FINAL NOTICE(EMAIL); CALL;<br>SEND A MESSAGE   | FH                              | NSM                  |
| 45 DAYS       | FINAL DEMAND LETTER                            | CMD                             | MD                   |

### f. 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 the company's collections agency (a third party) if approved by both the Co-Managing Director and the Managing Director.

## **g. 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.

## **INSTALLMENT PAYMENT FOR END CONSUMERS**

In customer credit sales other than those made in accordance with open-end credit plans, the obligation of the customer to whom credit is extended must be proven by a document that includes, in addition to the disclosures required by this policy, the signatures of the seller and the customer, the date it was signed, a description of the property sold, and a description of any property transferred as a trade-in.

## **CHARGES FOR END CONSUMERS**

Unless otherwise specified, the amount of finance charges in connection with any consumer credit transaction shall be determined as the sum of all charges payable directly or indirectly by the person, to whom credit is extended and imposed directly or indirectly by the creditor as an accident to the extension of credit, including any of the following types of charges:

- a) interest or time price differential, as well as any amount payable under a point or other system of additional charges
- b) collection fees, which may include finder's fees or similar charges;
- c) fees for credit investigations;
- d) Notarial fees, if applicable;
- e) any premiums or other charges for any guarantee or insurance that protects the creditor from the obligor's default or other credit loss. The implementing agency must determine which items are exempt from the calculation of finance charges.

The simple annual rate applicable to any extension of consumer credit shall be determined in accordance with the implementing agency's rules and regulations.



## DISCLOSURE

Each creditor is obligated by this policy to make the disclosures necessary to each person to whom they extend consumer credit in accordance with the rules established by the company.

To the extent applicable, any creditor who extends a consumer credit sale other than one under an open-end credit plan must disclose the following information in a statement:

- a) the cash price or delivered price of the service to be purchased;
  - b) the amounts to be credited as a down payment and/or trade in, if any;
  - d) the charges, individually itemized, paid or to be paid by such person in connection with the transaction but not incident to the credit extension;
  - g) the effective interest rate;
  - h) the number, amount, and due dates or periods of payments planned to repay the debt; and
- The default, delinquency, or similar charges levied in the event of late payments.

## SIMPLIFIED PROCESS FLOW OF CREDIT

**CREDIT POLICY PROCESS FLOW****1. Customer Credit Application Process:**

a. **BuildCredit (Registered Partner Application Form) Submission:** 1. New customers fill up the BuildCredit form to apply for credit. 2. BuildCredit includes Company's Basic Information, Credit Terms, Credit Limit, Bank Information, and Bank Authorization for Credit Check. 3. Necessary documents (Store/Hardware Picture, BIR Form 2303, Business Permit, Bank Statement, DTI/SEC Certificate) are submitted. 4. Credit Officer reviews BuildCredit and documents. 5. Credit Officer contacts the bank for verification. 6. BuildCredit is approved by the Credit Manager after verification.

b. **Alternate Route (BuildCredit Inaccessibility):** 1. Customers unable to access BuildCredit fill out and sign the Credit Approval Form. 2. Retail Specialist assists in filling out the BuildCredit and attaches required documents. 3. Credit Officer reviews and recommends approval. 4. Final approval is obtained from the Co-Managing Director or Managing Director.

**2. Credit Limit Classification:**

- **Standard Credit Limits:**

- Offered to new customers.
- Credit limit up to 300,000.

- **Special Credit Limits:**

- Offered to customers with good credit scores.
- Credit limit of 300,000.01 and above.

- **Sub Credit Limits:**

- Calculated as a percentage of the total credit limit granted to the customer.

- **Case to Case:**

- Situation-based credit and term limits.

**3. Credit Risk Management and Criteria for New Accounts or Increase in Limits (follow elite plus)**

- **Standard**

- 1. Customers submit BuildCredit with required documents.

2. Credit Officer reviews and recommends based on risk analysis.
3. Approval from Credit Manager.
4. Case to Case may be approved by MD or CMD (For new accounts credit and collections must sign the case to case form as proof of customer contact details verification)

• **Elite**

1. Customers submit BuildCredit with required documents.
2. Credit Officer reviews and recommends based on risk analysis.
3. Approval from Credit Manager.
4. Final approval from MD or CMD during ManCom Meeting
5. Case to Case approval by MD (For new accounts credit and collections must sign the case to case form as proof of customer contact details verification)

• **Elite Plus, Pro, Bayani Credit Limits:**

1. Customers submit BuildCredit with required documents.
2. Credit Officer reviews and recommends based on risk analysis.
3. Approval from Credit Manager.
4. Final approval from MD during ManCom Meeting
5. Case to Case approval by MD (For new accounts credit and collections must sign the case to case form as proof of customer contact details verification)

#### 4. Customer Credit Reviews:

- Periodic review by Credit Committee or Management Committee.
- Evaluation based on payment history, credit reports, and business analytics.
- Adjustment of credit limits as necessary.

#### 5. Monitoring and Collections:

- Regular monitoring of credit customers for overdue payments.
- Credit Hold for delinquent accounts.
- Collections Team contacts customers at various delinquency stages.
- Separate tracking for delinquent accounts with PDC.

#### 6. Limit Overdraft and Collateral:

- Customers exceeding credit limits are put on hold.
- Review and request for collateral if needed.
- Collateral reviewed every 12 months.

#### 7. Risk Assessment for Existing Customers:

- Continuous assessment based on payment performance and credit reports.
- Decision to increase, decrease, or suspend credit limits.

#### 8. Disclosure and Charges:

- Creditors disclose necessary information to consumers as per policy.
- Disclosures include cash price, down payment, effective interest rate, and repayment details.

#### 9. Installment Payment for End Consumers:

- Documentation of customer's obligation for extended credit maintained.

**10. Merger and Acquisition:**

- Transfer of acquired business to the account of the acquiring entity.
- Resolution of outstanding issues before transfer.

**11. Customer Credit Reviews:**

- Periodic review by Credit Committee or Management Committee.
- Evaluation based on payment performance, credit reports, and business analytics.
- Adjustment of credit limits as necessary.

**12. Bad Debt/Collection:**

- Review of delinquent accounts (91+ days past due) for potential bad debt.
- Write-off to bad debt after six months if collection efforts fail.
- Accounts turned over to collections agency with approval.

**COLLECTIONS POLICY****Collections Policy****1. Communication and Reminder Process:****• 1.1 Initial Reminder:**

- Automated system-generated reminders for overdue payments.
- Sent shortly after the due date.
- Responsible: Automated System
- Notification: Collections team

**• 1.2 Follow-up Communication:**

- Personalized communication for continued follow-ups.
- Includes details of overdue amount, payment methods, and consequences.
- Responsible: Collections team
- Notification: Collections Manager

**2. Grace Period:****• 2.1 Defined Grace Period:**

- Within 7 days after due date.
- Collections Manager may or may not waive charges .
- Responsible: Collections team
- Notification: Collections Manager

**3. Late Fees and Penalties:****• 3.1 Clearly Defined Late Fees:**

- Clearly defined late fees and penalties for overdue payments.
- One time 3% upon delay and 3% per month on the succeeding months of non payment
- Applied after the due date.
- Communicated to the customer through various channels.

- Responsible: Collections Manager
- Notification: National Sales Manager (NSM)

## 4. Escalation Process:

### • 4.1 First-Level Escalation:

- If the payment remains overdue, the customer is contacted by a designated representative.
- Responsible: Collections Manager
- Notification: General Manager

### • 4.2 Second-Level Escalation:

- In case of continued non-payment, the matter is escalated to a higher authority.
- Personalized communication outlining the consequences.
- Responsible: General Manager
- Notification: Managing Director (MD) and CMD

## 5. Negotiation and Settlement:

### • 5.1 Provide Avenues for Negotiation:

- Offer flexible payment plans or alternative arrangements.
- Responsible: Collections team
- Notification: Collections Manager

## 6. Legal Action:

### • 6.1 Clearly Define Conditions for Legal Action:

- Clearly define the conditions under which legal action will be initiated.
- Specify the steps involved in the legal process.
- Responsible: Collections Manager with Legal support
- Notification: Managing Director (MD)

## 7. Debt Recovery Agencies:

### • 8.1 Specify Conditions for Involving Agencies:

- Specify conditions for involving third-party debt recovery agencies.
- Clearly outline the role and responsibilities of the agency.
- Responsible: Collections team
- Notification: Managing Director (MD)

## 8. Customer Communication:

### • 11.1 Maintain Clear and Transparent Communication:

- Maintain clear and transparent communication with customers throughout the collection process.
- Provide regular updates on outstanding balances and actions taken.
- Responsible: Collections team
- Notification: National Sales Manager (NSM)

## 9. Record Keeping:

- **12.1 Ensure Accurate and Up-to-date Records:**

- Ensure accurate and up-to-date records of all communication and actions taken.
- Facilitate audits and regulatory compliance.
- Responsible: Collections Manager
- Notification: Compliance Officer

## 10. Training and Compliance:

- **13.1 Regularly Train Staff:**

- Regularly train staff involved in the collection process.
- Ensure compliance with legal and ethical standards.
- Responsible: Human Resources (HR)
- Notification: Collections Manager

## 11. Customer Support:

- **14.1 Dedicated Customer Support:**

- Provide dedicated customer support for addressing payment-related queries.
- Assist customers in understanding their obligations and finding solutions.
- Responsible: Customer Support Team
- Notification: Collections team

## 12. Review and Continuous Improvement:

- **15.1 Regularly Review Effectiveness:**

- Regularly review the effectiveness of the collection process.
- Implement improvements based on feedback and changing circumstances.
- Responsible: Collections team
- Notification: Managing Director (MD)