



LOAN ADMINISTRATION PROCESS

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1.0 INTRODUCTION

1.1 Objectives

The Loan Administration Process has been designed to meet certain criteria, including:

- Improve customer satisfaction;
- Improve customer retention;
- Increase the volume of additional loans to existing customers;
- Improve employee satisfaction;
- Improve employee efficiency;
- Reduce activities that offer little added value;
- Standardize procedures throughout BDC; and
- Maintain sound risk management.

1.2 Limitations

Market Development, Financing and Consulting has designed business development and client relationship management processes. Refer to the documentation available on the intranet site of this service in the Client section. Also, the Administration Manual will be revised to split the Client Relationship Annual Review and the Risk Rating Annual Review

1.3 Responsibilities

The Loan Administration Process begins after the final disbursement and relates to all activities required or that may occur until the loan is repaid in full, or the account is transferred to Special Accounts. The Loan Administration Process includes files with an overall risk rating of 5.5 or better.

To clarify and facilitate understanding of this Manual, the following titles are used throughout.

- **Account Manager/Customer Service Officer–Business Development** refers to employees involved in business development activities in Branches including Entrepreneurship Centres;
- **Underwriter/Customer Service Officer** refers to employees working at the Underwriting Centres; and
- **Account Manager/Customer Service Officer–Portfolio Development** refers to employees involved in portfolio administration and development.

To further simplify matters:

- **Portfolio Development Group** refers to Account Managers and Customer Service Officers–Portfolio Development; and
- **Business Development Group** refers to Account Managers and Customer Service Officers–Business Development.

1.4 Customer Relationships

After final disbursement and throughout the Loan Administration Process, customers are divided into two categories:

- **GROWTH customers** with whom the Business Development Group maintains a direct relationship since there is a higher potential for repeat business. The main contact remains the Account Manager–Business Development; and
- **VALUE customers** with whom the Portfolio Development Group has a direct relationship since there is less potential for repeat business. The main contact is the Account Manager–Portfolio Development. In order to manage the customer's evolution between Growth and Value, the situation should be reviewed regularly to assess in which category the customer belongs. The decision should be based on potential and not on who manages the customer (BD, PD).

CORRESPONDANCE

- The return address on all customer documentation is that of the Account Manager who owns the business relationship.

The Portfolio Development Group is responsible for the Loan Administration of both customer types: GROWTH and VALUE.

Teamwork is Essential

The Portfolio Development Group and the Business Development Group are equally responsible for accurate risk assessment, customer service and portfolio growth. Both groups are part of BDC Financing, and group members deal with each other as professional equals. In fact, open communication and a clear understanding of each member's role are **essential**. The objective is to use each individual's strengths to improve efficiency and customer service.

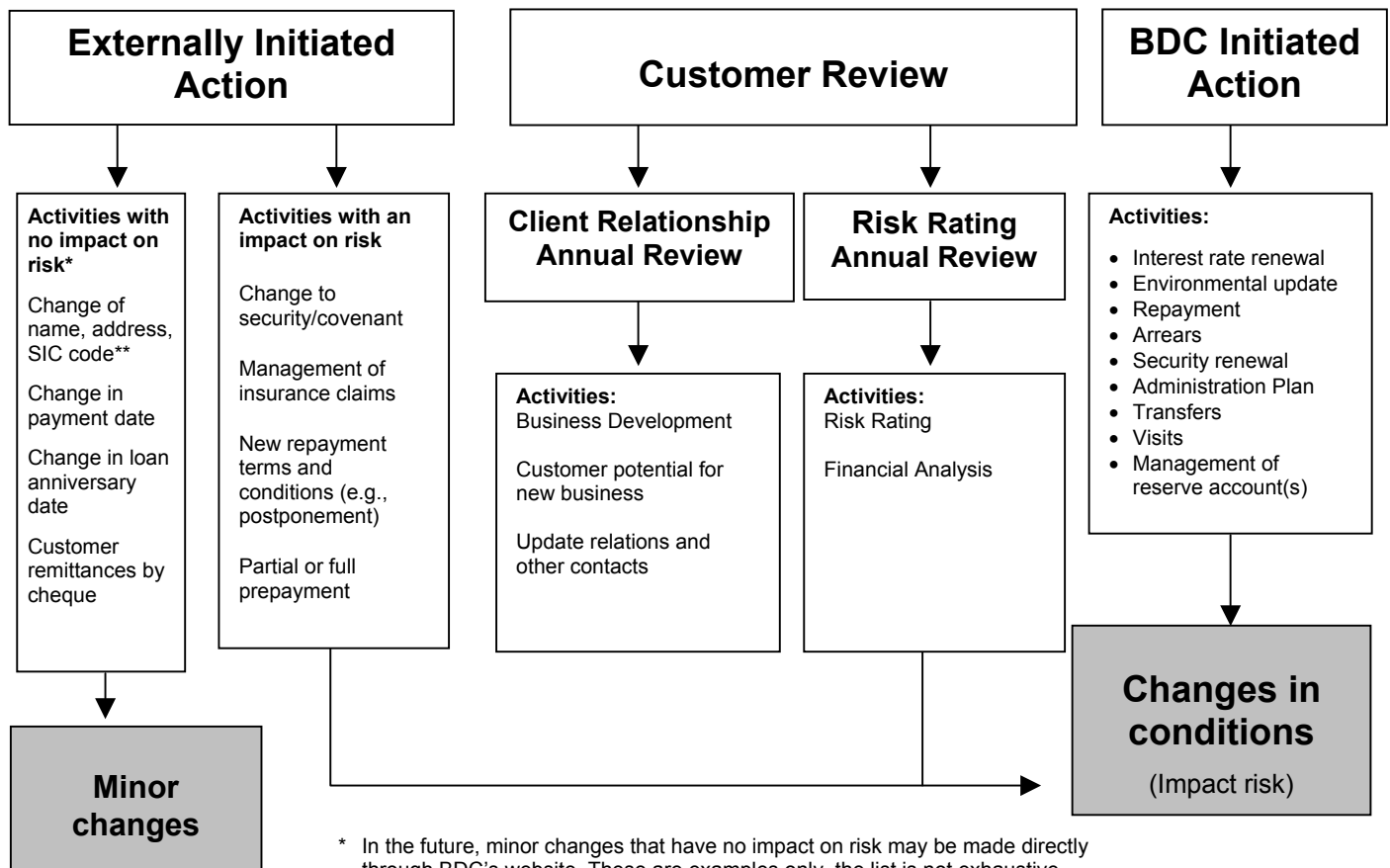
TOOLS

The Portfolio Development Group primarily uses CREM and the Administrator to monitor loans, generate required follow-ups and record completed tasks. The Portfolio Development Group has complete responsibility for these aspects of the portfolio.

2.0 Loan Administration Process – Overview

The Loan Administration Process is divided into the following groups of activities:

- 1. Client Relationship Annual Review**
 - Mandatory for all customers; and
 - Includes the CREM update.
- 2. Risk Rating Annual Review**
 - Mandatory for all customers but GPS; and
 - Includes the risk rating update.
- 3. Administrative Site Visits**
 - Every year or every three (3) years, depending on the environmental code.
- 4. Administrative Tasks Initiated by External Sources** (e.g., customers, accountants, and chartered banks)
 - Change of name and/or address;
 - Postponements and Others; and
 - Appendix C contains additional information.
- 5. Administrative Tasks Required and Initiated by BDC**
 - The collection of annual financial statements;
 - Arrears and NSF cheques;
 - Interest rate renewal at IAD and Others; and
 - Appendix C contains additional information.



* In the future, minor changes that have no impact on risk may be made directly through BDC's website. These are examples only, the list is not exhaustive.

** A change of name and/or SIC code may have an impact on risk.

2.1 Client Relationship Annual Review

BDC's main strategy is aimed at building value-based relationships with its clients and accompanying them throughout their development.

To execute this strategy, effective immediately, BDC is formalizing the Client Relationship Annual Review process, the purpose of which is to structure one of the key steps in the Client Relationship Plan—feedback on the company's financial performance, to understand clients' evolution and needs, offer them customized services and greater added value, and identify business opportunities.

BDC must continue to obtain financial statements for all clients because they contain information that is essential to a full understanding of client needs. Obtaining them remains the responsibility of the Portfolio Development Group.

For all Growth and Value clients, regardless of whether they are on the GPS list, a Client Relationship Plan must be defined, followed up on and documented in CREM. An excellent proactive practice is to always plan the date of the next contact with the client (phone call, meeting, visit, etc.) The Client Relationship Annual Review process does not require any amendment forms or printed documents, and, consequently, does not have to be authorized by an authorizing officer.

The review of loan terms and conditions is also an integral part of this process and may require an amendment form to be issued and authorized at the appropriate level.

At this stage, it is important to maintain a proactive approach to ensure that the loan terms and conditions correspond to the actual situation (unnecessary conditions, variance adjustment, etc.) and, if appropriate, ease the conditions that have an impact on the client or simplify loan administration.

The introduction of GPS confirms BDC's desire to centralize more client information in computer applications rather than in written records. Therefore it is essential that CREM files be constantly updated to ensure the quality, accuracy and relevance of client information.

Relations and other contacts must be updated in CREM at the Client Relationship Annual Review, based on the instruction manual on the Deterrence and Detection of Terrorism and Money Laundering.

Appendix D, included at the end of this document, provides a summary of the different tasks required for the Client Relationship Annual Review.

2.2 Risk Rating Annual Review GENERAL REMARKS

The Risk Rating Annual Review is:

- **Mandatory for all customers**, with the exception of GPS customers;
- Conducted by using a Loan Amendment form (F4046); no other documents should be used; and
- Authorized at the appropriate level (see Delegation of Authority & Levels of Authority Policy).

Appendix A, included at the end of this document, describes the administration process for the Risk Rating Annual Review.

When is the Review done?

- A Review, although normally carried out on an annual basis, does not have to be done every twelve (12) months;
- A Review must be carried out within two (2) months of receiving the required annual financial statements;
- A Review is done (except for GPS customers) even if the required financial statements have not been received. In this case, it must be completed within five (5) months of the due date of the financial statements, as stipulated in the Letter of Offer of Credit.
- A Review undertaken without relying on annual financial statements is based on Equifax reports, interim financial information, if possible; and
- If the financial statements are received more than five (5) months after the submission date stipulated in the Letter of Offer of Credit, another Review, in addition to the one done without financial statements, must be undertaken.

This is an occasion to:

- Clean-up files such as: disbursement-related documents when the final disbursement occurred more than two (2) years earlier; insurance policy renewals after the expiry dates; interim financial statements when year-end financial statements have been received, etc.; and
- Review key words in CREM following BDC's policy on the Detection of Terrorism and Money Laundering.

Contact with the customer (not mandatory during a Review):

- The Portfolio and Business Development Groups must coordinate all contacts to ensure that any required information is not already known or in BDC's possession, or has not already been requested; and
- Once the Review has been completed, advise the Account Manager who owns the relationship.

Appendix A, included at the end of this document, provides a summary of the different tasks required for the Risk Rating Yearly Review.

**2.2.1 Risk Rating Annual Review
Steps Description****A. RISK RATING**

A risk rating update is required for all Risk Rating Annual Reviews.

B. EQUIFAX (commercial)

- Obtain a Commercial Equifax report, or if the borrower is not incorporated, obtain a Personal Equifax report. Ensure that any necessary Consent Forms are on file; do not request a new Consent Form if one is on file.
- Keep in mind that a Personal Equifax affects the individual's credit score.

C. PROPERTY TAXES

- Verify property taxes when a building constitutes BDC's main security. Ensure tax payments are processed at the right time if BDCV has funds in a tax escrow account;
- If there is a problem with property taxes, also verify statutory liens, when applicable; and
- Update the value of the security, when necessary, directly on the Customer Review form (F4046).

1. STATUTORY LIENS (deemed trust)

- Update the value of the security, when necessary, directly on the Customer Review form (F4046);
- Verify that the statutory liens can also be obtained from the customer's external accountant, if it is more convenient for the customer; and
- In order to obtain the appropriate information from the different agencies, the Branch can use one of two consent forms:
 - 1) BDC Consent Form available on Intranet under Credit\Working Documents\Forms-Credit. A Consent Form, signed by the customer on the acceptance of the Letter of Offer, should be on file; or
 - 2) Canada Customs and Revenue Consent Form, available on their Internet site. If applicable, obtain the Consent Form of any Provincial Revenue Agency.

D. SECURITY

- Do not arbitrarily change the CLV using the percentage (%) discount found in the Loan Application Process for total commitments less than \$1.0M. It is still necessary to confirm historical values even if they do not change.

Life insurance assigned to BDC (excluding BDC L.I.F.E.):

- Verify that the premiums have been paid and the policy remains in effect. There is no consensus in the legal community regarding the obligation of a life insurance company to advise the assignee (BDC) that an assigned life insurance policy has been cancelled prior to maturity. To avoid the loss of this security, a verification of the status of the policy is mandatory based on the process table parameters in Appendix D. Non-compliance must be handled according to the instructions in subsection 2.2.1, item G.

**2.2.1 Risk Rating Annual Review
Steps Description (cont'd)****E. CONTACT WITH LANDLORD**

- Contact with the landlord is required in all provinces except Quebec.

F. COMMENTS ON THE FINANCIAL RESULTS

- Comment on trends, extraordinary events, etc.;
- Comment on the quality of financial statements received compared to that required, if applicable; and
- Comment on the assignment of shareholder loans (reduced or increased). Also, refer to the next section, Compliance with Conditions, if necessary.

Note: The Risk Rating Annual Review process table (Appendix A) indicates when a financial analysis is required.

G. COMPLIANCE WITH CONDITIONS

The following points apply only when a Risk Rating Annual Review is required.

- Identify the non-compliance in the Customer Review form (F4046) and recommend what action that should be taken;
- Issue a letter to advise the customer of the non-compliance and action taken, signed by the Account Manager who owns the relationship; or
- Explain why a letter to the customer has not been issued, or an action plan been put in place, on the Customer Review form (F4046); and
- Refer to Notes 1 and 2 at the end of Appendix A

The decision not to issue a Letter of Non-compliance to a customer is made by the authorizing officer, since it involves risk.

When an underlying condition is no longer required, it must be deleted by using a Customer Review form (F4046).

- Maintain a proactive approach to customer service during a Customer Review in order to determine if there are any invalid, redundant or pointless conditions; this also applies to all terms and conditions of BDC loans;
- Ensure that all unnecessary Administration Plans and interim financial statement requirements are eliminated, see subsections 2.5.5;
- Ensure that all conditions concerning compliance with financial ratios are carefully evaluated and eliminated when no longer necessary. The Loan Application Process manual contains the following advice: "*The underlying conditions concerning the compliance with financial ratios (normally debt/equity and working capital ratios) are an **exception** for regular loans with a total commitment of ≤ \$1.0M.*"

H. ADMINISTRATION PLANS

During the Risk Rating Annual Review, it is important to review the relevance of the Administration Plan and to update it. Refer to Circular 20401 on Current Account Administration. (see Note 4 in Appendix A)

2.2.2 Insurance Risk Management

Since May 1, 2003, it has not been required to verify that the customer has insured pledged assets (except vessels and aircraft) regardless of the overall risk. Refer to Circular 20500 – Insurance Risk Management.

2.2.3 Privileged Postponements

The Privileged Postponement offer has been automated for all GPS customers. To offer a Privilege Postponement to non-GPS customers, the following must be approved in the Risk Rating Annual Review process.

The old process has been replaced by a new campaign process in CREM. For more information, consult the Market Development, Financing and Consulting website on the intranet under the Client/Privileged Postponement section.

- 1) The new process; and
- 2) Admissibility conditions for non-GPS customers

2.3 Administrative Visits

There are two types of visit for each client: Administrative Visits and the visits expressly dedicated to the client relationship and business development activities. The latter are not a part of the administration process, but rather the processes designed by Market Development, Financing and Consulting.

Administrative Visits have the following objectives:

- To inspect security and the business's operation site;
- To update the environmental risk, including a review of the Site inspection Standard Checklist (F4089), when necessary; and
- It is not necessary to record Administrative Visits on an Amendment form. They can be commented on via the simplified Administrative Visit form; a template is available in CREM. A copy of this form should be included in the clients' files.

2.3.1 Criteria

An Administrative Visit is required:

- **Annually** for borrowers with environmental codes 0120, 0121, 0122, 0123, and 0124.
- **Every three (3) years** for all other customers, but a site visit is **mandatory** before analysis starts when a supplier of premises to non-related companies (SIC 7512) requests a change in a condition; and
- Refer to the Due Diligence for Loan Application Submission manual for definitions of the environmental codes (monitoring code) as well as realization cost estimates.

WHO VISITS?

- An Administrative Visit is made by the Account Manager who owns the relationship.

2.3.2 Preparation and Follow-up

The Portfolio Development Group:

- Monitors the entire portfolio and initiates the preparation of all Administrative Visits coming due;
- Prepares an Administrative Visit form. A template is available in CREM;

**2.3.2 Preparation and Follow-up
(Cont'd)**

- Retrieves the following information from the customer's file:
 - Last Administrative Visit form;
 - Latest Customer Review (F4046);
 - Latest pictures;
 - Latest description of security and equipment list; and
 - Latest Standard Environmental Checklist (F4089);
- Prepares a list of missing documents (financial statements, non-accepted Letters of Amendment, etc.);
- Monitors and ensures that up-coming visits are made;
- Updates the Administrator when a visit is completed;
- Enters the next visit due date in the Administrator; and
- **Gives the above information to the Account Manager who owns the relationship.**

The Account Manager that makes the Administrative Visit is responsible for the completion of the Administrative Visit form. It contains the following sections:

TENANTS' ACTIVITIES

- Related to environmental and ineligible activities.

ENVIRONMENT COMMENT (if there is a change)

- The Standard Site Inspection Checklist and Environmental Code (F4089) must be updated during each Administrative Visit. When is monitoring code is 0000, the Standard Site Inspection Checklist and Environmental Code (F4089) update is not required, but a comment on the Administrative Visit is; and
- The Environmental Checklist (F4089) must be signed by the person who makes the visit, when required. The form on file can be re-signed by the Account Manager who makes the Administrative Visit, if the content still applies in full.

COMMENT ON SECURITY (only if there is a change)

- Deterioration since authorization, assets sold, poor maintenance, etc. Do not arbitrarily change the security values. Refer to item G – Security comment.

DATE OF NEXT VISIT

- Must be entered in the Administrator by the Portfolio Development Group.

GENERAL COMMENTS

- For example, anything discussed during the visit that is not covered in other sections.

ELIGIBILITY

- During the Administrative Visit, verify the eligibility of the debtor and/or tenants.

SIGNATURE

- The Administrative Visit form, when complete, must be signed by the person who made the visit and an authorizing officer.

**2.3.2 Preparation and Follow-up
(Cont'd)****DATED PICTURES**

- After a review of the most recent pictures on file, it may be deemed appropriate to take new pictures during the visit to reflect any updated status of the assets held as security. It is not mandatory to take new pictures during each Administrative Visit unless changes are observed.

Appendix C, included at the end of this document, summarizes the administrative tasks.

**2.4 Administrative Tasks
Initiated by an External
Source****Transparency for Customers**

The group that handles the relationship with the customer is most likely to be the input point for requests from customers and business contacts (accountants, bankers, etc.). However, some requests may come through other channels, such as the Internet or regular mail. The group responsible for the entry channel must forward any requests to the appropriate Portfolio Development Group.

**2.5 Administrative Tasks
Required and Initiated by
BDC**

Appendix C, included at the end of this document, summarizes the administrative tasks.

The Portfolio Development Group is responsible for administrative tasks required and initiated by BDC. The process includes contacts and standard administrative activities with all customers, GROWTH and VALUE.

All these activities are carried out by the Portfolio Development Group. The group must display good judgment in deciding on the relevance of informing the Business Development Group of potential business opportunities, especially when a GROWTH customer is involved, in order to make a joint decision on the best way to proceed.

BDC employees must be consistent and, above all, not disturb or confuse customers. Customers must always perceive that everyone involved is dedicated to serving their needs.

**2.5.1 Interest Rate Plan Renewal
at Maturity Date**

Ninety (90), forty (40) and five (5) days before the interest rate plan renewal date, the Administrator receives messages.

Ninety (90) days before the renewal date, the Account Manager–Portfolio Development must evaluate the potential prepayment risk and indicate in the Administrator that contact with the customer is required.

Checklist to evaluate the potential prepayment risk:

- Recent requests for the full prepayment pay-out balance;
- Partial prepayment on an anniversary date in the past;
- Financial position, should the interest variance be modified; and
- Interest rates on other term loans from BDC and other lenders (if available).

2.5.1 Interest Rate Plan Renewal at Maturity Date (Cont'd)

At thirty-five (35) days, the Portfolio Development Group prepares and signs an Interest Rate Renewal letter, using the standard template in CREM. Refer to Delegation of Authority & Levels of Authority Policy for signature requirements.

Five (5) days before the renewal date, if the customer has not indicated a choice, a follow-up is required; the Portfolio Development Group is responsible for this activity.

Interest rate renewal and loans maturing within the next 12 months are the responsibility of the Business Development Group for Growth clients and by the Portfolio Administration Group for Value clients.

Client relationship processes include a section on portfolio retention and provide advice to help deter prepayments. Consult the documentation published on the Market Development, Financing and Consulting intranet site, in the Client section/retention tab.

2.5.2 Arrears and NSF Cheques

The management of arrears, particularly those of one (1), two (2) and three (3) months, and action to be taken have been standardized and do not involve the Business Development Group, apart from the fact that it must be kept abreast of the situation. At three (3) cumulative months of arrears, the account must be downgraded to an overall risk rating of 6.0 and transferred to Special Accounts.

Arrears, one (1) month (except technical arrears)

- Advise the Account Manager;
- Contact (verbally) the customer; the Portfolio Development Group is responsible for this activity;
- Use the "Event List" in The Manager to document the reasons and action plan to get a payment from the customer; and
- Obtain a replacement cheque from the customer or request the re-issuing of a pre-authorized payment (PAP) from the Controller's department (by fax) using a current BDC invoice. Confirm the lesser or greater amount.

Arrears, two (2) months (cumulative)

- Advise the Account Manager;
- If there is no letter on file describing the disposition/ arrangements agreed on with the customer, send a letter to the customer and all guarantors (personal and corporate) specifying that copies have been sent to the Legal Department and Special Accounts. It is not necessary to actually send copies of the letter to these departments because they have access to the lists of arrears;
- Use the Event List in The Manager to document the situation and action plan to get a payment from the customer;
- Contact the customer: this contact is made by the group responsible for the customer relationship;
- Obtain a replacement cheque from the customer or request the re-issuing of a pre-authorized payment (PAP) from the Controller's department (by fax) using a current BDC invoice. Confirm the lesser or greater amount.

2.5.2 Arrears and NSF Cheques (Cont'd)	Arrears, three (3) months (cumulative) <ul style="list-style-type: none">▪ Send a second letter to the customer and all guarantors (personal and corporate) specifying that copies have been sent to the Legal Department and Special Accounts. It is not necessary to actually send copies of the letter to these departments because they have access to the lists of arrears;▪ Prepare to transfer the customer's file to Special Accounts;▪ Verify taxes and statutory liens (if applicable), unless they had been recently verified (less than six (6) months);▪ Request a Commercial Equifax report; and▪ Review risk rating, if required.
2.5.3 Transfers and Downgrading of Overall Risk Rating to 6.0	Refer to the Special Accounts Manual.
2.5.4 Security Renewal at Maturity (irrevocable Letter of Credit, Term Deposit, etc.)	<p>Follow-ups on security renewal at maturity are done manually for the moment since no system currently records the relevant date.</p> <p>The Portfolio Development Group is responsible for manually monitoring these renewals in the Administrator or Branch diary system.</p> <p>At thirty (30) days, the Portfolio Development Group sends a letter to the customer. It would be appropriate at this point to review the relevance of renewing the security or releasing it from BDC's security portfolio.</p> <p>At five (5) days, if the customer has not renewed the security, the Portfolio Development Group calls the customer or discusses it with the Account Manager to decide on how to proceed.</p> <p>At two (2) days before the maturity date, a decision is made on cashing the security. This requires an appropriate level of authorization (Delegation of Authority & Levels of Authority Policy). The decision is based on recommendations from the Account Manager and Branch management and the group in charge of the relationship.</p> <p>A Memorandum (F4059) is not required.</p> <p>A Loan Amendment form (F4046) is required when the security is renewed, cashed or released; it must be authorized at the appropriate level.</p> <p>The Portfolio Development Group records follow-up for the next maturity date of renewed security and enters it in the Administrator.</p> <p>An irrevocable Letter of Credit, term deposit or any other security of this nature must be kept in a safe place at the Branch were the file is administered.</p>

2.5.5 Administration Plans

Customers with overall risk rating of 5.0 and better, generally do not require an Administration Plan at authorization.

BDC Consulting follow-ups are not mandatory, but some Consulting products may still be applicable, e.g., a Customer Support Plan for Co-Vision (see the manual).

Administration Plans are mandatory for customers with overall risk rating of 5.5 and worse.

HELPFUL HINTS

The Administration Plan function in The Manager (CREM) creates an automated follow-up in the Administrator. For now, it is a good tool to use to create automated follow-ups on items such as irrevocable Letters of Credit, term deposits, variance increase conditions, etc.

When an action plan is required to monitor a special aspect of a loan, an underlying condition, or a customer position, use "Tasks" in CREM instead of an Administration Plan. Refer to Note 4 in Appendix A

2.5.6 Annual Financial Statement Requests

The annual submission date for financial statements from the customer is set three (3) months after the fiscal year end, as confirmed by the official text of the Letter of Offer of Credit as approved by Legal Services.

As soon as the financial statements are received, the Customer Review and Administrative Visit (if necessary) processes begin.

If the annual financial statements have not been received within the prescribed time, the Portfolio Development Group must send a notice to all customers with missing financial statements at the following intervals:

- One (1) month following the previously defined submission date;
- Two (2) months following the previously defined submission date; and
- Three (3) months following the previously defined submission date.

If five (5) months lapse since the scheduled submission date of the annual financial statements and they are still unavailable, the Branch must (if not a GPS customer):

- Request a Commercial Equifax report and do a Customer Review; however,
- Calls to customers and chartered bank are not required; and
- Refer to the Risk Rating Manual for a definition of overall risk rating when financial statements have not been received.

3.0 Letters to Customers

Refer to the Delegation of Authority & Levels of Authority Policy for more information on who may sign external correspondence, and which titles to use.

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4.0 Special Instructions

- Subordinated Financing is not included in the Loan Administration Process; and
- Customers with an overall risk rating of 6.0 and worse are not included in the Loan Administration Process.
- The policy regarding special financing solution loan-management fees **has not been modified**, refer to these manuals:
 - Micro-business Program and Young Entrepreneur Program has been replaced by Co-Vision;
 - Innovation Financing;
 - Working Capital for Growth, has been replaced by Innovation Financing; and
 - Working Capital for Exporters, has been replaced by Innovation Financing.

QUESTIONS

- Send questions on processes directly to Operations Support and Strategic Initiatives, Head Office.
- Send questions on policy, due diligence and risk to the Director, Loan Policy and Procedures, Credit Department, Head Office; or to the AVP, Credit Risk Management attached to the local Underwriting Centre.

4.1 Original Forms

- Do not send the original of Loan Amendment forms (F4046) to the Controller's department. An authorized photocopy forwarded via fax or standard mail is sufficient;
- An authorized photocopy of **all Loan Amendment forms (F4046)** must be sent to the area Legal Department; and
- All original **Loan Amendment forms (F4046) (including all original signatures) must be kept in the customer's file at the Branch.**

Appendix A: Risk Rating Annual Review Table

Administration Process						
Risk Rating Annual Review						
TOTAL COMMITMENT - current	≤ \$500K	> \$500K to \$1.0M		> \$1.0M		All
Overall Risk Rating	5.0 or better	4.0 or better	4.5 and 5.0	4.0 or better	4.5 and 5.0	5.5
A Risk rating	x	x	x	x	x	x
B Equifax (commercial)				x	x	x
C Verification of property taxes, when real estate ¹ Verification of statutory liens, when moveable assets are the main security and RLV > \$50K ²			x		x	x
D Security: verification of assigned life insurance policy (other than BDC L.I.F.E.)					x	x
E Contact with landlord – all provinces except Quebec If movable assets are the main security and RLV > \$250K						x
F Comments on the financial results (table not required)				x	x	x
G Compliance with conditions	x	x	x	x	x	x
H Administration Plan (implement or review)						Mandatory ⁴

- 1 If the underlying loan condition states, "On demand, you will confirm ...", the rules described in the Customer Review table must be followed. If the underlying loan condition specifies that the status of property taxes **must always be verified**, the verification must be undertaken regardless of what the above table indicates.
- 2 Verification of statutory liens (on equipment) must be undertaken in accordance with the instructions in the Customer Review table when an underlying loan condition states, "On demand, you will confirm ...". If the underlying condition states that the status of the statutory liens must always be verified, it is also subject to the rules described in the above table; in other words, those rules override this specific loan condition.
- 3 Do not repeat information already available in the Risk Rating. If you observe a downgrading in one of the factors, the emphasis should be on explaining the variation.
- 4 Review the Administration Plan. Note: All the tasks related to a Financial Analysis should be considered a single task. Ex: If a customer is dependent from a supplier and if this dependency must be review at regular intervals, this should all be review in the Financial Analysis instead of creating multiple tasks in CREM. Be accurate, the administration plan should be in function of the different risks justifying an overall Risk Rating of 5.5.

Appendix B: Main Tasks Table and changes to the current processes

TASKS	CHANGES IN PROCESSES
Change of name, address, alpha code, industry code, description of security	No change to current process.
Reversal of fees when there is an internal error	Correspondence between the Branch and the Controller's department is conducted by email only. No authorization is required by Branch management to initiate a correction. A copy of the correction, emailed to the Branch management, is sufficient.
Reversal of fees when the customer requests a concession or waiver	In these cases, a Loan Amendment form (F4046) must be produced.
Tax payments: When BDC has a reserve account for the customer	<p>Determine if the tax reserve account is sufficient: If insufficient: contact the customer and obtain the missing amount. Deposit it to the Bank of Montreal as usual and prepare an F4168 to assign funds to the customer's tax reserve account. If the additional amount is unavailable, process a partial tax payment and send a letter to the customer. If sufficient: produce a Cheque Requisition form (F4015) to debit the tax reserve account and send it to the Controller's department for processing. A cheque is issued and sent to the Branch. It is the Branch's responsibility to forward this cheque to the municipality. Note: The exact name of the recipient must be used. Provide the date of the tax bill. No overdrafts are permitted. If there is a surplus: reimburse the customer or keep it in the tax reserve account (at a floating rate of interest, minus 4%). When the final payment for the year has been made, produce a Loan Amendment form (F4046) to adjust the amount to be collected the following year, if required.</p>
Loan assumption (partial or total)	Collect documentation according to the list of required documents for due diligence, and send the file to the Underwriting Centre.
Change in payment date	No change to current process
Change in anniversary date	No change to current process
Change in type of financial statements required	No change to current process
Decision on whether to levy fees, based on the requested transaction	No change to current process
Providing the customer with monthly payment information	No change to current process
Changes in the customer's pre-authorized payment information	No change to current process
Confirmation of year-end balances	No change to current process
Insurance claim: when an endorsement is required	No change to current process

**5.1 Main Tasks Table
and Changes to
Current Processes
(cont'd)**

TASKS	CHANGES IN PROCESSES
Fund remittance to the customer	No change to current process
Change in conditions that have an impact on risk	No change to current process
Standard postponement: see subsection 2.2.3	No change to current process
Repayment terms and conditions	No change to current process
Conditional amendments	No change to current process
Change in interest rate plan/variance	No change to current process
Transfer accounts at the customer's request or following a move	No change to current process
<p>Note: For authorization limits, refer to Delegation of Authority & Levels of Authority Policy.</p>	

Appendix C: Requirements for an amendment to a file

Amendments to a file			
Need	Activities		
	Risk Rating	Financial analysis	Commercial Equifax
Changes to security - Change in CLV	YES	YES	NO
2. No change in CLV	NO	NO	NO
Change underlying conditions or acceptance of non-compliance with underlying conditions:	NO	NO	NO
1. Client on GPS list			
2. Client not on GPS list	YES	Note 1	(according to Risk Rating Annual Review rules)
Change contingent conditions	YES	Note 1	NO
Standard postponement	YES	YES	YES
New repayment schedule/terms (other than postponement)	NO	NO	NO
Interest Rate :			
1. Change base rate (IAD, switching plan, etc.)	NO	NO	NO
2. Change variance	YES	Note 2	NO
Change loan anniversary date	NO	NO	NO
Change name or address, or other minor changes	NO	NO	NO
Change environmental code	NO	NO	NO
Insurance claims : If amendment form is required (according to the amount)	YES	YES	NO
No financial statements submitted since 20+ months	N/A	N/A	N/A
1. Client on GPS list: no action necessary			
2. Client not on GPS list: downgrade to a minimum risk rating of 4.5	YES*	NO	YES
Transfer to Special Accounts	YES	YES	Optional

The recommendation must be supported by an appropriate rationale. A risk rating update and financial analysis are not always mandatory, but may exceptionally be required, depending on the assessment of the situation.

Note 1: Financial analysis required if:

- 1- overall risk rating was downgraded
- 2- the modified condition is a financial one

Note 2: Financial analysis only required if overall risk rating to deteriorate.

This table should be considered a guide. It is still the responsibility of each recommending and authorizing officers to decide if a more detailed analysis is required to better assess the risks.

Appendix D	
Client Relationship Annual Review - Activities to do for all accounts	
Activity	Personnel responsible
1. Obtain financial statements	Portfolio Development group
2. Prepare for client contact a. Read F/S and evaluate business opportunities b. Review loan terms and conditions <u>Underlying conditions met (1):</u> <ul style="list-style-type: none"> ▪ Ratios ▪ Ratchet clause ▪ Other underlying conditions (withdrawals, dividends, shareholder loans, etc.) <u>Offer initiated by BDC (if applicable):</u> <ul style="list-style-type: none"> ▪ Reduce security ▪ Eliminate conditions ▪ Change interest rate plan ▪ Reduce variance (proactive or as indicated in the loan) ▪ Adjust fees (from monthly to yearly) ▪ Privileged postponement (2) 	AM who owns the client relationship
3. Contact client and update company's situation	AM who owns the client relationship
4. Update statistical information in CREM (detailed info screen): <ul style="list-style-type: none"> ▪ Sales ▪ Number of employees ▪ Development stage ▪ Ownership (if change of shareholders) (3) ▪ Age group (according to date of birth on F4025) ▪ Contacts (accountant, banker, etc.) ▪ Other contacts (shareholders, directors, related companies, etc.) (3) 	AM who owns the client relationship
5. Client Relationship Plan in CREM <ul style="list-style-type: none"> ▪ Comments on the financial situation and opportunities (via CREM note with the subject: Client Relationship) ▪ Update segment ▪ Plan upcoming visits/contacts in the Client relationship Plan according to the segment (via CREM tasks with the subject: Client Relationship) 	AM who owns the client relationship

(1) For all loans where the commitment is \$1M or less, it is not necessary to verify if these underlying conditions are met during the Client Relationship Review. However, if a concession is being considered, it is necessary to verify if these conditions are met and adapt the recommendations accordingly.

For loans where the commitment is over \$1M, it is necessary to verify if these underlying conditions are met during the Client Relationship Review. If a loan condition is not met, an amendment form must be issued to modify or eliminate the underlying condition or waive it temporarily.

(2) Privileged postponements can be offered if the client does not require a review according to GPS. The GPS list will confirm eligibility according to the criteria (no arrears, no postponement in the previous 12 months, etc.). The first GPS list as at March 31 did not contain this information and, as an exception, all the clients on this list are eligible.

For privileged postponements only, an amendment form must be issued but only after the client has accepted. In this case it is a minor amendment that does not require authorization by an authorizing officer. Privileged postponements can be offered at any time, until a new GPS list is obtained for this client. For clients not on the GPS list, the instructions in the Loan Administration Process Manual continue to apply.

(3) Other contacts must be updated to fulfill the requirements outlined in the Detection of Terrorism and Money Laundering manual. No other verification or annual update of key words is required for the moment. However, the key word "clean up" following CREM deployment must be completed. The manuals are in the process of being updated, and this will include the management of key words.

8.0 RESPONSIBILITIES

The following is a partial list of tasks involved in the Loan Administration Process. Each task has been assigned to the most appropriate position, Account Manager–Portfolio Development or Business Development and/or Customer Service Officer (CSO). However, Account Managers–Administration have full responsibility for the Loan Administration Process. A local adaptation of task sharing, based on each individual’s level of experience and expertise, is required.

The Portfolio Development Group is responsible for generating required follow-ups and initiating any action BDC requires, at the appropriate time. The tools used for follow-ups are CREM and the Administrator, along with the centralized manual Branch follow-up system.

The responsibilities of the Business Development Group have not been included since they are part of the Business Development Process prepared by Marketing Department.

TASKS	PORTFOLIO DEVELOPMENT GROUP	Account Manager	BUSINESS DEVELOPMENT GROUP
	CSO		Account Manager & CSO

CUSTOMER REVIEW

Monitor and obtain annual financial statements	✓	✓	
Update risk rating	✓	✓	
Update LSAM	✓	✓	
Obtain Commercial Equifax report	✓		
Verify statutory liens	✓		
Verify property taxes	✓		
Perform financial analysis	✓	✓	
Confirm compliance with underlying conditions and Appendix A of the Letter of Offer	✓	✓	
Assess business opportunities	✓	✓	
Determine customer eligibility for Privileged Postponement	✓	✓	
Present Privileged Postponement to GROWTH customers			✓
Present Privileged Postponement to VALUE customers		✓	
Contact customers, if necessary (questions and comments)	✓	✓	✓
Contact accountants, if necessary (questions and comments)	✓	✓	✓
Obtain authorization of Loan Amendment forms (F4046)	✓	✓	
Prepare Letters of Amendment for the customer	✓		
Notify the Business Development Group when Customer Reviews have been completed for GROWTH customers	✓		
Inform the Business Development Group if financial statements have not been received, after the third notice, from GROWTH customers	✓		

CUSTOMER REVIEW (continued)

Transmit relevant information on GROWTH customers to the Business Development Group	✓	✓	
Prepare letters confirming non-compliance with an	✓		

TASKS	PORTFOLIO DEVELOPMENT GROUP	BUSINESS DEVELOPMENT GROUP	
	CSO	Account Manager	Account Manager & CSO
underlying condition or a condition of Appendix A of the Letter of Offer			
Present letter of non-compliance to customers		✓	✓

ADMINISTRATIVE VISITS

Initiate visits (prepare documentation)	✓	✓	
Determine if an update of the Standard Environmental Checklist (F4089) is required		✓	
Monitor portfolio and up-coming visits	✓	✓	
Ensure visits take place	✓		
Make Administrative Visits to GROWTH customers			✓
Make Administrative Visits to VALUE customers		✓	
Complete narrative section of Administrative Visit form for GROWTH customers			✓
Complete narrative section of Administrative Visit form for VALUE customers	✓	✓	

ADMINISTRATIVE TASKS INITIATED BY INTERVENORS/EVENTS OUTSIDE BDC

Receive customers' requests	✓	✓	✓
Produce Letters of Amendment for customers	✓		
Produce Amendment forms (F4046)	✓	✓	
Determine if a customer is eligible for a change in anniversary date	✓		
Determine appropriate fees to charge the customer	✓	✓	
Send an email to the Controller to reverse fees	✓	✓	
Contact customers if there are any questions or if clarifications are required	✓	✓	✓
Calculate pre-payment penalties	✓	✓	
Inform customers of monthly payment amounts (if requested)	✓		
Confirm balances	✓	✓	
Receive and deposit customers' cheques	✓		
Confirm prepayment amounts for GROWTH customers			✓
Confirm prepayment amounts for VALUE customers		✓	
Perform due diligence for postponements		✓	
Send postponement letters to all guarantors	✓		
Send property tax invoices (copy or original) to the Controller so cheques may be issued	✓		
Verify reserve accounts for taxes, and other reserves, at the end of fiscal years	✓		
On receipt of a cancellation notice of insurance on assets held as security, refer to Circular 20500 – Insurance Risk Management for procedures to follow with vessels and aircraft.	✓		

ADMINISTRATIVE TASKS INITIATED BY BDC

Evaluate risk of pre-payment 90 days before interest renewal dates		✓	
Contact GROWTH customers concerning interest rate plan renewals for business development purposes			✓

TASKS	PORTFOLIO DEVELOPMENT GROUP		BUSINESS DEVELOPMENT GROUP
	CSO	Account Manager	Account Manager & CSO
Contact VALUE customers concerning interest rate plan renewals for business development purposes		✓	
Prepare Letters of Renewal 35 days before renewal dates	✓		
Contact customers 5 days before renewal dates, if choices have not been received	✓		
Produce Interest Rate Renewal forms (F4046)	✓		
Produce Letters of Amendment for customers	✓		
Update environmental codes, if necessary (F4046)	✓	✓	
Develop and implement action plans if there is a serious deterioration in environmental situations		✓	✓
Contact customers when 1 month in arrears		✓	
Advise Account Manager–Business Development of arrears when GROWTH customers		✓	
Contact customers when 2 months in arrears, cumulative (owner of the relationship)		✓	✓
Produce letters for customers and guarantors when 2 months in arrears, cumulative	✓		
Transfer accounts when 3 months in arrears, cumulative	✓	✓	
Produce F4046's to transfer accounts when 3 months in arrears, cumulative		✓	
Produce letters for customers and guarantors when 3 months in arrears, cumulative	✓		
Produce letters notifying of security renewal 30 days before maturity	✓		
Contact customers 5 days before security renewal, if renewal has not been received	✓	✓	
Discuss possible cashing of negotiable security for GROWTH and VALUE customers		✓	✓
Cash security after obtaining authorization	✓	✓	
Delete Administration Plans which are not required at Customer Review		✓	
Transfer customers with overall risk rating of 6.0 (or higher) to Special Accounts	✓	✓	
Downgrade and manage customers with overall risk rating of 5.0 (with Administration Plans)	✓	✓	
Downgrade customers to an overall risk rating of 6.0 or higher	Account Manager– Special Accounts		