कार्पोरेशन बैंक (सार्वजनिक क्षेत्र का अग्रणी बैंक) प्रधान कार्यालय, डा पे सं. 88 मंगलूर - 575 001	e-CIRCULAR	Corporation Bank (A Premier Public Sector Bank) Head Office, PB No.88, Mangalore – 575 001
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HO Circular No. 66/2013	**Index No. 11.00/7/2013**	**04-February-2013**

TO ALL THE BRANCHES / OFFICES

Subject : POLICY ON UNHEDGED FOREIGN CURRENCY LOAN

HIGHLIGHTS

Policy on hedging of FCDL/FCTL loans has been framed for implementation while extending FCDL/FCTL loans to exporters and importers

1. RBI communicated vide DBOD.BP.BC.61/21.04.103/2012-13 dated 21.11.2012 to the banks' that it has observed unhedged Forex exposure risk are not being evaluated rigorously and built in to pricing of Credit. In this connection RBI has emphasized that unhedged Forex exposure of corporates is a source of risk to the corporates as well as to the financing Bank and the financial system. RBI has further informed that large unhedged Forex Exposure of Corporates has resulted in some accounts turning Non Performing.

2. In this connection, Banks were advised to put in place a proper mechanism to rigorously evaluate the risk arising out of unhedged foreign Currency exposure of Corporates and price them appropriately in the Credit risk premium.

3. In this backdrop, considering the present market scenario and the volatility in exchange rates, apart from the need to monitor unhedged foreign exchange exposures, the following policy on hedging of FCDL/FCTL loans has been framed for implementation while extending FCDL/FCTL loans to exporters and importers:

3.1 The guidelines shall be divided into two parts-

a) Those applicable for exposures of USD 5.00 Mio and above.

b) Those applicable for exposures up to USD 5.00 Mio.0

a. Guidelines for hedging foreign currency exposures for USD 5.00 Mio and above.

All customers except those specified below having availed fresh FCTL/FCDL in substitution of working capital, working capital Demand loan or Term Loan in Indian Rupees, shall hedge their currency exchange risk through one or more derivative product offered by the Bank.

i. FCTL/FCDL extended to borrower clients who are otherwise having natural hedge by way of export, atleast equivalent to their unhedged forex exposure.

ii. Corporates, who are otherwise having exchange risk management cell with laid down policies to manage their overall exposures on a regular basis through their experienced dealers in foreign exchange. The company shall furnish the details of such arrangements along with other details and seek specific exemption from hedging of FCTL/FCDL and also undertake unconditionally to bear the exchange risk and absorbs any losses arising from keeping their position open. If the corporate is having a Board approved policy for not hedging the forex exposure, the same may be furnished to the branch. Bank shall evaluate the capacity of the corporates to manage forex risks and may demand suitable collateral, if need be.

b. Guidelines for hedging foreign currency exposures in FC up to USD 5.00 Mio.

All customers availing FCDL/FCTL shall hedge their exposure through one or more derivatives like Forwards, Options, etc. Exceptions shall be made by sanctioning authority in the following cases.

i. Where there is a natural hedge by means of future foreign currency flows by exports/remittance/receipts in foreign currency.

ii. Where natural hedge is not available, waiver shall be considered only in case of borrowers with Gradation CB1, CB2 or CB3 and on their unconditional undertaking that they have understood the risks involved in such exposures and have capacity to absorb any loss arising from keeping their position open.

3.2 Competent authority for waiver of Hedge

Delegated authority for waiver of hedge shall be as under:

a. Circle Level Credit Committee [CLCC] up to USD 5 Mio.
b. Credit Approval Committee of the Board [CAC] beyond USD 5.00 mio.

3.3 In case of un-hedged positions if the exchange fluctuations are adverse amounting to 5% or more in the FCDL/FCTL in Indian Rupee value, branch shall earmark the other outstanding Working capital/Term loan limits or insist for booking of Forward Contract or obtain additional margin, to comply with the terms of sanction. This exercise shall be done on periodical basis.

3.4 Other Forex transactions:

a. Bank shall obtain the details of the unhedged Forex exposure from the applicant / customer at the time of sanction / review / renewal of the credit limits.

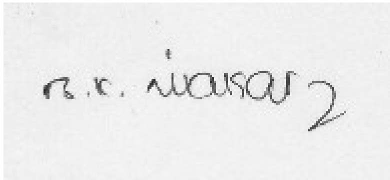
b. IBD Mid Office shall periodically inform Credit Division, H.O about the impact of un-hedged foreign currency exposure of corporate clients due to adverse movements in exchange rates to make use of such inputs at the time of review/renewal of borrower limit in rating model.

c. The impact of exchange fluctuation in respect of unhedged exposure shall be analyzed while processing the credit proposals and incorporated in the appraisal note as “Forex Management”.

d. The information about the position of total Un-hedged exposure of party's, all type of foreign exchange transactions shall be incorporated in the credit proposal aiming particularly to have collateral adequacy in the account.

e. In case of consortium/Multiple banking arrangements, where our Bank is the lead bank, the sanctioning authority to take the lead role in monitoring un-hedged foreign exchange exposure of the clients.

4. All the branches and other offices are advised to note the above for guidance and strict implementation.



[B.K.DIVAKARA]
GENERAL MANAGER

Note: Hindi version of the Circular follows.