CORPORATION BANK

GROUP CREDIT POLICY

2017

Policy Approved by	**Minute No.**	**Date**
Credit Risk Management Committee	3	23rd January,2017
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1. POLICY OVERVIEW

1.1 Preamble

1.1.1 In the wake of ongoing trends towards globalization and liberalization, the market environment in the country has undergone a major change. The opening of the economy has resulted in entry of multinationals and participation of foreign institutional investors in the Indian corporate market. The business entities operating in India, to emerge successful, have to perceive and manage risks from a wider perspective of happenings in the world market. Any risk that overtakes the business entity automatically reflects on the lending Banks' balance sheet. The Indian Banking scenario has witnessed progressive deregulation, introduction of prudential norms and adoption of international best practices. The financial sector reforms and entry of private and foreign Banks have changed the face of Indian Banking sector. In the present scenario, when spreads are thinning and competition is acute, managing credit risk has become crucial.

1.1.2 Extending credit is a basic function of banking which involves risks. It is likely that some of the credit decisions may result in loss. The Bank shall aim at managing risks in such a way that a healthy credit portfolio is built and returns are maximized.

1.1.3 The Reserve Bank of India has come out with guidance note on management of credit risk to enable Banks to enhance and fine tune their existing risk management systems, to face the emerging challenges in the fast changing environment and undertake robust credit risk management functions in a more responsive and proactive manner.

1.1.4 In the above backdrop, the Bank is regularly upgrading its credit risk policy covering all activities where credit risk is assumed. The Bank has already adopted Credit Risk Management Principles, based on which this policy document has been developed. This upgraded version of the credit policy shall enhance the risk management capabilities of the Bank, making it possible for the Bank to show a steady and healthy growth in its credit portfolio, resulting in overall improved performance.

1.2 Objectives

The Policy seeks to achieve the following broad objectives:

1.2.1 To establish Bank wide credit strategy in line with corporate business goals.

1.2.2 To encourage functionaries at different levels in the Bank to assume reasonable credit risk so that returns can be maximized.

1.2.3 To achieve unity of direction in accomplishment of corporate goals at all levels in the area of overall credit management.

1.2.4 To adopt segmented approach in credit management through designated

branches for catering to different categories of constituents so as to develop specialization and efficient credit operations.

1.2.5 To enlarge clientele base through aggressive marketing and achieve credit growth spread across the entire network of branches in tune with corporate business goals and credit strategy and to attain Credit: Deposit ratio of around 70%.

1.2.6 To have diversified and balanced growth of assets to ensure that no single category of assets adversely affects the overall performance of the Bank.

1.2.7 To have appropriate maturity profile of assets so as to have stability in Asset-Liability management.

1.2.8 To have appropriate mix of quality assets to achieve profitability goals

1.2.9 To have proper evaluation and appraisal standards for assessing and meeting the genuine credit needs of the customers and to avoid unviable proposals.

1.2.10 To have proper pricing mechanism to ensure that the return on each proposal or relationship adequately compensates for the risk involved.

1.2.11 To put in place proper systems to manage credit risk in Inter Bank and Country exposures.

1.2.12 To establish Credit Rating framework / Credit Risk Models for identifying, measuring, monitoring and controlling credit risk at individual and portfolio level.

1.2.13 To establish an appropriate credit risk environment and control systems to manage credit risk inherent relating to on and off balance sheet activities.

1.2.14 To put in place Management Information System for early detection of problem accounts and for initiating remedial action in such cases, so as to contain delinquency and improve health of the credit portfolio.

1.2.15 To ensure adequate flow of credit to preferred sectors / segments of the economy / society such as Agriculture, Micro Small and Medium Enterprises, Weaker Sections, Women beneficiaries, other priority sectors, Exports, etc.

1.2.16 To ensure compliance with all the directives / guidelines issued by the Government / Reserve Bank of India and other legal / regulatory requirements.

1.2.17 To develop skills of the employees in credit risk management thereby improve efficiency across all stages of the credit cycle and ensure faster credit decisions.

1.3 Scope

1.3.1 This document covers strategies and policies that govern credit risk under all

activities of the Bank viz., Lending, Investment and Treasury and Collection & Payments (CAPS). The document defines target markets and prescribes acceptance criteria for all forms of credit dispensation. Further, the document covers policies for credit management under all stages of credit cycle. Any exception or deviation from these policies and criteria shall be referred to Credit Division, who shall put up such matters to the competent authority for prior approval/ sanction.

1.4 Ownership

1.4.1 Risk Management Division shall frame/ review/ improve all policies, procedures/ systems in relation to management of credit risk in the Bank with the approval of Credit Risk Management Committee (CRMC) which has to be placed before the Risk Management Committee of the Board / Board of Directors for their final approval and thereafter the same shall be operationalised. The General Managers in charge of different business units/ functional division shall ensure the implementation of the policies, procedures under delegated lending powers as approved by the Board / Risk Management Committee of the Board / Credit Risk Management Committee (CRMC)

1.5 Modification and Review / Revision of the Policy

1.5.1 The Policy shall be modified to give effect to the changes in the extant guidelines / directives / instructions that may be advised by the Reserve Bank of India (including directions of RBI inspectors/ statutory auditors)/ Government of India from time to time, subject to reporting and approval of the Board.

1.5.2 The Policy shall also be reviewed / revised from time to time, at least once a year, in order to upgrade the credit risk management systems, to adapt to the changing environmental demands and to incorporate and implement any changes in the credit strategy of the Bank, with the approval of the Board.

1.6 Compliance

1.6.1 All the functional divisions/ branches are expected to comply with the policy guidelines laid down in this document.

1.6.2 References/ clarifications if any, on the interpretation of any provisions of this policy may be made to Risk Management Division at Head Office, to clarify the provision and wherever required, the Division shall seek necessary approval from the Managing Director & Chief Executive Officer [MD & CEO] or from Executive Director in the absence of MD & CEO.

1.6.3 In line with the Ministry Guidelines, sanction of credit proposals at Zonal /Circle and Head Office shall be through Credit Approval Committees at the respective offices. Accordingly, Bank has set up the following credit approval committees at various levels. The scope, composition, powers etc of these committees shall be as delegated to them by the Board from

time to time.

Level	Committee
Zonal	Zonal Office Level Credit Committee (ZLCC)
Circle	Circle Office Level Credit Committee (CLCC)
Head Office	➢ Head Office level Credit Committee (HLCC) ➢ Credit Approval Committee of the Board (CACB) ➢ Management Committee of the Board (MC)

Further, these committees shall be vested with powers for approval of various deviations/ changes etc. as envisaged in the later part of the credit policy.

Any deviations/relaxations in the policy guidelines permitted by a delegate/committee shall be reported to the next higher authority/ committee.

1.6.4. The composition and quorum in respect of various Credit Approval Committees is enumerated here under:

A. **Credit Approval Committee of the Board [CACB]:**

Members of the Committee:

a) The Chairman & Managing Director;
b) The Executive Directors;
c) The Chief General Manager or the General Manager/s in charge of the Credit;
d) The Chief General Manager or the General Manager in charge of the Finance;
e) The Chief General Manager or the General Manager in charge of Credit Monitoring Division;

f) The Chief General Manager or the General Manager in charge of Recovery, only in respect of such compromise/write off proposals and shall present whenever such agendas are placed at the meeting.

Quorum:

The Minimum quorum for the committee shall be three [3]. The Meeting shall be attended by the Managing Director and Chief Executive Officer and one of the Executive Directors and the General Manager concerned dealing with the Credit/Compromise/ write off proposals.

B. **Head Office Level Credit Committee [HLCC]:**

Members of the Committee:

a) Both the Executive Directors;
b) General Manager in charge of Credit;
c) General Manager in charge of Finance;
d) General Manager in charge of Credit Monitoring;
e) General Manager in charge of Retail Lending;
f) General Manager in charge of Development of Priority Sector;
g) General Manager in charge of Recovery & CAPS shall be present only whenever agendas on compromise/ write off and CAPS proposals respectively are placed at the meeting.

Quorum:

The Quorum for the Meeting shall be three. Both the Executive Directors shall invariably be present in the Meetings of HLCC. The Meeting shall be chaired by the senior most Executive Director.

C. Credit Approval Committees at Circle Offices & Zonal Offices [CLCC/ZLCC]

Credit Approval Committees shall be constituted at all the Circle General Manager offices the Zonal offices and, which will be known as Circle Office Level Credit Committee (CLCC) and Zonal Office Level Credit Committee (ZLCC) respectively.

Members of the Committee:

The Committee shall be headed by the respective Circle General Manager for the CLCC and the respective Zonal Head for the ZLCC and they will be the Chairman of the Committee.

The other members of the Committee shall be constituted as under:

i. **For the Circle Level Credit Committee (CLCC):**

a) The Deputy Circle Head [Second line at the Circle Office];
b) Senior Most Officer* in charge of Recovery departments at CO;
c) Senior Most Officer* in charge of FMD at CO;
d) Concerned CCPC Head (Sponsoring Officer at ZO);
e) Executives/Officers* heading the branches other than the branches from where the proposal has emanated.

ii. **Zonal Level Credit Committee (ZLCC):**

a) Asst. General Manager/Chief Manager [Second Line at Z.O.];
b) Senior most officer* in charge of FMD;
c) Senior most officer* in charge of Recovery only in respect of write off / compromise proposal;
d) Chief Manager / Senior Manager / Manager [Credit] in CCPC other than those involved in processing the proposal;
e) Executives/Officers* heading the branches other than the branches from where the proposal has emanated.

*Officer in any Scale/Grade

Note: -

1. In case there is insufficiency in the number for constituting the committee as above, the Chairman of the Committee may co-opt the Executive heading the Corporate Credit branch/ Mid Corporate branch/Retail Loan Centre as members of the Committee.
2. Meetings shall be conducted zone wise, minutes shall be drawn meeting wise and all the members of the respective CLCC who have participated in the meeting shall sign the same (in other words, only those members who participated in the CLCC meeting

pertaining to a zone shall sign the minutes pertaining to that zone).

3. Members invited through Video Conference shall sign the minutes as participants.

Quorum:

i. The Minimum number of the quorum for the Committee shall be three [3].

ii. The Meeting shall be invariably attended by the Chairman of the Committee and the executive in charge of respective agenda.

iii. The member representing Recovery should invariably present at the Meeting when compromise/write off proposals are considered.

It shall be ensured that adequate checks and balances are put in place so as to avoid conflict of interest.

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2. CREDIT STRATEGIES

2.1 Introduction

2.1.1 The credit strategies articulate the Bank's approach towards the entire gamut of credit management including Investment and Cash Management services. The credit strategy of the Bank shall be in tune with the business goals, macro- economic changes taking place in the economy and shall be viable in the long run through various economic cycles.

2.1.2 The strategy shall spell out the priorities in deployment of the funds mobilized, portfolio-wise exposure levels and the overall management of the portfolios. The strategy shall clearly indicate the thrust areas for deployment of credit based on type (for example commercial, consumer, and real estate), economic sector, geographical location, currency, maturity, products and anticipated profitability.

2.1.3 The strategy shall indicate preferred category of borrowers / assets from the point of view of building a healthy credit portfolio bringing in desired growth in earnings and shareholders value.

2.2 Strategy for Credit Management

The overall strategy of the Bank towards credit management shall be as under:

2.2.1 The credit plan shall budget for credit expansion during a financial year in tune with the planned resources position as well as factoring the macroeconomic changes taking place in the economy.

2.2.2 Considering the thinning spreads in lending to corporate sector in the recent past on account of accessibility to alternative sources of funds at market related rates of interest and also with a view to spread the risk as a prudent risk management measure, the thrust for credit expansion under commercial segment shall be under small and mid-size accounts viz., borrowers under Small & Medium scale industries, Agriculture, transport operators, civil contractors, Professionals, wholesale/retail traders etc. The Bank shall continue its thrust for lending under consumer / retail segment through the various retail lending schemes in vogue.

2.2.3 The Bank finance for commercial real estate activities include advances secured by mortgages of commercial real estate [office buildings, retail space, multi- purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction etc.].

2.2.3.1 Exposure under this sector shall be taken in respect of reputed constituents having good financial standing capable of bringing in adequate funds in the form of margin money and having ability to market the project.

2.2.4 The bulk lending to well-managed Public Sector Undertakings, Financial Intermediaries like housing intermediaries, Public Sector Financial Corporations, State Government Corporations, etc. shall be at market related interest rates subject to compliance with the guidelines and exposure ceilings prescribed.

2.2.5 It shall be the endeavour to expand the borrower clientele base through continued focus on retail lending and targeting small and medium sized entrepreneurs and large corporates with sound financials for focused credit marketing. Various Retail Lending Schemes shall be reviewed and fine-tuned to make them market oriented and competitive vis-à-vis similar schemes of other Banks/ institutions. Further, innovative schemes may be formulated to elicit customer interest by providing quick and hassle free solutions to satisfy multi- dimensional credit needs of retail customers.

2.2.6 In the present competitive environment, in order to stay ahead and improve the market share in credit, efficient and quick service in credit dispensation through various branches shall be provided.

2.2.7 A well-diversified credit portfolio under different sectors /industries shall be built. Having due regard to the prevailing macro-economic scenario and the performance/ prospects/ outlook of the sectors/industries, the promising sectors/industries where fresh/additional exposure can be considered shall be internally identified at periodical intervals. An indicative list of such preferred sectors/industries is furnished in **Appendix-A.**

2.2.8 Export sector is an important segment of the economy and is a major source of precious foreign exchange for the country. Greater thrust shall be given on providing finance to export sector, which is showing encouraging performance.

2.2.9 Based on the performance and future outlook, certain industries/ sectors that are not doing well and where selective approach is to be adopted, have been identified. Fresh/additional exposure under these industries/ sectors shall be considered only in respect of well performing units in the sector/ industry, on proper justification, on case-to-case basis, with the prior approval from the competent authority.

Competent authority for the purpose of this clause shall be ZLCC in the case of sanctions by Branch and CLCC in the case of ZLCC sanctions. However, in respect of proposals from Timber Industry, the competent authority shall be CLCC in respect of sanctions up to ZLCC and HLCC in respect of CLCC sanctions. An indicative list of the above industries/ sectors is enclosed in Appendix B. The list furnished under Appendix A and B shall be reviewed / revised from time to time depending upon the performance of various industries / sectors and changes taking place in the economy.

Loans sanctioned under Corp Schemes and other structured schemes meant for MSMEs shall be excluded from Selective Approach.

Where the proposals are cleared by NBG, separate clearance from the HLCC need not be obtained.

2.2.10 The Bank shall encourage non fund based business and concerted efforts shall be made, particularly by specialised branches and branches in metro / urban centers, to secure incremental non-fund based business [LCs/BGs/DPGs] from corporates/ exporters/contractors etc. as also ensure maximum availment under the non-fund based limits sanctioned, so as to increase fee based income and contribute to the Bank's bottom line. However, endeavor shall be made to cover the cost of capital while pricing non-fund based exposure.

2.2.11 Well diversified growth of credit shall be ensured having due regard to the economic development taking place in different States, potential available for expansion of credit, performance of portfolio of different States, risk perceived and spread of branch network.

2.2.12 The major thrust under the credit portfolio shall be towards working capital and short-term finance, with the idea of quick re-cycling of funds. Medium and long term finance shall be provided subject to exposure norms prescribed by the Bank.

2.2.13 Bank shall endeavour to secure working capital finance in such cases where term loans are sanctioned under Sole Banking Arrangement.

2.2.14 For better spread management in Foreign Currency dealings, Foreign Currency liabilities mobilized by the Bank by way of deposits as well as other sources may be lent to exporters / other borrowers in tune with the guidelines framed under Foreign Currency Loan Scheme.

2.2.15 Credit shall be priced duly reckoning cost of funds, cost of services/ operating costs, risk premium, capital charge and margin of profit. The pricing shall further be subject to RBI guidelines / Bank’s internal guidelines. All applicable credit exposures under Credit Rating Framework [CRF] shall be covered in a phased manner, which shall be used for determining the risk pricing. Quantitative targets under various risk gradations shall also be fixed keeping in view the anticipated profitability from the credit operations.

2.2.16 Credit management being specialized area requiring expertise, bulk lending shall as far as possible be concentrated at select/ identified branches having required expertise and infrastructure. However, all branches shall endeavour to achieve positive growth in credit in tune with the business plan finalized each year.

2.2.17 Marketing of credit – wholesale/ bulk/Small and Medium Enterprises/ retail shall be given due importance. The services of the Marketing Division, Head Office and the services of marketing officers stationed at various centers shall also be used to fuller extent for credit marketing/ cross selling of credit products.

2.2.18 The Bank's advertisement and publicity programme shall be used for advertising various lending schemes of the Bank. The details of schemes shall also be displayed in Bank's website for the benefit of general public.

2.2.19 It shall be ensured that the funds deployed earn reasonable returns. Towards this end, continuous efforts shall be made to earn a reasonable yield on advances by proper pricing of credit vis-à-vis the risk assumed, increasing the share of lending at relatively higher rates of interest to borrowers in retail/ personal segment and small & medium sized borrowers. Better credit administration, continuous monitoring and follow up, prudent management of problem accounts, containing delinquency and recovery of Non-Performing Assets (NPAs) by compromise settlement or recovery actions, etc. are some of the areas to be given due attention to maintain / improve the average yield on advances and also overall credit management.

2.2.20 Prudential risk management practices in credit shall receive greater attention by timely identification, quantification, management and mitigation of various risks associated with credit, on a continuous basis.

2.2.21 The Bank shall aim at "Quality Credit Growth" resulting in higher earnings, shareholders value and growth of the Bank.

2.2.22 Compliance with all the Statutory and Regulatory stipulations/ requirements shall be strictly ensured in credit operations of the Bank.

2.2.23 Every year, a credit plan shall be formulated articulating desired levels of exposure under each sector / sub sector/ categories for the Bank as a whole. The credit plan shall also take into account the targets to be achieved under priority sector. The credit plan shall be formulated based on annual targets fixed under the business plan and the strategies / guidelines framed in this document. The exercise shall be first carried out at the branch unit level which has to be aggregated to form Zonal Plan. All the Zonal Plans shall be aggregated to formulate Circle Plans and these Circle plans shall be then aggregated to arrive at the Bank's Plan. The actual performance of the branch units, each of the zones as also of the Bank, shall be evaluated against such plan projections at regular intervals. Quarterly review of the actual performance vis-à-vis the plan projections shall be submitted to the Board of Directors.

2.2.24 Quantitative targets prescribed by the RBI in respect of lending under Priority Sectors, Agriculture, Small & Medium Enterprises, Weaker Sections, preferred sectors such as

export credit, sensitive sectors like capital market exposure shall be kept in view while finalizing such targets at all levels. Further, based on the strategies discussed above and as a prudent risk management measure, internal exposure ceilings for lending to various sectors, industries, products, geographical regions, currency, maturity, rating categories, etc. have been prescribed. These exposure ceilings discussed under the next chapter shall be kept in view while fixing targets under overall credit deployment plan.

2.2.25 Based on the credit expansion plans, the Bank shall assess, induct and develop through training and work experience, adequate number of credit officers for assessing, approving and managing credit risks.

2.3 Strategy for Investment

2.3.1 The Treasury Branch, Mumbai shall ensure that surplus funds of the Bank are profitably deployed in SLR/ Non-SLR securities keeping in view the guidelines issued by the RBI/ Investment Policy of the Bank/ Internal guidelines.

2.3.2 The proposals for investment in Non-SLR securities shall be subjected to detailed appraisal and rating exercise that factors in financial and non-financial parameters of issuer, sensitivity to external developments etc. as in the case of loan proposals.

2.3.3 The directives of the ALCO, issued from time to time, in respect of liquidity and interest rate risk management shall be complied with.

2.3.4 The Treasury Branch, Mumbai shall work towards improving the contribution to the Bank's profits by increasing trading volumes, retailing of securities, deployment in high yielding good rated securities, better deployment of surplus funds, entering into derivative instruments like interest rate swaps, futures/ options, etc. after necessary approvals are obtained.

2.3.5 Standard risk management practices for managing comfortable liquidity, risks arising out of variations in interest rates, forex rates, volatility in financial & equity markets and fluctuations in commodity (precious metals) prices, as determined/ directed by the ALCO shall be put in place to minimize losses on account of investment functions of the Bank.

2.4 Strategy for Collection and Payment Services (CAPS):

2.4.1 The CAPS shall endeavour to enhance the comfort / utility to the clientele utilizing Cash Management Services of the Bank by positioning various technology aided delivery channels and by developing new products.

2.4.2 Aggressive marketing of CAPS products shall be undertaken to substantially improve the business from existing clients and by adding new clients.

2.4.3 Cross selling of CAPS products shall be done through other outfits of the Bank like Credit and Treasury Branch, Mumbai for expanding the reach of the Bank in this niche area.

2.4.4 The number of outlets for CAPS services shall be increased by identifying more and more number of branches as well as correspondent Banks, so as to extend better service to clients and expand the clientele base.

2.4.5 The various risk management guidelines stated in this document such as exposure ceilings, credit origination, appraisal standards, rating of clients, approval of facilities, documentation, establishment and post-approval monitoring/ follow-up, problem management shall be followed in the CAPS operations wherever the facilities offered are in the nature of credit facilities.

2.5 The strategies stated above are broad guidelines for credit operations at various units/ offices of the Bank. Specific action plans for achievement of the plan projections shall be drawn by each business unit having regard to the market environment in which it is operating.

2.6 The performance of the Bank under credit shall be reviewed once in a quarter. The Zonal level/ Circle level progress in credit deployment/ management shall be reviewed quarterly with the Zonal Heads/ Circle Heads. The strategies finalized in the Annual Business Plan shall be adopted/ pursued for accomplishing credit goals.

APPENDIX - A

INDICATIVE LIST OF PROMISING SECTORS/ ACTIVITIES WHERE FRESH/ ADDITIONAL EXPOSURE CAN BE CONSIDERED

S. No.	SECTORS/ ACTIVITIES	S. No.	SECTORS/ ACTIVITIES
1.	Agro Processing, Spices, Fruits, Horticulture	**2.**	Fast Moving Consumer Goods, Consumer Products & Services
3.	Personal Care Products	**4.**	Drugs and Pharmaceuticals
5.	Handicrafts	**6.**	Engineering Goods
7.	Housing Finance	**8.**	Paints
9.	Automobiles	**10.**	Auto components / Ancillaries
11.	Chemicals	**12.**	Petroleum products
13.	Logistics	**14.**	Service Sector [tourism, Call Centre, E-Commerce etc.]
15.	Agro Chemicals		

A credit facility extended by the bank to a borrower for exposure in the following infrastructure sub-sectors will qualify as 'infrastructure lending' as per RBI/2015-16 /95 DBR.No.Dir.BC.10/13.03.00/2015-16 July 1, 015 Master Circular – Loans and Advances – Statutory and Other Restrictions

S.no	Category	Infrastructure sub-sectors
1.	**Transport**	i. Roads & Bridges ii. Ports[1] iii. Inland Waterways iv. Airport v. Railway Track, Tunnels, viaducts, bridges[2] vi. Urban Public Transport (except rolling stock in case of urban road transport)
2.	**Energy**	i. Electricity Generation. ii. Electricity Transmission iii. Electricity Distribution iv. Oil Pipelines v. Oil/ Gas/ Liquefied Natural Gas (LNG) storage facility[3]
3.	**Water Sanitation**	i. Solid Waste Management ii. Water supply pipelines iii. Water treatment plants iv. Sewage collection, treatment and disposal system v. Irrigation (dams, channels, embankments etc.) vi. Storm Water Drainage System vii. Slurry Pipelines

4.	**Communication**	i. Telecommunication (Fixed network)[5] ii. Telecommunication towers iii. Telecommunication & Telecom Services
5.	**Social & Commercial Infrastructure**	i. Education Institutions (capital stock) ii. Hospitals (capital stock)[6] iii. Three-star or higher category classified hotels located outside cities with population of more than 1 million. iv. Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture markets v. Fertilizer (Capital investment) vi. Post-harvest storage infrastructure for agriculture and horticultural produce including cold storage vii. Terminal markets viii. Soil-testing laboratories ix. Cold Chain[7] x. Hotels with project cost[8] of more than Rs. 200 crore each in any place in India and of any star rating; xi. Convention Centres with project cost[8] of more than Rs. 300 crore each.

1. Includes Capital Dredging
2. Includes supporting terminal infrastructure such as loading/unloading terminals, stations and building
3. Includes strategic storage of crude oil
4. Includes city gas distribution network
5. Includes optic fibre /cable networks which provide broadband / internet
6. Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres
7. Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.
8. Applicable with prospective effect from 29.11.2013 and available for eligible projects for a period of three years; Eligible costs exclude cost of land and lease charges but include interest during construction.

APPENDIX – B

INDICATIVE LIST OF ACTIVITIES

WHERE SELECTIVE APPROACH IS TO BE ADOPTED AND FRESH/ADDITIONAL EXPOSURE TO BE CONSIDERED ONLY ON PROPER JUSTIFICATION ON CASE-TO-CASE BASIS

1. Cinema Theaters [Stand-alone theaters](including production)
2. Glassware [Other than trading]
3. Granite [Other than trading]
4. HDPE Woven Sacks
5. Jute
6. Mini Cement Plants
7. Mini Paper Plants
8. Arrack Contractors
9. Commercial Real Estate [Other than Housing Loan]
10. Two wheeler dealers on non-exclusive basis
11. Micro Finance Institution
12. Film Industry
13. Power
14. Gem, Jewellery & Diamond [GJD Sector]

* Loans sanctioned under Corp Schemes and other structured schemes meant for MSMEs shall be excluded from Selective Approach.(Please also refer para 2.2.9)

An indicative list of industries/sectors under Restrictive List where selective approach is to be adopted and Fresh/ Additional exposure to be considered only on proper justification on a case to case basis. Branches/ Other offices shall obtain prior permission from HLCC before taking up fresh / additional exposure <u>in respect of sanctions up to CLCC</u>.

01 Iron & Steel [Manufacturing]
02 Aviation

However, where the proposals are cleared by NBG, separate clearance from the HLCC need not be obtained.

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3. EXPOSURE NORMS

3.1 Introduction

3.1.1 The deployment of credit shall be made in thrust areas/ sectors identified for the purpose. However, while taking credit exposures, as a prudential measure aimed at better risk management and avoidance of concentration of credit risks, the exposures shall be limited within the ceilings prescribed in terms of different economic sectors, industries, geographical location, currency, maturity, products and anticipated profitability, besides complying with RBI guidelines on prudential ceilings for individual / group borrowers.

3.1.2 The details of the ceilings fixed are dealt in detail in the following paragraphs.

3.2 Exposure Norms applicable to different categories of borrowers

3.2.1 Individuals as Borrowers

3.2.1.1 Maximum aggregate credit facilities that can be sanctioned for an Individual borrower [personal loan] shall not exceed Rs. 15 Crore

3.2.1.2 Such exposures to Individuals shall be in the nature of personal and other loans for non-business purposes. Loans to individuals/ proprietary concerns for business and commercial purposes shall however be considered under the category of non-corporate borrowers.

3.2.2 Non-corporate Borrowers

3.2.2.1 Maximum aggregate credit facilities [both fund-based and non-fund based] that can be sanctioned to Non-Corporate borrowers shall be restricted to Rs.25 Crore in the case of Individuals (i.e. Proprietorship concerns) and Rs. 150 Crore in the case of other Non-corporate borrowers [other than individuals].

3.2.2.2 In respect of new clients\obligors, the aggregate Bank's exposure including fund based and non-fund based credit limits (except for infrastructure and loans against the Bank's own deposits) shall normally not exceed Rs. 100 Crore.

3.2.2.3 However, such ceiling shall be Rs. 200 Crore per borrower and Rs. 300 Crore for group in case of loan proposals emanating from Trust/ Society engaged in the activity of running hospital / educational institutions.

3.2.2.4 The above ceiling will also be applicable to the aggregate credit facilities sanctioned to different Partnership firms with common partners and to two or more sole

proprietary business concerns with different trade names, but under the proprietorship of the same individual.

3.2.2.5 Providing any fresh credit facilities where HUF is shown as a partner in a partnership firm shall not be considered at all.

3.2.2.6 The Management Committee may approve the credit limits exceeding the above-prescribed limits on merits and with justifiable reasons.

3.2.2.7 All constituents that fall outside the purview of the Companies Act, 2013. For e.g., Proprietorship, Partnership firms, Limited Liability Partnership (LLPs), HUFs, Trusts, Societies, Associations, etc. However, One Person Company and Small Company though fall within the purview of Companies Act, 2013 shall be treated as Non-Corporate Borrowers.

3.2.3 Corporate Borrowers

Maximum aggregate credit facilities that can be sanctioned to any corporate borrower shall be restricted to prudential exposure norms stipulated by the RBI, which are as under:

3.2.3.1 The single/ group borrower prudential exposure ceilings i.e. 15 per cent and 40 per cent of capital funds respectively and the additional limit of 5 per cent and 10 per cent for exposure to infrastructure shall be strictly adhered to. However, in respect of public sector oil companies which have been issued oil bonds [which do not have SLR status] by the Government of India shall be 25 per cent of capital funds for single borrowers.

3.2.3.2 In exceptional circumstances, with the approval of the Board, enhancement of the exposure to a borrower up to a further 5 per cent of capital funds [i.e. 20 per cent of capital funds for single borrower and 45 per cent of capital funds for group borrowers] may be considered subject to the borrower consenting to the Bank making appropriate disclosures in its Annual Report.

3.2.3.3 Further in respect of exposure to infrastructure, additional sanctions up to 5 per cent and 10 per cent as indicated at [3.2.3.1] above in addition to the limits of 20 per cent and 45 per cent respectively may be considered.

3.2.3.4 While computing the extent of exposure to a borrower/ borrower group for assessing compliance vis-à-vis the single borrower limit/ group borrower limit, exposures where principal and interest are fully guaranteed by the Government of India may be excluded.

NOTE:

i. Exposure shall include credit (funded and non-funded) including those granted under Corp Instant facility and investment (including underwriting and similar commitments)

ii. The sanctioned limits or outstanding, whichever are higher, shall be reckoned for arriving at exposure limit in respect of both fund based & non-fund based limits. However, in case of fully drawn term loans and where there is no scope for re-drawal of any portion, the outstanding balance shall be reckoned as exposure.

iii. Credit exposure under forward contract in foreign exchange and other derivative products shall be calculated by multiplying the notional principal amount with a conversion factor (as prescribed by RBI) under Original Exposure Method for the purpose of determining individual / group borrower exposure. Endeavour shall be made to move over to Current Exposure method for measuring credit exposure in a derivative product in course of time.

iv. Capital funds for the purpose of computation of exposure ceilings shall be as defined under capital adequacy standards. Further, the exposure ceilings shall be calculated with reference to capital funds as published in the audited Balance Sheet as at the end of 31st March every year. The infusion of capital either through domestic issue or overseas float after the published audited Balance sheet date shall also be taken in to account for determining exposure ceilings.

3.2.4 Group

3.2.4.1 For the purpose of identification of Group Accounts, the relevant information shall be ascertained from the application/ data furnished by the borrower to the Bank. The Group may be determined on the basis of commonality of Management and effective control on the Management, which may be in the form of any/ more of the following:

3.2.4.1.1 Two concerns which have one or more common partner/ proprietor or their spouses;

3.2.4.1.2 Any of the directors of the Private/ Public Limited Company is director of another Private Limited Company/ Promoter Director in a Public Limited Company or their spouses;

It shall not be interpreted to extend concessions sanctioned / permitted to other group companies. Entities, including Public Sector Undertakings with common Directors but without effective control on the Management shall not be treated as Group.

3.2.4.1.3 A limited company which is subsidiary of another limited company is or closely held company with substantial interest [i.e., major shareholders of the equity share capital of the company is owned by another company],

3.2.4.1.4 The proprietor/ partner of a firm, is a director in a Pvt. Ltd. Company or promoter director in a Public Limited Company or their spouses.

3.2.4.1.5 In case the Managing Member of an Association/ Society or Trustee of a Trust or

Managing person of a Club is a proprietor/ Partner/ Director/ Karta of HUF/ Managing Member or Managing Person in any other constituent body of similar nature in the Firm/ Company/ Society/ Trust etc.

3.2.4.1.6 Special Purpose Vehicles [SPVs]/ Special Purpose Entities [SPEs] wherein the applicant company is having more than 51% share.

3.2.4.2 For the purpose of Group exposure in case of SPVs/ SPEs, any of the participating constituents which is having a financial stake of more than 51% in the SPV/SPE will be considered as a Group constituent, except in the case of Commercial Real Estate, where all the participating entities will be considered as Group constituents. However, this is subject to the condition that any of the participating entity will not include the financials of the SPV in their consolidated financial results.

3.2.4.3 In case of a split in a group, if the split is formalised, the splinter groups shall be regarded as separate groups.

3.2.5 Review

The implementation of the above prudential exposure management measures shall be reviewed annually and placed before the Board of Directors before the end of June and a copy of such review shall be furnished to RBI for information.

3.2.6 Exemptions

The following categories of exposures shall be excluded from the purview of the exposure ceiling:

3.2.6.1 Existing / additional credit facilities (including funding of interest and irregularities) granted to weak/sick industrial units under rehabilitation packages.

3.2.6.2 Borrowers, to whom, limits are allocated directly by the Reserve Bank, like food credit.

3.2.6.3 Loans and advances granted against the security of Bank's own term deposits

3.3 <u>Ceiling on Exposure to Unsecured Guarantees and Unsecured Advances</u>

3.3.1 "Unsecured Exposure is an exposure where the realisable value of security, as assessed by the Bank/ Approved Valuers/ Reserve Bank Inspecting Officers, is not more than 10%, ab-initio, of the outstanding exposure.

3.3.2 `Exposure' shall include all funded and non-funded exposures [including underwriting and similar commitments].

3.3.3 `Security' shall mean tangible security properly charged to the Bank and will not include intangible securities like guarantees, comfort letters etc.".

3.3.4 The Unsecured exposure of the Bank shall not exceed 40% of aggregate exposure as under:

Norms	Ceiling
[A] Aggregate Unsecured Exposure as percentage to total Exposure (Credit +Non SLR)	40%
[B] Of the [A] above, Sub-ceiling for Unsecured Credit as percentage to Aggregate Credit Exposure	30%
[B.1] Unsecured Credit Exposure to PSUs as percentage to NBC	25%
[B.2] Unsecured Credit Exposure to Pvt. and Co-operative Sector as percentage to NBC	15%
[B.3] Out of [B.2] above, Sub-ceiling for Unsecured Credit to Co-operative Sector as percentage to NBC	5%
The ceiling stipulated under (B.1), (B.2) & (B.3) can go up to a maximum of 25%, 15% & 5% respectively. However, cumulatively, the aggregate exposure to unsecured credit as percentage to aggregate credit shall not exceed 30% as stipulated in [B] above.	

3.3.5 "Secured Advances" in respect of Fund Based and Non-Fund based for the purpose of delegation of lending powers shall mean as under:-

A "fund based" credit limit is considered fully secured if,

- It is fully backed by primary tangible securities charged in favour of the Bank and/or;
- Central Government Guarantee is available.

A "Non-Fund based" credit limit [LC and BG] is to be considered as fully secured, if they are fully covered by cash margin and/or primary/other collateral securities. If not, same shall constitute unsecured/ partly secured facility.

The following securities shall not be considered as tangible securities: -

- Personal Guarantees, Corporate Guarantees, State Government Guarantee, Letters of Comfort.
- Second charge on movable securities.
- Subservient charge on movable securities.
- Negative lien on assets

However, for the purpose of income recognition, asset classification and provisioning of advances, all securities including collaterals, ECGC / DICGC Coverage, Central Government Guarantee, etc shall be reckoned as securities as per the RBI guidelines.

3.4 Substantial Exposure Limits

In respect of credit exposure to parties / corporates / PSUs individually above 10% of the Bank's capital funds, the Bank shall, as a prudent measure, endeavour to restrict its aggregate credit at a level of four times of capital funds of the Bank as defined under capital adequacy standards.

3.5 Entry Level Exposure Norms

3.5.1 In respect of new clients/ obligors, the Bank's exposure [except for infrastructure projects, PSUs and loans against Bank's own term deposits] shall normally be within the following ceilings:

[Rs. in Crore]

PARTICULARS	CORPORATES	NON-CORPORATES		INDIVIDUALBORROWER (Personal purposes)
		Sole Prop.	Others	
FUND-BASED LIMITS	**500**	10	100	10.00
NON-FUND BASED LIMITS	**500**	10	100	--
MAXIMUM AGGREGATE CREDIT	**500**	10	100*	10.00

*However, such ceiling shall be Rs. 200 Crore per borrower and Rs. 300 Crore for group in case of loan proposals emanating from Trust/ Society engaged in the activity of running hospital / educational institutions.

3.5.2 Wherever the security offered by the clients to the extent of 100% by way of cash margin/ financial assets, the entry level ceiling may be exceeded by that amount.

3.5.3 The initial exposure taken in respect of individuals, non-corporate and corporate constituents shall not, generally, be increased at least up to a period of one year from the date of first sanction. However, in deserving cases and for justifiable reasons, revision in credit limits may be considered.

3.6 Sector-wise Ceilings

3.6.1 Compliance with the exposure limits for aggregate commitments to specific sectors, industries, categories of borrowers etc., fixed having regard to the performance of different sectors / industries and the risks perceived, shall be ensured while approving any fresh credit/ investment exposure or renewal/ enhancement of an existing limit.

Note: Exposure shall mean the outstanding balance except in the case of Capital Market where Exposure shall mean sanctioned limits or outstanding balance whichever is higher. However in the case of fully drawn term loans, where there is no scope for re-drawal of any portion, the outstanding balance as exposure in the case of Capital Market exposure shall be reckoned.

3.6.2 Credit Exposure to Medium & Large Scale Industry (including non- SLR investment & CAPS exposure)

3.6.3 The Medium & Large Industrial segment shall receive due attention in credit deployment from the point of building-up volumes with quality and also from the point of contributing for the development of key sectors of the national economy.

3.6.4 The overall exposure of the Bank to medium and large industrial sector shall be within 45% of the aggregate exposure under lending including CAPS and non-SLR investment.

3.6.5 Per Industry Exposure Ceilings

3.6.5.1 Ordinarily, the per industry exposure ceiling shall not exceed 10% of the aggregate exposure under Lending including CAPS and non-SLR investment. However, this ceiling can go up to a maximum of 15%, in case additional exposure is taken in respect of well managed/ profit making Public Sector Undertakings with the specific permission of the Management Committee of the Board. However, the aggregate credit to Airline Industry shall be within 4% of NBC.

3.6.5.2 Although exposure per industry is prescribed at 10% of the aggregate exposure under Lending, non-SLR investment and CAPS, the aggregate exposure each to Petroleum and Infrastructural industry (which constitute number of industries like Power, Telecommunications, Roads, Ports etc.) can go up to 15% and 20% respectively. The exposure to infrastructure sector can go up to 20% with the following internal ceiling within infrastructure exposure.

Sl. No.	Infrastructure Sectors	As %age to Aggregate Exposure to Infrastructure
1	Power	70.0%
2	Road	20.0%
3	Telecom	30.0%
4	Others	40.0%

3.6.6 Exposure to Non-Banking Financial Companies (NBFCs)

3.6.6.1 The Bank's exposure shall normally be restricted to the existing/ prospective clients, with proven track record, sound financials and those complying with the RBI stipulated norms/ Bank's norms.

3.6.6.2 The exposure [both lending and investment, including off balance sheet exposures] of the Bank to a single NBFC/ NBFC-AFC should not exceed 10% / 15% respectively, of the Bank's capital funds as per its last audited balance sheet. Bank may, however, assume exposures

on a single NBFC/ NBFC-AFC up to 15% / 20% respectively, of their capital funds provided the exposure in excess of 10% / 15% respectively, is on account of funds on-lent by the NBFC/ NBFC-AFC to infrastructure sectors. The aggregate exposure put together to all the NBFCs other than those engaged in Housing Finance, all India Financial Institutions and Micro Financial Institutions [MFIs], shall be restricted to 10% of the aggregate exposure under Lending, non-SLR-investment & CAPS. The aggregate exposure in respect of MFIs shall not exceed 2% of aggregate exposure.

3.6.7 Exposure to Housing sector:

3.6.7.1 Exposure to housing sector both wholesale viz., Housing Finance Companies, Housing Development Boards / Corporations, HUDCO etc., and retail shall not exceed 30% of the aggregate exposure under Lending, non-SLR investment and CAPS, with a sub ceiling for wholesale sector at 15% of the aggregate exposure under Lending, non-SLR investment and CAPS. Exposure to retail housing sector shall further be within the ceilings as stipulated under chapter 18 Retail Lending.

3.6.7.2 Further, fresh/ additional exposure to housing finance companies in the private sector shall be taken selectively and only in respect of reputed constituents.

3.6.8 Exposure to Sensitive Sectors

3.6.8.1 Exposure to Real Estate Sector:

The Real Estate Advances consists of exposure to Housing Loans [both direct and indirect] and to Commercial Real Estate. The overall exposure of the Bank to Real Estate Sector shall normally be restricted to 30% of the Aggregate Exposure under Lending, Non-SLR Investment and CAPS. Exposure to Commercial Real Estate sector shall be restricted to 10% of the Net Bank Credit.

3.6.8.2 Banks' exposure to the Capital Market

3.6.8.2.1 Regulatory Limits prescribed by RBI

3.6.8.2.1.1 The Bank's aggregate exposure to the capital market in all form [both fund-based and non-fund based] shall not exceed 40 per cent of the net-worth of the Bank as at March-31st of previous year. Within this overall ceilings, the Bank's direct investment in shares, convertible bonds/ debentures, units of equity oriented mutual funds and all exposures to venture capital funds [VCFs] [both registered and unregistered] shall not exceed 20 per cent of Bank's net worth and credit exposure to capital market shall not exceed 20% of the Banks net worth. Funds angle clearance in respect of all fresh enhancement credit proposals to capital market shall be obtained from GGM (Credit) at HO by the branches.

The capital market exposure shall mean and include both direct and indirect exposures as stipulated by the RBI from time to time. Similarly, computation of Net worth shall be done as per

RBI guidelines.

3.6.8.2.1.2 This prescribed ceiling of 40 per cent of Bank's net worth for exposure to capital markets would apply to total exposure including both fund based and non-fund based to capital market in all forms.

3.6.8.2.2 Internal Ceilings:

A cautious approach in financing against shares and bonds shall be adopted. The lending against primary security of shares shall be restricted against shares in the specified approved list and in dematerialised form under 'Corp Cash Demat' Scheme.

Exposure shall be restricted to different categories of borrowers individually against shares/ Bonds/Debentures/units of equity oriented mutual funds etc. whether by way of primary or collateral security as follows:

3.6.8.2.2.1 Exposure to individual on loans against shares for personal purpose:

Loans against security of shares, convertible bonds, convertible debentures and units of equity oriented mutual funds to individuals from the Banking system shall not exceed the limit of Rs. 10 lakhs per individual if the securities are held in the physical form and Rs. 20 lakhs per individual if the security is held in the Demat form. Loans/ advances to any individual from the Banking system against the security of shares, convertible bonds, convertible debentures, units of equity oriented mutual funds and PSU bonds shall not exceed Rs. 10 lakh for subscribing to IPOs. Bank shall extend finance to employees for purchase of shares of their own companies under ESOP to the extent of 90% of purchase price of the shares or Rs. 20 lakhs, whichever is lower.

3.6.8.2.2.2 Exposure to Share Broker/ Market Maker:

I. For Corporate Borrowers falling under rating CB1to CB4

Fund based	Rs.20.00 Crore
Non-fund based	Rs.50.00 Crore
Total	Rs.50.00 Crore ###
###On obtaining in-principal clearance from HO, the ZLCC shall sanction credit limits, however within their delegated lending powers. Branch Heads do not have such powers. The proposals beyond the delegated lending powers of ZLCC shall be considered by CLCC/HLCC/CAC, as the case may be.	

II. All Non-corporate Borrowers irrespective of their rating and those

Corporate Borrowers falling under rating CB5 to CB6

Fund based	Rs.10.00 Crore
Non-fund based	Rs.20.00 Crore
Total	Rs.20.00 Crore ##
## On obtaining in-principal clearance from HO, the ZLCC shall sanction credit limits falling within their delegated lending power. Branch Heads do not have such powers. The proposals beyond the delegated lending powers of the ZLCC shall be considered by CLCC.	

- In the case of share brokers, the facility up to ceiling levels may be extended either by way of FB or NFB or a combination of both.
- Exposure ceiling to group / inter-connected broking entities/ companies shall be Rs.100 Crore. Credit facility directly or indirectly to stock brokers for arbitrage operation in stock exchanges shall not be extended.

3.6.8.2.2.3 The aggregate exposure to stockbrokers including guarantees issued on account of stockbrokers shall be restricted to Rs.1000 Crore.

3.6.8.2.2.4 Within the Bank's overall exposure ceiling fixed for share brokers, the Bank's aggregate exposure to share brokers for margin trading [funded/non-funded] shall not exceed Rs.500 Crore.

3.6.8.2.2.5 The ceilings for various investments under non-SLR category shall be as per the Investment Policy of the Bank.

3.6.8.3 Loans against sensitive commodities: (RBI/2015-16 /95 DBR.No.Dir.BC.10/13.03.00/ 2015-16 July 1, 2015 Master Circular - Loans and Advances – Statutory and Other Restrictions)
A cautious approach shall be adopted in exposure to sensitive commodities such as cereals and pulses, Gur, Sugar, Khandasari, raw cotton and kapas, Oil Seeds, Vegetable Oils, etc., to avoid over exposure against such commodities. The overall credit exposure against sensitive commodities shall not exceed 5% of the NBC.

3.6.8.4 Aggregate Exposure to Sensitive Sector:
The Aggregate Exposure to Sensitive Sectors [viz. Real Estate, Capital Market and sensitive commodities], shall not exceed 35% of Aggregate Exposure under credit (lending), CAPS and non-SLR Investments.

3.6.9 Exposure to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad:

3.6.9.1 Banks are permitted by RBI to extend credit/non-credit facilities (viz. LC & BGs) to Indian Joint Ventures/Wholly-owned Subsidiaries abroad and Step-down subsidiaries which are wholly owned by the overseas subsidiaries of the Indian Corporates including to those beyond the first level, to finance the projects undertaken abroad. Further, Buyer's credit/Acceptance finance to

overseas parties for facilitating export of goods & services from India may also be extended subject to the following conditions:

01. Loan shall be granted only to those joint ventures where the holding of Indian company is more than 51%.
02. Indian company shall be making profit for immediately preceding three years and rated minimum A [Bank's CB1 to CB3 Graded borrower in the absence of external gradation].
03. The company name shall not be appearing in RBI's Willful Defaulters' List/ Caution List, ECGC Defaulters' list.
04. The Tenor/Security/Margin of the Term loans shall be as applicable to the Indian Parent Company.
05. Bank’s aggregate assets in India shall not be less than 75% of its demand and time liabilities in India and subject to compliance of all the guidelines of the RBI in this regard**.**
06. All other Prudential Norms shall be complied with.
07. The CAC is empowered to sanction such credit facilities.
08. The aggregate Credit/ non-credit facilities to Indian joint ventures/ wholly owned subsidiaries abroad shall not exceed 20% of Bank's unimpaired capital funds.

3.6.9.2 The credit proposals of Indian companies for acquisition of equities in overseas companies shall be considered, subject to following:

I. Compliance with the SEBI/ RBI/ Government guidelines, such as [1] the aggregate Credit/ non-credit facilities to Indian joint ventures/ wholly owned subsidiaries abroad, shall not exceed 20% of Bank's unimpaired capital funds**.** [2] Loan shall be granted to joint ventures where the holding of Indian company is more than 51%.

II. The aggregate exposure shall not exceed Rs.250 Crore in this segment subject to the overall exposure to capital market shall be within 30% 40% of the Bank's networth as on last day of the previous financial year and the exposure to individual borrower shall not exceed norms as per Section 19(2) of the Banking Regulation Act, 1949.

III. Indian company shall be making profit for immediately preceding three years and rated minimum A[Bank's CB1 to CB3 Graded borrower in the absence of external gradation].

IV. The company name shall not be appearing in RBI's Willful Defaulters' List/ Caution List, ECGC Defaulters' list.

V. The tenor of Term loans shall be maximum 10 years.

VI. Security shall be the pledge of shares of overseas company to be acquired by Indian company. In the case of existing borrower, extension of the existing securities may be stipulated.

VII. Margin shall be as per RBI guidelines from time to time.

VIII. All other Prudential Norms shall be complied with.

IX. The CAC and above is empowered to sanction such credit facilities.

X. The Company name shall be searched in CRILC/RFA data base to ensure that there is no adverse remark/comment.

3.6.9.3 Bank shall not normally extend credit facilities:

I. To promoters towards contribution for equity capital
II. For acquiring/retaining controlling interest in other companies

However, finance to successful bidders under PSU disinvestments Scheme would be kept outside the purview of this restriction but the same shall be considered only with the prior approval of the Board of Directors of the Bank.

3.6.10 Foreign Currency Loans:

3.6.10.1 For better spread management in Foreign Currency dealings, Foreign Currency liabilities mobilised by the Bank by way of deposits as well as other sources may be lent to exporters/ other borrowers in tune with the guidelines framed under Foreign Currency Loan Scheme.

3.6.10.2 The Foreign Currency loans shall be granted in USD/GBP/EURO currencies only.

3.6.10.3 While sanctioning / renewing the Foreign Currency loans, the respective sanctioning authorities shall obtain confirmation of Treasury Branch, Mumbai as regards the availability of surplus funds.

3.6.10.4 The ceilings for aggregate Foreign Currency loans as well as under each approved currency shall be fixed in consultation with Treasury Branch, Mumbai taking into account the availability/cost of Foreign Currency funds for lending, alternate investment opportunities and the returns on such investments, the prevailing market scenario such as demand for credit in Foreign Currency, interest rates, etc.

3.6.11 Loans against Deposits:

There shall not be any upper ceiling for loans against deposits to depositors or third parties. However, it has to be ensured that the credit availed is not utilised for activities prohibited for financing in terms of RBI directives/ Bank's Group Credit Policy.

3.7 Rating-wise Exposure Ceilings:

3.7.1 Keeping in view the planned profitability projections from credit / investment / CAPS operations of the Bank, the overall economic scenario, performance of various industries/ sectors and the outlook for the future, credit rating-wise exposure ceilings shall be stipulated.

3.7.2 The aggregate Credit limits eligible for rating shall not exceed the following gradation-wise ceilings in the case of aggregate sanctions of Rs. ~~10~~ 25 lakhs and above.

Gradation	%age to aggregate Credit
CB1	30
CB2	30
CB3	30
CB4	40
CB5	15
CB6	15
CB7	5
CB8	5

3.7.3 The exposure in any particular rating category may exceed the above ceiling due to the extent of migration of borrowers from one rating scale to another in a particular quarter. However, necessary steps shall be taken to limit the exposure within the prescribed ceilings.

3.7.4 In the case of industries/ sectors that are not performing well or in which the outlook in the near future is not likely to be better, the exposure shall be taken only in respect of better-rated clients as determined/ communicated by corporate office.

3.7.5 A proper MIS for capturing and monitoring rating wise exposure shall be put in place

3.8 Exposure under Sub-Benchmark PLR Lending:

In tune with the Policy framed by the Bank for lending at Sub-Benchmark PLR the Bank shall restrict the aggregate exposure under this category (excluding loans against own deposits, loans below Rs.2 lakh under commercial segment, loans to staff, export credit, personal loans, advances under all Corp Schemes, agricultural loans and any other loans where the card rate is fixed below COBAR, and any other loan scheme where the applicability of Sub-Benchmark PLR [COBAR] Policy has been specifically exempted by the Board), within **5%** of Net Bank Credit.

3.9 Maturity-wise exposure ceilings:

Directions of the Asset-Liability Management Committee [ALCO] shall be adhered to with a view to reduce / avoid Asset-liability mismatches. However, the following maturity norms, with preference for quicker re-cycling, shall generally be adhered to keeping in view the risk perception in relation to tenor of the credit:

3.9.1 Short-Term Financing

I. Working capital loans repayable on demand
II. Inland bills discounting up to 120 days and export bills discounting up to 180 days.
III. Demand Loans up to 35 months
IV. Non- SLR Investments with a maturity of up to 35 months.

3.9.2 Medium Term Loans

- Medium-term loans and non-SLR investments in the maturity range of 3 years to 5 years.

3.9.3 Long Term Loans

- Term Loans and non-SLR investments of over 5 year's maturity period.

The aggregate deployment under term loans / non-SLR investments of medium and long-term maturity, considered on residual maturity basis, be restricted to 50% of the aggregate exposure under Lending, CAPS and non-SLR investments. Of these, exposure under long-term loans / non-SLR investments shall be restricted to 75% of the aggregate exposure under medium and long-term loans /non-SLR investments.

3.10 Exposure on account of dealings in Precious Metals:

3.10.1 In tune with the Bank's Policy on trading in Precious Metals, the exposure ceilings stipulated for each category of borrower/s and counter parties shall be strictly adhered to so as to mitigate the risk involved in various operations involved in dealing with the same.

3.10.2 Treasury Branch, Mumbai shall endeavour to deploy the gold mobilised Gold Monetization Scheme by way of Gold (Metal) Loans to domestic jewellery manufacturers and jewellery exporters on the policy / terms and conditions approved by the Board so as to profitably deploy the Gold mobilised under Gold Monetization Scheme and earn reasonable spreads. The policy guidelines shall be reviewed periodically by Treasury Branch, Mumbai and fine-tuned so as to make the scheme competitive in the market with reasonable earnings to the Bank.

3.10.3 Even in respect of lending of Gold under Gold (Metal) Loan Scheme, all the exposure ceilings discussed in the earlier paragraphs shall be adhered to.

3.11 Non-fund Exposure Ceilings:

The prudential limits for Off Balance Sheet exposures under LC, BG and credit exposure portion of all off Balance Sheet exposure [such as foreign exchange forward contract, credit derivatives etc.] shall not exceed 50% of NBC.

With regard to various internal ceilings stipulated in the Policy, the Management Committee shall be empowered to sanction/ approve/ ratify proposals in respect of their own sanctions and sanction by lower authorities where such ceiling are exceeded and no specific powers are provided to any other functionary.

3.12 Review of Internal Exposure Ceilings:

All the internal exposure ceilings fixed, shall be reviewed annually or at such other periodic rests, and revised wherever necessary taking into consideration the performance of various industries/ sectors of the economy, performance of Bank's portfolio under each sector/ industry and business strategy of the Bank and subject to RBI guidelines.

The various exposure ceiling fixed, such as Industry-wise, Tenor-wise, Sector-wise vis-à-vis actuals shall be monitored by CPPS, HO on quarterly basis as on every quarter end.

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4. NEW BUSINESS GROUP (NBG)

4.1 Identification/ acceptance or otherwise of the eligible new accounts is carried out through New Business Group (NBG) Committee thereby creating a barrier for entry of new account with potential for credit default. At present any new proposal for in-principle clearance of credit limits of Rs.12 Crore and above is being discussed and the decisions of the committee are being communicated to the respective Branches/ Zonal Offices/ Circle Offices for booking the proposals by obtaining the necessary papers as required in confirmation with the guidelines issued from time to time.

4.2 The group consists of MD &CEO, Executive Directors and General Managers from Credit Division, Retail Banking Division, Risk Management Division, Financial Management Division and Recovery Division at HO. The group shall look into all new credit proposals excluding loans against deposits (other than existing borrowers), covering both fund based and non-fund based aggregate exposure of Rs. 12 Crore and above from the Bank and convey their In-Principle clearance of the proposal.

4.3 As a tool for effective monitoring, the Bank shall identify and accept the eligible new account through New Business Group (NBG) and create a barrier for entry of new account with potential for credit default.

4.4 All Branches shall submit the Preliminary Information Memorandum containing the highlights of the credit proposal in brief, in the prescribed format, in respect of all new credit proposals with aggregate credit limit/s of Rs.12 Crore and above, to their respective ZOs/COs for their recommendation and onward submission to credit sanctioning division at HO for placing it before NBG. While submitting the Preliminary Information Memorandum the branches shall mandatorily carry out the due diligence/ market enquiry, verify the Credit Information Company records (e.g.- CIBIL records), verify whether borrower's/ director's name appears in the RBI's/ ECGC's defaulters list and the information is to be provided in all cases.

4.5 The NBG shall discuss and give indicative Clearance/ Expression of Interest for all new credit proposals on the basis of the Preliminary Information Memorandum placed before it by the branches. In case of need, the Zonal Head shall be called to appear on Video Conference to make presentation on the proposal to NBG.

4.6 The decision/ directions of the NBG shall be communicated to the concerned Branch, ZO & CO. The concerned branches shall arrange for necessary papers as per the guidelines based on the requirement of the nature of proposals and submit the same to the respective sanctioning division for sanction. A detailed Appraisal Note shall be placed before the competent sanctioning authority thereafter, for taking final credit decision on

the proposal in line with the procedure as mentioned hitherto by the respective sanctioning divisions at ZO/CO/HO.

4.7 ‘In Principle’ approval shall be subject to the following:

a. Compliance with the RBI/Bank’s policy guidelines
b. Proper assessment / appraisal of the facilities by the respective sanctioning division
c. Consideration by Competent Authority on merits on receipt of comprehensive proposals

4.8 The approval (In Principle) shall be valid for three months from the date of communication within which it is expected that full set of papers are received at the Branch. The Bank reserves the right to modify terms and conditions at the time of actual sanction of facilities depending upon market conditions/ extant guidelines.

4.9 An endeavour shall be made to ensure that all the ‘In Principle’ approvals are converted to regular sanctions based on the merits of individual cases.

4.10 Credit Division at HO, shall obtain confirmation from the zones on a monthly basis as per the prescribed format with a view to ascertain how many proposals cleared by NBG have been converted into actual sanctions. Credit Division at HO shall place a consolidated zone wise monthly status report to the top management in regard to the following:

a. No. of proposals referred by the zone during the month to NBG
b. No. of proposals cleared by the NBG converted into actual sanctions

4.11 The Branches and the Zonal Offices may also exercise the option of re-submission for In Principle approval in the following cases as per the prescribed format:

a. Based on the directions of the NBG to re-submit
b. Lapse of the validity period of three months from the date of approval
c. Inadequate information in the Preliminary Information Memorandum submitted by the branches
d. Any change in market conditions i.e. change in rate of interest etc.
e. Any change in the material information of the borrower/ proposal
f. In any other cases with prior approval of the competent authority at HO

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5. CREDIT INVESTIGATION

5.1 Introduction

Whenever credit requests are to be considered, it is necessary to conduct a credit investigation before taking up such cases for evaluation. This process of preliminary study needs to be undertaken invariably before detailed evaluation.

5.2 Importance of Credit Investigation

5.2.1 Credit investigation shall be conducted, which is one of the basic and fundamental requirements of pre-sanction appraisal. The investigation unfolds valuable information viz., integrity, honesty, reliability, credit-worthiness, financial status, capacity, competence, experience etc., of prospective borrower, associate concerns, and the guarantor.

5.2.2 Credit investigation is also of immense use in post-sanction scrutiny and monitoring of borrowal accounts.

5.2.3 Integrity of a borrower has no substitute. Before entering into any new credit relationship, reasonable efforts shall be made to ensure that the Bank is dealing with an individual or organization of sound repute and creditworthiness. 'Know Your Customer' (KYC) principle, is equally applicable to borrower customers. Through a proper credit investigation, the Bank shall screen and disassociate itself from individuals/organizations involved in unethical practices, fraudulent activities and other crimes. Bank credit shall not be extended without understanding the customer or his business, or where Bank's reputation may get affected.

5.3 Process of Credit Investigation:

5.3.1 Interview / discussion with the applicant:

Discussions with the applicant borrower shall be carried out and the past track record, activities presently undertaken, associate/ group concerns, details about the proposed project such as infrastructure arrangements, forward and backward linkages, source of margin, arrangements for financial tie-up, procurement of raw material, selling and marketing arrangements, etc. shall be ascertained. The inputs received through the process of discussion should help in taking a decision whether or not to take up the case for evaluation.

5.3.2 Industry Prospects:

Information, like present state and future prospects of the particular industry / activity in which the constituent is engaged duly taking in to account the market environment / demand – supply position/major competitors/market share / position of the constituent in the respective industry, shall be ascertained.

5.3.3 Financial statements:

The financial statements of the constituent/ income / wealth tax returns / assessment orders of the constituent / guarantors shall be scanned through. These statements / documents shall throw light on growth in sales, profitability, cash accruals, tangible net worth position, investment in associates, term liabilities, repayment commitment under term loans in relation to cash accruals etc. The auditor's notes to the accounts shall reveal the accounting practices followed by the business entity, details of contingent liabilities including guarantee obligations, claims relating to income tax / sales tax / excise duty / custom duty pending in the courts / tribunals. The information gathered as above shall enable to get an idea on the business ethics adopted by the constituent and to take a decision whether or not to have dealings with the constituent. Information on the associates also may be ascertained.

5.3.4 Market information:

5.3.4.1 Opinion about the applicant / associates shall be collected by making market enquiries with people in similar line of business/buyers/suppliers/competitors etc.

5.3.4.2 Even in the case of existing accounts, the market information on the constituent through reports appearing in the local press/ newspapers/business magazines/contacts with Government officials/Businessmen /Banker-colleagues/ credit rating agencies shall be kept abreast.

5.3.4.3 In the case of small borrowers, it shall be ensured that the individual resides/undertakes activity within the command area of the branch and his address shall be got confirmed. Further, discreet enquiries shall be made with nearby residents/business establishments / employer / colleagues on the standing/ creditworthiness of the borrower.

5.3.5 Confidential opinion from existing Bankers:

Confidential opinion from the existing Bankers shall invariably be obtained in all new connections. Efforts shall be made to gather full information on the credit facilities sanctioned, conduct of accounts, submission of data / information etc. Examination of the pass sheets/ statement of bank account of the previous Banker may be carried out to confirm satisfactory past dealings.

5.3.6 Pre-Sanction visit to the applicant's place:

Pre-sanction visit to the applicant's place shall be undertaken to confirm the existence of the unit as well as the assets offered as prime/ collateral security and their acceptability. The visit shall also be used to understand the trade practices/ manufacturing process of the unit/ interact with the employees/other relevant persons to collect purposeful information.

5.3.7 Report from Credit Information Companies[CICs]:

Reports from one or more of the Credit Information Companies [CICs] shall be obtained on the credit facilities enjoyed by the constituents as well as the status of the accounts. At present four Credit Information Companies [CICs] viz., Credit Information Bureau (India) Limits [CIBIL]; Equifax Credit Information Services Private Limited; Experian Credit Information Company of India Private Limited and CRIF High Mark Credit Information

Services Private Limited are granted Certificate of Registration by RBI. As and when new CICs are registered with RBI, the same would automatically form part of the aforesaid list.

5.3.8 Exchange of information in respect of Consortium/Multiple Banking:

At the time of granting fresh facilities Bank shall obtain declaration from the borrowers about the credit facilities already enjoyed by them from other banks. In the case of existing borrowers availing sanctioned limits of Rs. 5.00 crore and above or wherever it is in the knowledge that the borrowers are availing credit facilities from other banks, bank shall obtain a declaration about such credit facilities being enjoyed. Subsequently, bank shall exchange information about the conduct of the borrowers' accounts with other banks at least at quarterly intervals. Further, Bank shall also obtain regular certification by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue.

5.3.9 Verification from Central Repository of Information on Large Credits [CRILC]:

In cases where the aggregate credit limits [FB+NFB] of Rs 5 crore and above is considered/being considered, Bank shall verify CRILC to know the status of the accounts.

5.3.10 Verification from Central Fraud Registry [CFR] portal:

In cases where the aggregate credit limits [FBB+NFB] of 1.00 crore and above is considered/being considered, Bank shall verify Central Fraud Registry [CFR] Portal to know the status of the accounts.

5.4 <u>Preparation of Credit Investigation / Due Diligence Report:</u>

After undertaking credit investigation and collecting information from various sources as explained above, a due diligence report shall be prepared covering aspects like Character, Capacity and Credit-worthiness of the constituent. A due diligence report shall invariably be submitted along with the credit proposal. Further, in respect of lending under Consortium/Multiple Banking arrangement, Bank shall conduct due diligence independently irrespective of the due diligence conducted by the Lead Bank/Major Lender.

5.5 No additional facilities shall be granted by the bank to the willful defaulters. In addition, the entrepreneurs/ promoters of companies where the bank has identified siphoning/ diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions shall be debarred from institutional finance for floating new ventures for a period of 5 years from the date of removal of the name of the willful defaulter from the list of willful defaulters as published/ disseminated by RBI/CICs.

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6. APPRAISAL / EVALUATION

6.1 Introduction:

6.1.1 The appraisal / evaluation stage begins after a thorough credit investigation on the constituent has been undertaken and achieving satisfaction about his integrity, reputation and creditworthiness. The credit investigation process shall give comfort / confidence to go ahead with the Appraisal/ evaluation process.

6.1.2 The Appraisal / evaluation process involves obtention of all the required data from the borrower, and thereafter evaluating the various parameters viz., constitution, background and net worth of the promoters, purpose of the Credit, working results, financial position, requirement of credit, repayment capacity, security, guarantee, industry prospects, operations under the account, other ancillary business passed on to the Bank, etc.

6.1.3 **Appraisal/ Evaluation – Introduction:**
In respect of lending under Consortium/Multiple Banking Arrangement, wherever our Bank is a member Bank, the credit proposals shall be appraised independently.

6.2 Collection of required data from the borrower:

6.2.1 Before commencing the Appraisal process, it shall be ensured that all required information to evaluate the various parameters has been collected. The application/ information/ declaration including net worth statements of promoters / guarantors, income tax / sales tax / wealth tax returns / assessment orders, financial statements, Government approvals, project report with projected profitability / cash flow statement / balance sheet spread etc. shall be collected. This is not an exhaustive list and information to be collected shall depend on case-to-case basis. Care may be taken to obtain all the required information at one stretch as this helps in taking speedy credit decision, which is very vital in the present competitive environment. The evaluation required to be carried out under each of the parameters are discussed in the later paragraphs.

6.3 Constitution:

6.3.1 The Bank shall be clear about the constitution of the entity and shall ensure that the constituent has legal capacity to undertake business, powers to borrow/ offer securities and assume liability. The purpose of the loan shall not contravene the objectives stated in the base document through which the entity has come in to being.

6.4 Government / Regulatory Approvals:

6.4.1 It shall be ensured that the constituent has obtained all the relevant approvals from Government / Regulatory authorities, to start and carry on the business like permission to construct the factory building, securing of power / water connection, approvals from Pollution Control Board, approval from RBI / Ministry for any foreign direct investment, approval from SEBI for capital market operations etc.

6.4.2 An undertaking shall be obtained from the borrower/s that such of the National Building Code [NBC] 2005 conditions stipulated by the competent authority while issuing the construction building license, will be complied with.

6.4.3 In order to ensure that the assets created through Bank financing remain safe and disaster resilient, RBI has prescribed the Banks to adopt guidelines issued by National Disaster Management Authority (Govt. of India).

6.4.3.1 These guidelines shall be applicable to new constructions as well as additions, modifications, extensions or alteration of houses financed by the Bank.

6.4.3.2 It shall be ensured that the disaster resistant features of NDMA guidelines are incorporated in the actual construction before the loan is sanctioned or disbursed so that the disaster management features are built in at the design stage itself.

6.5 Background of the Promoters and their net worth:

6.5.1 Educational / technical qualification/ age and experience of the promoters / directors managing the affairs of the firm / company shall be evaluated to understand whether they have the requisite capacity to run the operations of the unit in an efficient and profitable manner.

6.5.2 The net worth of the promoters shall be ascertained from the net worth statements/ wealth tax returns / assessment orders. These documents indicate the financial strength of the promoters and their ability to infuse funds in case of any financial difficulty faced by the unit.

6.5.3 It shall be ensured that the promoters as well as the borrowing entity are regular in payment of statutory dues and also scrutinize documents like income tax / sales tax returns, assessment orders etc.

6.5.4 In the cases where the name of the borrower or the name of the partner / director of a borrower firm / company is appearing in the defaulters' list / caution advice circulated by the RBI / Credit Information Bureau of India Ltd / ECGC from time to time, the fact shall be clearly brought out in the appraisal note with fuller details such as the name of the defaulting company/ies, the capacity of the directors [in the case of nominee director, the name of the institution representing and in the case of professional director, his professional background] appearing in the defaulters' list / caution advice, so that the sanctioning authority may adopt a cautious approach in arriving at a credit decision.

6.5.5 The fact that the name of the borrower or the name of the partner / director of borrower firm/ company is appearing in the defaulters' list/ caution advice circulated by RBI/ Credit Information Bureau of India Ltd / ECGC from time to time shall not be the sole reason for declining of any credit proposal, which otherwise conforms to the stipulated norms. While considering such proposals proper due diligence and cross verifications of the borrowing from other Banks shall be made. The justification/ specific reason for sanction of credit facilities in all such cases, vis-à-vis the fundamentals/ financials of the borrower/ guarantor, shall be clearly brought out in the appraisal note.

6.6 Purpose of the Credit:

Purpose of the credit shall invariably be stated in all proposals. The same shall not violate any of the policy guidelines of the Bank as well as the directives issued by the Government / RBI / FEMA.

6.7 Analysis of Financial Statements:

6.7.1 In respect of larger accounts under commercial segment the financial strength/ weakness of the constituent shall be analyzed from the financial statements by using ratio analysis and cash flow analysis as important tools.

6.7.2 Audited financial statements from the borrower for the latest three years shall be obtained. In the case of borrowers seeking / extended with the aggregate credit limits of **Rs 25.00** lakhs and above from the Banking system and / or in whose case turnover exceed Rs. 1 Crore (Rs.25.00 lakhs in case of professionals) or in whose case where borrowers opt for presumptive taxation, obtention of audited financial statements is mandatory.

Explanatory Note: In case of borrowers whose turnover exceeds Rs. **1 Crore** *or who opt for presumptive taxation,* in addition to the audited financial statements, obtention of return 3CA, 3CB & 3CD under Section 44AB of the Income Tax Act (as applicable) is mandatory. Wherever required annual VAT returns shall also be obtained and scrutinised

> **6.7.2.1** Provisional financial statements shall be obtained in case the audited statements are not ready / due as per respective statutory stipulation.
>
> **6.7.2.2** Further, the latest available performance / financial position in respect of the current year may be kept in view for assessing estimates for the said year.

6.7.3 The trend in sales and net profit by comparing the actual performance vis-à-vis the estimates shall be studied. In case of under/ negative performance, reasons therefor and steps taken for improvement shall be ascertained. Further, if the situation warrants, fresh assessment of credit limits shall be carried out and options whether to continue or exit the relationship shall be weighed.

6.7.4 The trend in tangible net worth of the firm / company shall be analysed. If the trend indicates a decline, the reasons therefor must be ascertained. Quasi-equity, if any, shall

invariably be subordinated to the Bank credit. Similarly, the position of net owned funds in business shall be ascertained by reducing the funds locked in Associates / Subsidiaries / Group concerns and investments not related to business.

6.7.5 In order to evaluate the liquidity position, adequacy of net working capital (NWC) shall be studied. The detailed guidelines issued in this regard by Credit Division shall be followed. In case of negative NWC or decline in NWC, the reasons therefor and steps taken to improve the same shall be ascertained.

6.7.6 In respect of new borrowers under commercial segment, the Bank has prescribed benchmarks on Current Ratio, Debt-Equity Ratio, Debt Service Coverage Ratio, Ratio of Total Outside Liability to Tangible Net worth, etc., which are indicated in the chapter on 'Commercial Credit' [Para 17.2.2.3 and 17.2.2.4]. It shall be ensured that the borrower conforms to these standards. The deviations / relaxations in the above norms may be permitted in exceptional cases which shall be dealt with as stated in the chapter on 'Commercial Credit' [Para 17.2.2.8].

6.7.7 Full details of other borrowings (including term loans) of the constituent shall be ascertained and it shall be ensured that the same are regular. In the case of term borrowings, it shall be ensured that the cash accruals are adequate to service the yearly repayment commitments.

6.7.8 Whether the borrowing entity is regular in payment of statutory dues and adequacy of provisions in case of any arrears etc. is to be ascertained.

6.7.9 The level of inventory and its requirement in relation to the production / sales to assess whether the constituent is carrying any excessive/obsolete stocks and whether there is regular movement of stocks in the production cycle etc. is to be evaluated.

6.7.10 The position of creditors, average payment period and creditors outstanding beyond normal trade period shall be studied. Similarly, debtor's collection period/ debts outstanding for more than six months/ adequacy of collection machinery shall also be evaluated.

6.7.11 Auditors' notes to the accounts as regards contingent liabilities including claims not acknowledged as debt, guarantees executed on behalf of associate/ group companies, accounting practices followed and adverse comments if any shall be taken note of for proper evaluation.

6.7.12 Wherever credit appraisal has been carried out on the basis of provisional financial statements, follow up shall be made and audited statements shall be obtained immediately on its finalization. Variations, if any, of the audited figures as against the provisional shall be reviewed and wherever warranted corrective action shall be initiated.

6.8 <u>Details of Associate / Group Concerns:</u>

6.8.1 Endeavour shall be made to obtain and study the latest financial statements of all the Associate/ Group concerns. Endeavour shall also be made to obtain credit report on all

associate / group concerns. In case it is observed that performance / financial position of any associate / group concerns is not satisfactory, the reasons therefor shall be brought out clearly in the appraisal memorandum and favourable consideration of the proposal may be duly justified. It shall be ensured that there is no inter locking of funds affecting the financial position of the borrower company and the same shall be brought out in the appraisal note. If any of the associates / group companies are in the irregular / NPA category or in case where diversion of funds is observed, the justifiable reasons for extending the credit facility to the constituent / borrower company shall be clearly brought out in the appraisal note and the sanctioning authority may approve the credit limits on merits.

6.8.2 An analysis of the exposure to related entities and the performance of the group concerns shall be made with specific reference to the complexity of holding structure, group indebtedness/ leverage, extent of pledge of promoters shares' and associates shares', cross holding etc.

6.9 Security / Guarantee Standards:

6.9.1 Repayment capacity of the borrower shall be the prime consideration while evaluating the proposal. Security and guarantee offered by the borrower shall be considered as secondary source of repayment.

6.9.2 The assets acquired out of Bank finance shall normally be taken as primary security for the entire exposure.

6.9.3 While extending finance for acquisition of fixed assets as well as working capital finance against current assets, prescribed Loan to Value of the assets ratio (margin) shall be maintained in tune with the norms prescribed by the Bank.

6.9.4 In the case of commercial/ corporate advances, endeavour shall be made to get fixed assets of the business entity as collateral security by way of first/second charge, as the case may be. In the case of land & building property, legal opinion shall be obtained from Bank's approved advocate certifying valid, clear and marketable title. In case of loan/limit of Rs. 5.00 crore and above, two legal opinions are to be obtained from two empanelled Advocates separately.

Further, valuation report on the land and building property and other movable assets shall be obtained from the Bank's approved valuer. Such valuation report shall contain market value, realizable value and distress sale value. For the purpose of asset coverage ratio, Bank shall consider the market value of the property.

In respect of other movable assets are held as collaterals, Bank may consider the written down value of such assets as per the latest available Audited Balance Sheet.

In respect of borrowers under multiple/consortium lending, Bank may accept legal opinion/valuation report obtained by the lead Bank/ other member Banks.

In case of CB1 to CB4 graded borrowers for loans with credit limits Rs. 50 Crore and above, valuation shall be obtained from two independent approved valuers. In case of CB5 to CB8

graded borrower, such two independent valuations are to be carried out in respect of credit limits of Rs.25 Crore and above.

6.9.5 The periodicity for valuation of assets obtained as security shall be as under:-

Land and Building	Once in three years
Financial Assets [Viz., LIC policies/ NSCs/ etc]	Once in a year
Bank Deposits	Once in a Quarter
Capital Market Instruments	Once in a week

6.9.6 In cases where collateral securities standing in the name of third parties are offered for a credit facility, every endeavour shall be made to obtain the guarantee of such third parties for easy enforcement of the securities in case of need.

6.9.7 The evaluation of the security shall take into account the market value of the assets in the event of enforcement of security.

6.9.8 Collateral security shall not be insisted upon in the cases where the RBI guidelines specifically prohibit the Banks from doing so. For instance,

I. In the case of credit limits up to and inclusive of Rs.25,000/- to the borrowers under priority sector, other than agricultural loans,

II. Up to Rs.1,00,000/- to borrowers under agricultural loans,

III. Up to Rs.10 lakhs in case of Micro and Small Enterprises (MSE) advances which are necessarily covered under CGTMSE scheme,

IV. Credit facilities under Government sponsored schemes [except loans to SHGs] which are covered under CGTMSE and

V. Up to Rs. 4 lakhs under Educational Loan [Corp Vidya] Scheme.

6.9.9 Further, in the case of Micro and Small Enterprises (MSE) with sound financials and good track record, collateral security may be dispensed with for loans up to Rs. 100 lakhs, subject to, guarantee cover under CGTMSE with the approval of the sanctioning authority.

6.9.10 The other option available for the Bank for mitigating the risk is to cover the advances with guarantee. The net worth of the guarantors shall be evaluated for the purpose.

6.9.11 Credit facilities extended to private limited companies shall normally be supported by the personal guarantee of promoter-directors.

6.9.12 The guarantee of all the partners in their personal capacity shall be obtained in the case of credit facilities granted to partnership firms. Wherever partnership firm is guaranteeing the advance, the individual partners shall also join as guarantors.

6.9.13 Credit facilities to closely held concerns shall normally be supported by personal

guarantee of promoters / chief promoter of the group. **The CAC may waive such guarantees in deserving cases**. In the case of exposure to subsidiaries, endeavour shall be made to obtain corporate guarantee of the holding company.

6.9.14 In the case of smaller loans, especially in respect of new clients, suitable third party guarantee may normally be insisted upon except in cases where stipulation of third party guarantee is prohibited by the RBI/ Govt. or especially waived/not insisted upon in terms of Bank's internal guidelines.

6.9.15 The Bank shall only factor explicit guarantees into the credit decision and not those that might be considered implicit such as anticipated support from the government.

6.9.16 Wherever the State laws prohibits mortgage of agricultural properties as collateral security for loans extended for purposes other than agriculture, the same shall not be taken as security. For loans extended for commercial purposes, residential/ commercial properties shall be preferred as collateral security vis-à-vis agricultural properties in the States where the State Laws do not prohibit obtention of agricultural property as security for loans and advances for non- agricultural purposes.

6.9.17 Security Norms for Priority Sector Advances

The current margin money requirements stipulated by the bank in respect of agricultural loans are as under:

6.9.17.1 Short Term/ Working Capital/ Term Loans:

6.9.17.1.1 For loan limits upto Rs.1,00,000: NIL margin is to be stipulated

6.9.17.1.2 For loan limits above Rs.1,00,000: Minimum 15% depending upon purpose and quantum of loan and requirement of NABARD (except where specified in particular scheme)

6.9.17.1.3 Agri-business and Agri- clinics:

6.9.17.1.3.1 For loan limits *up to* Rs.5,00,000: NIL margin is to be stipulated
6.9.17.1.3.2 For loan limits *above* Rs.5,00,000: 10% margin to be stipulated

6.9.17.1.4 The provision of waiver of margin requirements for agricultural loans up to Rs. 1,00,000/-applies, inter alia, to the tenant farmers, share croppers and oral lessees.

Type of Credit Facility	Loan Limit	Security Norms
A) Short Term Loans	Up to Rs. 1000/-	DPN/ Loan Agreement only
	Rs. 1000/- to Rs. 1,00,000/-	Hypothecation of crops/ movable assets
	Over Rs.	i) Hypothecation of crops/ movable assets

	1,00,000/-	AND ii) Mortgage/ Charge Creation of Land OR Guarantee of two persons of adequate means and repute acceptable to the bank With tie-up for recovery, hypothecation of crop only upto a limit of Rs. 3,00,000/- without insisting on collateral security In case on non tie-up advances above Rs. 1,00,000/- and Rs. 3,00,000/- in case of tie-up advances collateral security to be obtained
B) Term Loans		
i) where moveable assets are created	Up to Rs. 1,00,000/-	Hypothecation of crop/ moveable assets
	Above Rs. 1,00,000/-	i) Hypothecation of crops/ moveable assets AND ii) Mortgage/ Charge creation of Land OR Guarantee of two persons of adequate means and repute acceptable to the bank
ii) Where moveable assets are not created (eg. Dug well, development of land)	Up to Rs. 1,00,000/-	Hypothecation of crops / moveable assets
	Above Rs. 1,00,000/-	i) Hypothecation of crops/ moveable assets AND ii) Mortgage/ Charge creation of Land OR Guarantee of two persons of adequate means and repute acceptable to the bank
Agri- Business & Agri- Clinic	Up to Rs. 5 Lakh	Hypothecation of moveable assets
	Above Rs. 5 Lakh	i) Hypothecation of moveable assets AND ii) Mortgage/ Charge creation of Land

- Wherever specified in any scheme, stipulated security norms shall be applicable
- The provision of waiver of security requirements for agricultural loans up to Rs. 1,00,000/- applies, inter alia, to tenant farmers, share croppers and oral lessees

6.9.17.2 Processing of Agricultural loan proposals under Risk Assessment Model [RAM]:

- In respect of Agri. loan proposals of individual farmers where the loan is extended for raising crop or any other land based activity like land development, minor irrigation, farm machinery etc, processing through RAM module is waived.

- In respect of advances to individual farmers for activities allied to agriculture, processing through RAM module is waived up to credit limit of Rs.5.00 Crore.
- In respect of agricultural loan proposals received from firms viz., partnership firms, Companies etc where financial statements like Balance sheet, P&L account are available, processing has to be done through RAM module for credit limit of Rs.25.00 lakh and above.

6.9.17.3 Approval Grid System for clearing the Agri. Loan proposals:

- All the agriculture loan proposals of Rs.10.00 lakhs & above processed at **CCPC/Zonal Office/ Circle Office/ Head Office** have to be placed before the Grid Committee for approval before placing to Sanctioning Authority as per the prevailing guidelines issued in respect of general advances.
- In respect of Agriculture loan proposals processed at Branches, which are falling within the delegated powers of Branch Manager, clearance from the Grid approval Committee is waived up to credit limit of Rs.50.00 lakhs.

6.9.17.4 Obtention of Encumbrance Certificate in Agriculture Advances :

- Wherever our Bank's charge is noted in revenue records and registered mortgage is done, obtention of periodical EC on annual basis in respect of Agriculture loans is waived subject to the condition that the account continues as Standard Asset.
- However, Branch should ensure that our Bank lien/charge is noted in the record of rights and a copy of the same is obtained annually.
- In cases of accounts classified as Sub Standard or below category, the existing procedure of obtention of EC on annual basis would continue.
- Where our Bank's charge is not noted in Revenue records and Registered Mortgage is not done, Encumbrance Certificate to be obtained annually.

6.9.17.5 Insuring the assets for loans under priority Sector:

- Insurance against all risks for assets financed/hypothecated for loans of up to Rs.50,000/- under priority sector may be waived. Where however, insurance of vehicle or machinery or other equipment/assets is compulsory under the provisions of any law or where such a requirement is stipulated in the refinance scheme of any refinancing agency or as part of Government-sponsored programmes such as PMEGP, NRLM etc, insurance should not be waived even if the relative credit facility does not exceed Rs.50,000/- as the case may be.
- The CLCC/HLCC/CAC are empowered to waive insurance cover to be obtained by the borrowers [by CLCC in respect of accounts falling in the delegated powers of branches, ZLCC & CLCC and by HLCC/CAC falling in their delegated powers] where the Insurance Companies are restricting the coverage to few diseases in activities such as Fish Crop,

Poultry etc OR in specific cases justified by the Branch/ Zonal Manager and amongst others depending on the security coverage.

In all such cases in order to mitigate the risk on waiver of insurance an undertaking letter may be obtained from the borrowers not to hold the Bank responsible for the losses on account of any eventuality and they will be solely liable and responsible for any mishaps resulting in financial loss.

6.9.17.6 Rejection of Loan proposal received under Agriculture sector, Micro & Small Enterprises, Education loan & Applications received from persons belonging to SAC-STs under Priority sector:

- Shall done by only the next higher sanctioning authority.

6.10 Margin requirements:

Margin on various approved securities should be stipulated within the prescribed range, taking into account various factors like quality of the security, fluctuations in prices, marketability, susceptibility to quick deterioration, nature of charge, type of borrower etc.

In respect of commodities/ securities which are not specifically mentioned in the list, minimum margin of 25% should be stipulated.

Margins in respect of commodities which fall within the purview of Selective credit control directives of RBI should be stipulated in accordance with the said directives and subject to such restrictions as may be stipulated by the RBI from time to time [at present only buffer stock of sugar and unreleased stock of sugar to sugar mills come under the purview of selective credit control Directives of RBI].

6.10.1 The minimum margin prescribed for various types of securities has been listed and appended as Annexure-1.

6.10.2 Powers to relax minimum margin requirements do not vest with ZLCC and lower level functionaries. CLCC shall be vested with the powers to reduce the margin to the extent of 10% for fund based credit facilities, subject to the overall margin not falling below the requirements prescribed by RBI, wherever applicable. Beyond 10%, HLCC and higher level credit approval committees shall be vested with the power to relax further, subject to the resultant margin not falling below that prescribed by RBI, wherever applicable.

For Example: In case of loan against Stocks sanctioned by ZLCC, wherein the prescribed margin is 25%, CLCC can extend a maximum concession of 10% and hence the relaxed minimum margin can be 15% and below that, the matter has to be taken up with HLCC and above.
In case of Housing loan, the minimum margin prescribed by the Bank and RBI is 10% and hence no further concession in margin requirements can be permitted by any authority.

6.11 Assessment of Credit Limits:

6.11.1 In the case of term loans for project finance or for acquisition of fixed assets, the total cost of the project / capital expenditure has to be assessed and it has to be ensured that the project cost is realistic.

6.11.2 Prescribed loan to value ratios (margin) shall be maintained and it shall be ensured that the constituent has the requisite capacity to bring in the margin contribution, to ensure timely completion of the project.

6.11.3 In respect of project financing, the financial viability of the project shall be assessed. Projected profitability / Cash flow statement and Balance sheet spread shall be obtained and fix the repayment schedule in tune with the cash accruals subject to maturity norms prescribed for each segment of the borrowers. The project shall normally have a minimum Debt Service Coverage Ratio of 1.5:1.

6.11.4 In the case of small borrowers, information on the borrower's earning capacity as revealed by past business record/ sales tax returns / assessment orders, income tax returns / assessment orders, etc. shall be collected, wherever applicable.

6.11.5 Need-based working capital credit shall be provided on the basis of assessment carried out, in tune with the methodology formulated by the Bank in this regard for different categories/ segments of borrowers.

6.11.6 In the case of Consortium Advances, the Bank shall generally fall in line with the method of lending adopted by the lead Bank. However, an independent evaluation of all the parameters shall be made and only on being satisfied / securing approval from the competent authority, shall commit for taking up share / additional exposure under the consortium.

6.11.7 Credit risk in non-fund based business shall be assessed with the same diligence as in the case of fund-based business. Need based non-fund credit limits to the customers shall be provided.

6.11.8 After putting in place necessary credit risk management tools / techniques, stress testing in the form of scenario analysis and sensitivity analysis shall be undertaken. To begin with this shall be carried out in respect of borrowers seeking / extended with credit limits of Rs.10 Crore and above and thereafter it may be extended in other cases as well.

6.12 Structuring of Credit Limits:

6.12.1 The assessed limits shall be structured in the form of different facilities having regard to the nature of activity of the constituent, process cycle, availability of security, terms of purchase and sale etc. While structuring the credit limits, operational convenience of the constituent shall be kept in view and at the same time effective monitoring and control of the advance shall be ensured.

6.13 Management and Organisational Set up:

6.13.1 The quality of management/ Board shall be assessed and it shall be ensured that Directors having good knowledge and experience in different spheres of business activity represent the management team/ Board. The organizational set-up shall be in tune with the business needs and facilitate smooth and efficient working and the management of key functions may rest with professionals. In the case of proposals of large Corporates / listed companies, the functioning of the entity in accordance with its Corporate Governance Policy may be kept in view.

6.14 Production facilities, Market Prospects and Selling Arrangements:

6.14.1 The performance of the industry / sector, the demand-supply position of the product / service shall be reviewed and the scope for creation of additional capacities shall be taken into account. The names of major players in the industry/ the constituent's position/ market share/ available advantages, in relation to other players in the industry etc. shall be ascertained. The Bank shall duly take note of macro-economic scenario/the Government policies with regard to the said industry.

6.14.2 The availability of all infrastructural facilities, forward and backward linkages for ensuring efficient operations shall be looked into.

6.14.3 Wherever external rating agencies have rated the debt instruments issued by the company such information shall also be studied and brought in the appraisal memorandum.

6.15 Multiple Banking Arrangement

6.15.1 Financing under Multiple Banking Arrangement (MBA) may be considered subject to the strict compliance of the laid down conditions and norms in view of the inherent risks involved.

6.15.2 Guidelines of Reserve Bank of India, in respect of lending under Multiple Banking Arrangement shall be adhered to.

6.15.3 Declaration shall be obtained from the borrowers about credit facilities already enjoyed by them with other Banks.

6.15.4 Exchange of information with other member Banks, obtention of necessary certificates and compliance as per the guidelines shall be adhered to scrupulously.

6.16 Operational Experience:

6.16.1 In the case of existing clients, evaluation shall also include operational experience for which the following aspects may be studied:

i. Routing of entire/ proportionate business through the Bank
ii. Regularity of accounts
iii. Number and extent of overdrawals allowed

iv. Number of cheques returned for want of funds
v. Return of bills under bills limit
vi. Bills crystallized under LC and BGs invoked, if any and how soon regularised
vii. Diversion of funds to sister / associate / group concerns
viii. Any other disturbing signals noticed

6.17 Customer Profitability Analysis:

6.17.1 The overall customer relationship shall be evaluated taking in to account the ancillary business passed on to the Bank viz., bills lodged for collection, remittances routed, float funds/ deposits provided, etc.

6.17.2 After putting in place necessary credit risk management tools and techniques, detailed analysis of Customer Profitability shall be undertaken. This shall begin with be carried out in respect of borrowers seeking / extended with credit limits of Rs.10 Crore and above and thereafter it may be extended in other cases as well. In the case of new accounts, the expected revenue / profitability from the account shall be discussed in the appraisal memorandum and later in the subsequent year, the actuals shall be compared with the estimates.

6.18 Exposure Norms:

While appraising a proposal, it shall be ensured that all exposure norms relating to individual/ group of obligor/s, industry, sector, geographical location, currency, maturity, and ratings are complied with.

6.19 Risk Rating and pricing of the exposure:

6.19.1 A SWOT analysis of the proposal shall be undertaken and major weaknesses / risk factors that may affect the performance of the obligor/s leading to deterioration of the quality of the exposure shall be identified. The obligor's capabilities to mitigate these risks shall be assessed.

6.19.2 All applicable credit exposures under Credit Rating Framework (CRF) to measure the risk and assign appropriate rating for the constituent shall be covered in a phased manner. Pricing of credit exposure shall be based on the risk ratings in terms of the guidelines framed by the Bank. Any variance in actual pricing vis-à-vis the prescribed price in relation to the rating assigned shall be documented with due justification and approval from competent authority obtained.

6.19.3 The entire portfolio under rating framework to adopt RAROC methodology for pricing shall be covered gradually and capital for each credit exposure shall be allocated.

6.19.4 Share of finance under Consortium lending may be priced in consonance with the rate of interest offered by the leader of the Consortium, however such rate of interest shall not be below the Base Rate of the Bank.

6.19.5 Share of finance under Multiple Banking Arrangement may be priced in consonance with the rate of interest offered by the Bank having majority share in such lending, however such rate of interest shall not be below the Base Rate of the Bank.

6.20 Policy Compliance:

6.20.1 The appraisal memorandum shall also contain a confirmation to the effect that the proposal conforms to the extant policy guidelines. In case of any deviations, the exact nature of the deviations vis-à-vis the policy guidelines, justifications for recommending the proposal despite deviations and approval powers of the sanctioning authority in such cases shall be clearly spelt out.

6.21 Recommendations:

6.21.1 The appraisal memorandum shall contain specific recommendations as to whether or not to approve the credit facilities. The recommendations for approval shall include the nature and extent of credit facilities proposed, purpose, security, margin, rate of interest, commission, repayment, tenor of bills, guarantors etc. Further, all necessary covenants shall be stipulated to ensure that:

i. The Bank funds are utilized for the purpose it is lent
ii. There is no diversion of funds
iii. The business entity maintains financial stability
iv. Securities stipulated are charged properly
v. The Bank is able to have proper monitoring and control over the exposure
vi. The borrower complies with laid down guidelines of the Bank / regulatory requirements.

6.22 Time norms for disposal of credit Proposals:

6.22.1 The guidelines relating to issue of acknowledgement for receipt of proposals and time norms for processing and disposal of proposals as contained in the Fair Practices Code formulated by the Bank shall be complied with. **(Refer Chapter 38- Fair Practices Code for Lending)**

6.23 Other General guidelines:

6.23.1 The appraisal memorandum for approval of new credit proposals, renewal/ review/ enhancement of existing credits, Ad-hoc facilities and revision in the terms and conditions of previously approved credits, shall normally be prepared in the formats prescribed by the Bank.

6.23.2 The appraisal guidelines discussed above shall be equally applicable in the case of credit proposals under investments and CAPS. The appraisal memorandum in the case of credit proposals under investments and CAPS shall also normally be prepared in the format prescribed by the Bank for that purpose.

6.23.3 In respect of sick / weak units, where the Bank has agreed to write-off / waive

whole or part of the dues, as per the compromise settlement approved, instead of rehabilitating the unit, no fresh finance in any form / manner shall be extended to such units except when there is a change in the management / promoters of the unit, subject to the viability being established, proper sanction being obtained and compliance of guidelines / instructions issued in the matter by the RBI / BIFR being ensured.

6.23.4 Stipulation under Para 6.23.3, shall also be applicable to any other borrowal unit/entity wherein the Bank has agreed to write-off / waive whole or part of the dues, as per the compromise settlement approved without rehabilitation of the unit and even where the name/s of such borrower/s does not appear in the defaulters list / caution list circulated by the RBI / Credit Information Bureau Ltd/ ECGC from time to time.

6.23.5 In case of term loans for projects having exposure of above Rs.10.00 Crore, the Bank shall seek TEV [Techno Economic Viability] Report duly prepared by Bank's in-house team/ empanelled agencies/ reputed Govt. Agencies/ experts [TEV Consultants]. However, the sanctioning authority on a case to case basis and on justifiable grounds may waive this condition in the case of existing customers for the term loans sought in the same line of activity. In all other cases including green field projects, where the credit facility is falling within the delegated lending powers up to the level of CLCC, HLCC shall on a case to case basis and on justifiable grounds may waive this condition. Bank may also accept TEV studies prepared by any public sector/private sector/ public sector Banks/ financial institutions where such agency also takes exposure in project financing. Any other agencies approved by the Government (Central /State) or Rating Agencies may also be accepted. Such Report may also be obtained in respect of credit limits of Rs.10 Crore & below (on case to case basis). While appraising the proposals, the comment on technical feasibility, economic viability, financial feasibility, commercial viability, management competency, environment concerns and Bankability of projects with special reference to risk analysis, asset-liability mismatch and sensitivity analysis shall be critically analysed.

6.23.6 Term Loans shall be granted for a period of 3 years and above but not exceeding 15 years except in case of scheme specific advance i.e. Housing Loan, where repayment period of more than 15 years is permitted. However, generally a repayment period of 3 to 7 years is considered taking into account the repayment capacity of the borrower, cash generation etc. In addition, **Project loans in all sectors** shall also be made available for a period of more than 15 years on case- to- case basis on merits, in conformity with the regulatory guidelines. In case of restructured term loan accounts, the tenor of the loan shall be considered on merits of each case based on the extant guidelines of RBI/ Govt. of India issued from time to time.

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Annexure-1

Schedule of Minimum Margin Requirements

Sl. No.	TYPE OF SECURITY			Minimum Margin [%]
1	Advances against Plant & Machinery			25%
2	Advances against Fixed assets [other than the above]			40%
3	Advances against Hypothecation/pledge of stocks (Including Sensitive Commodities which is furnished hereunder)			25%
4	Advances against hypothecation/pledge of stocks covered under Selective Credit Control			As prescribed by RBI from time to time
5	Advances against Book Debts (outstanding not more than 90 days)			30%
6	Advances against land and for the construction of building to industries			
	Purchase of land			50
	Construction			25
7	Advances for construction to Builders under real estate			40% of the total project cost as detailed at para 19.8.2
8	Advances against own fixed and other term deposits of the Bank			10
	Advances against third party deposits of the Bank			
9	Advances against NSCs			
	Advances against NSCs	- NSCs which have completed 3 years and above	15% of the Face Value	
		- NSCs which have completed less than 3 years	25% of the Face Value	
10	Advances against Shares			
	(i) Against approved equity shares in Demat form quoted in recognized Stock Exchanges	50% of the Market Value		
	(ii) Againstdebentures quoted	Minimum of 50% of market value		

	in recognized Stock Exchanges and units of UTI [* Units should be valued at repurchase price, Net Asset Value (NAV) or market price, whichever is less]	
11	Loans against Gold ornaments	As may be specified from time to time
12	Loans against Life Insurance policies	10% on surrender value
13	Loans under Corp Schemes	As stipulated under respective Corp Schemes from time to time
14	Loans under Govt. sponsored schemes	As stipulated under respective Schemes from time to time
15	Others	25%
16	Second Hand Machinery	50%

LIST OF SENSITIVE COMMODITIES AS PER RBI MASTER CIRCULAR

RBI/2015-16 /95 DBR.No.Dir.BC.10/13.03.00/2015-16 July 1, 2015 Master Circular- Loans and Advances – Statutory and Other Restrictions

COMMODITIES	MARGIN [%]
food grains i.e. cereals and pulses	As per SI no 3 of the approved securities and Margin
selected major oil seeds indigenously grown, viz. groundnut, rapeseed/mustard, cottonseed, linseed and castor seed, oils thereof, vanaspati and all imported oils and vegetable oils	
raw cotton and kapas	
sugar/ gur / khandsari	
Cotton textiles which include cotton yarn, man-made fibers and yarn and fabrics made out of man-made fibers and partly out of cotton yarn and partly out of man-made fibers	

Note:
As and when the above referred sensitive commodities are brought under the purview of Selective Credit Control by the RBI, minimum margin stipulation shall be in accordance with the Selective Credit Control directives of the RBI and subject to such restrictions as may be stipulated by the RBI from time to time. The margins to be maintained in respect of such commodities shall be advised to the branches/ other offices separately based on the directives issued by the RBI from time to time.

LIST OF COMMODITIES UNDER SELECTIVE CREDIT CONTROL [AS PER RBI MASTER CIRCULAR]

Presently, the following commodities are covered under stipulations of Selective Credit Control:

a) Buffer stock of sugar with Sugar Mills
b) Unreleased stocks of sugar with Sugar Mills representing levy sugar and free sale sugar

i. The minimum margin requirements shall be as under

COMMODITIES	MARGIN [%]	
	Existing	Proposed
Buffer Stock of Sugar with Sugar Mills	0%	0%
Unreleased stocks of sugar with Sugar Mills representing Levy Sugar---------------------------------→ Free Sale Sugar----------------------------→	 10% As per Sl No 3 above	 10% As per Sl No 3 above

ii. Valuation of sugar stocks

a. The unreleased stocks of the levy sugar charged to the Bank as security by the sugar mills shall be valued at levy price fixed by Government.

b. The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the Bank as security by sugar mills, shall be valued at the average of the price realised in the preceding three months (moving average) or the current market price, whichever is lower; the prices for this purpose shall be exclusive of excise duty.

iii. Interest Rates

Bank shall fix lending rates as per the present practice.

iv. Other operational stipulations

The other operational stipulations vary with specific sensitive commodities which shall be advised whenever Selective Credit Controls are reintroduced in respect of other commodities.

v. Delegation of Powers

The respective functionary shall exercise the lending powers as per the Scheme of Delegation of Lending Powers.

Selective Credit Control - Other Operational Stipulations

Although, none of the earlier stipulations are currently applicable to the only sensitive commodity covered under Selective Credit Control viz. buffer stocks and unreleased stocks of levy/free sale sugar with Sugar Mills, yet these are reproduced hereunder for understanding from the point of view of underlying objectives of Selective Credit Control so that any credit facility is not allowed to the customers dealing in Selective Credit Control commodities which would directly or indirectly defeat the purpose of the directives.

- **a.** Banks should not allow the customers dealing in Selective Credit Control commodities any credit facilities which would directly or indirectly defeat the purpose of the directive. Advances against book debts/receivables and collateral securities like LIC policies, shares and stocks and real estate should not be considered in favour of such borrowers.
- **b.** Although advances against security of or by way of purchase of demand documentary bills drawn in connection with the movement of the Selective Credit Control commodities are exempted, the bank should ensure that the bills offered have arisen out of actual movement of goods by verifying the relative invoices as also the receipts issued by transport operators, etc.
- **c.** Usance bills arising out of sale of Selective Credit Control commodities should not be discounted except to the extent specifically permitted in the directives issued.
- **d.** Clean Telegraphic Transfer Purchase facility may be allowed to a reasonable extent on certain conditions specified in the directives.
- **e.** Priority sector advances are also covered by/under Selective Credit Control directives.
- **f.** Where credit limits have been sanctioned against the security of more than one commodity and/or any other type of security, the credit limits against each commodity should be segregated and the restrictions contained in the directives made applicable to each of such segregated limit.
- **g.** Banks are free to determine the rate of interest in respect of advances covered under Selective Credit Control directives.
- **h.** Banks could grant loans to borrowers dealing in Selective Credit Control commodities, provided the term loans are used for the purpose of acquiring block assets like plant & machinery and normal appraisal and other criteria are followed by the banks.
- **i.** Reserve Bank of India authorises limits to the Food Corporation of India and State Governments for procurement of food grains; at prices fixed by the Government of India, for the Central Pool and for the distribution of the same under the Public Distribution System (PDS). As the limits are authorised without margin, credit cannot be drawn against credit sales, book debts, Government subsidies, etc.
- **j.** Banks should refer to the directives on Selective Credit Control measures issued by RBI from time to time.

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7. OFF-BALANCE SHEET EXPOSURES

7.1 Evaluation and Assessment of Limits

In the ordinary course of business non-fund based credit facilities to the customers like letters of credit, Bank guarantees, deferred payment guarantees, forward contracts etc. are required to be extended. Such facilities get converted into funded exposure in the event of the constituent failing to meet the commitment or reimburse the Bank on invocation/ crystallization of the facility. It is, therefore, necessary to manage credit risk under non-funded facility with the same diligence as in the case of funded facility.

7.1.1 Non-fund based facilities shall generally be extended only to a borrower constituent. Further, Non-fund based facilities may also be extended to a non-constituent borrower, however, at the time of granting non-fund based facilities to such constituents, banks shall obtain declaration from the customer about the fund/non-fund based credit facilities already enjoyed by them from other banks.

7.1.2 Non-fund based facilities to a constituent/ non-constituent borrower shall be taken up after taking adequate care in the form of "credit investigation" and adhering to "Know your customer" principles. The underlying nature of transaction must be fully understood and evaluated as part of approval process.

7.1.3 Credit risk in non-fund based facilities shall be assessed in a manner similar to the assessment of fund-based facilities.

7.1.4 In respect of long-term deferred payment guarantees, assessment shall be done as in the case of term loans and by evaluating the cash flows over the period of the guarantee.

7.1.5 Wherever fund based and non-fund based facilities are granted, it shall be ensured that granting of non-fund based facilities shall not result in excess / double finance.

7.1.6 In the case of guarantees covering contracts, it shall be ensured that the constituent has the requisite technical skills and experience to execute the contracts. The value of the contracts must be determined on a case-by-case basis, and separate limits shall be fixed for each contract. However, depending on the needs of the constituent, an overall limit may be granted, wherever required.

7.2 Bank Guarantee in favour of Financial Institutions:

7.2.1 Guarantee favouring other Banks/ financial institutions/ other lending agencies for loans extended by the latter shall be issued, subject to following:

7.2.1.1 The guarantee shall be extended only in respect of borrower constituents and to enable them to avail additional credit facilities from other Banks/ FIs/ lending agencies.

7.2.1.2 The funded exposure of at least 10% of the guarantee exposure shall be assumed. However, in respect of infrastructure projects, such minimum exposure shall be 5% of the project cost.

7.2.1.3 No guarantees or letters of comfort shall be extended in favour of overseas lenders including those assignable to overseas lenders except for the relaxation permitted under FEMA.

7.2.1.4 The guarantee issued by the Bank shall be an exposure on the borrowing entities on whose behalf the guarantee has been issued and accordingly, attract risk weight.

7.2.1.5 Compliance with the recommendations of the Ghosh Committee and other internal requirements relating to issue of guarantee shall be ensured, to obviate the possibilities of fraud.

7.2.2 However, the above` shall not be applicable in following cases:

7.2.2.1 Issuance of guarantees in favour of various Developmental Agencies/ Boards, like Indian Renewable Energy Development Agency, National Horticulture Board, etc. for obtaining soft loans and/ or other forms of development assistance from such Agencies/ Boards with the objective of improving the efficiency, productivity etc. subject to:

7.2.2.1.1 Bank satisfying on the basis of credit appraisal, regarding the technical feasibility, financial viability and Bankability of individual projects and/or loan proposals i.e. the standard of such appraisal should be the same, as is done in the case of a loan proposal seeking sanction of term finance/loan;

7.2.2.1.2 Bank shall suitably secure itself before extending such guarantees.

7.2.2.2 Issue of guarantees favouring HUDCO/State Housing Boards and similar bodies for loans granted by them to private borrowers who are unable to offer clean and marketable title to property, provided the Bank is otherwise satisfied about the capacity of the borrowers to adequately service such loans.

7.2.2.3 Bank as a member in the consortium, unable to participate in rehabilitation package on account of temporary liquidity constraints, shall guarantee the Bank which take up consortium share, which otherwise would have shared by our Bank but for such constraints.

7.2.2.4 Co-acceptance/ guarantee facilities under Buyers' Lines of Credit Schemes introduced by IDBI, SIDBI, EXIM Bank, PFC or any other financial institution shall not be granted, unless specifically permitted by RBI.

7.2.2.5 The guarantee shall be extended only to borrower constituent to enable them to avail additional credit facilities from other Banks/ FIs / other lending agencies;

7.2.2.6 The guarantee shall be extended to the following borrowers:

I. Public sector undertakings,
II. Corporate borrowers,
III. Partnership Firm/ Trusts/Societies regd. under Central/ State Law;

7.2.2.7 Such Aggregate Exposure by way of Bank Guarantees to other Banks/ FIs/ other lending agencies shall not exceed 5% of NBC. Further, such exposure to single corporate borrower shall be the same as applicable to the borrower as per Bank's Group Credit Policy;

7.2.2.8 The facilities shall be extended to borrowers with gradation CB1 to CB5 only;

7.2.2.9 The issue of such guarantees shall be fully secured by collateral securities with a minimum Asset Coverage Ratio of 125%;

7.2.2.10 **The powers to grant such guarantees shall be vested with HLCC/ CAC;**

7.2.2.11 The sanctions of such guarantees shall be reported to the next higher authority on monthly basis;

7.2.2.12 The review of borrowal accounts shall be carried on an annual basis;

7.2.2.13 Risk and Risk Mitigation is as applicable to the project loan and same shall be assessed in a manner similar to the assessment of fund-based facilities; and

7.2.2.14 Any deviation in above guideline shall be with the approval of Management Committee of Board.

7.3 Risk Monitoring and Control

7.3.1 Wherever constituents are extended with fund based and non-fund based facilities, security charged for fund based facilities shall as far as possible be extended to cover non-fund based facilities also. Wherever fixed assets of the business entity are available either as first charge or second charge, the same shall normally be taken as security for the credit facilities extended including non- funded facilities.

7.3.2 In the case of guarantees covering contracts, the progress vis-à-vis physical and financial indicators shall be monitored regularly, and any slippages shall be highlighted in the credit review.

7.3.3 While approving / establishing non-fund based facilities, all guidelines stipulated by the Bank / RBI / other regulatory authorities shall be complied with.

7.3.4 Non-fund based exposures shall be classified into following three broad categories to assess the overall risk profile in the portfolio:

7.3.4.1 Full risk (credit substitutes) – letters of credit, financial guarantees etc.

7.3.4.2 Medium risk (not direct credit substitutes, which do not support existing financial obligations) – performance guarantees, bid bond guarantees, indemnities & warranties.

7.3.4.3 Low risk – reverse repos, currency swaps, options, futures etc.

7.4 Assessment of Non-fund based limits

7.4.1 Bank Guarantee:

7.4.1.1 The Bank approves issuances performance guarantees after satisfying themselves that the applicant customer has the necessary capacity and means to perform the contractual obligation in accordance with the terms of contract and within the time frame provided therein. This is to ensure that the customer is not likely to commit any default under the normal circumstances.

7.4.1.2 It shall also be ensured that in case the Bank is required to make the payment under the guarantee, the customers would be in a position to reimburse the amount to the Bank and honour its commitment through his own resources as and when needed.

7.4.1.3 The proposal for guarantee shall be appraised with the same diligence as in the case of fund based limits and obtain necessary cover by way of margin etc. so as to prevent constituent developing a tendency of defaulting in payment when invoked guarantees are honoured by the Bank.

7.4.1.4 Assessment of Bank Guarantee limit required by the party shall be in line with the operating guidelines issued by the Bank from time to time.

7.4.1.5 The BGs shall normally be extended for period up to 10 years. However, in exceptional cases, BGs for periods above 10 years may be extended, duly considering the impact on the Bank's Asset Liability Management aspects. BGs for above 10 years shall be issued, only to reputed corporates/ PSUs/ Trusts/Co- operative Societies, satisfying the need of the applicant for such BGs. Further, for extending such facilities to corporates/ PSUs having satisfactory track record of operations, their ratings shall be not below Satisfactory. The HLCC/ CAC shall be the competent authority to accord sanction for such BGs.

7.4.1.6 Bank Guarantees with tenor above 10 years shall be issued to other constituents [other than reputed corporates / PSUs/ Trusts/ Cooperative Societies] with 100% cash margin only.

7.4.1.7 BGs/ equivalent commitments shall not be extended on behalf of corporate entities in respect of non-convertible debentures, corporate bonds or any debt instrument issued by it.

7.4.2 Letter of Credit

7.4.2.1 Bank shall satisfy itself the capacity of the constituent to retire the bill/s when received under the LC and shall not approach the Bank for credit facilities in this regard. For this purpose, it shall be ensured that, constituent has sources of funds through which he shall retire the bills. On the basis of above, suitable margin and other terms including securities shall be stipulated.

7.4.2.2 The assessment for arriving at the eligible limit under the Letter of Credit shall be in line with the operating guidelines issued by the Bank from time to time.

7.5 Letter of Comfort:

7.5.1 Letter of Comfort in favour of overseas suppliers Bank/ FIs may be issued, upto USD 20 million for import transactions for a period upto one year, for import of all permissible non-capital goods under foreign trade policy [except gold] and upto three years for import of capital goods subject to prudential norms issued by RBI/FEMA from time to time. The period of such Letter of Comforts shall be co- terminus with the period of credit, reckoned from the date of shipment.

7.5.2 While issuing Letter of Comforts, it shall be ensured that:

7.5.2.1 The genuineness of the transaction underlying;

7.5.2.2 Compliance of tenor, Rate of interest etc., on the Buyers Credit as per guidelines of RBI; and

7.5.2.3 Compliance of all Import Trade, Exchange Control Regulation/FEMA/RBI guidelines

7.5.3 The powers to issue Letter of Comforts shall be same as applicable to issue of Letter of Credits

7.6 Irrevocable Payment Commitments [IPCs]:

7.6.1 Irrevocable Payment Commitments [IPCs] may be issued in favour of stock exchanges on behalf of Mutual Funds to facilitate their transactions. These IPCs are in the nature of non-fund based credit facilities for purchase of shares and are treated at par with guarantees issued for the purpose of capital Market operation. However, IPCs to foreign institutional investors shall not be issued.

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8. TAKE OVER OF CREDIT LIMITS FROM OTHER BANKS/ INSTITUTIONS

8.1 Takeover of the existing credit limits/ liabilities of a unit from another Bank/ Financial Institution may be considered. Before taking over the accounts from other Banks, the standing of the individual / group / associates, their credit worthiness, the risk factors, securities available, safety of the advances etc. shall be assessed. Such proposals shall be subjected to Bank's usual scrutiny and credit appraisal.

8.1.1 **Pre Sanction Requisites**: Credit investigation shall be conducted so as to gather unbiased market information on the credit worthiness, financial standing and dealings of the prospective borrowers.

8.1.2 In all cases of takeover of borrowal accounts, due diligence shall be conducted including the visit to the premises of the customer, if needed, before the account is considered for takeover by the Bank.

8.1.3 It shall be ensured that the credit report from the transferor Bank is obtained and found satisfactory before approval / disbursement of the credit limits.

8.1.4 The reasons / circumstances/ marketing efforts, on account of which the constituent is proposing to switch over from the existing Banker to our Bank for meeting his credit requirements, shall be mentioned. Such information together with the supportive factors / justification for the Bank taking up exposure shall be furnished in the appraisal note.

8.1.5 An assessment of the credit requirements of the borrower shall be made, by calling for complete data on financials, production/ sales and also the latest annual accounts, so as to assess/ meet the borrower's genuine credit requirements fully. On the basis of such assessment, additional/ enhanced credit facilities/ limits may also be approved in tune with the extant policy guidelines of the Bank. The applicant shall be subjected to credit rating to ensure acceptability and pricing.

8.1.6 It shall be ensured that the operations in the account are satisfactory and that there has been no diversion of funds by the applicant firm by way of scrutiny of statement of account/audited balance sheet, etc.

8.2 Nature of accounts that can be taken over:

8.2.1 In respect of credit proposals wherein Gradation norms are applicable, takeover of credit limit from other Banks/ FIs shall be considered in the event the takeover proposal falls in the category of CB1 to CB4 [both inclusive] as per Borrower Gradation Norms of the Bank. Further, proposals wherein the borrower has incurred net loss in any of the preceding two financial years [audited] shall not be taken up for consideration. However, such proposals as well as those pertaining to CB5 and CB6 graded can be considered by CLCC in

the case of sanctions up to ZLCC and HLCC/CAC at HO in case of CLCC sanctions. Proposals from CB7 and CB8 graded borrowers shall not be considered.

8.2.2 The proposed facilities which are being taken over should have been classified as standard, regular. Further, accounts which have been restructured and conducted satisfactorily for a minimum period of 3 years at the other Bank may be taken over on select & justifiable grounds.

8.2.3 However in deserving cases, HLCC/CAC may relax such minimum period up to 1 year of date of commencement of principle / interest whichever is earlier as per revised repayment schedule, on proper and justifiable grounds.

8.2.4 There shall not be any irregularities of whatsoever nature relating to repayment of principal, interest and other terms with the existing lenders and account is conducted satisfactorily.

8.3 Authority for Sanction:

8.3.1 Prior permission from the ZLCC shall be obtained for sanction of takeover proposals of over Rs.25 lakhs falling within delegated powers of the branch.

8.3.2 In the case of sanctions to be accorded by the ZLCC, prior permission from CLCC shall be obtained. In case of sanctions accorded by the CLCC prior permission from the HLCC/ CAC to be obtained.

8.3.3 In respect of branch/ Zonal sanctions, enhancement in credit limit within 6 months from the date of sanction in take over cases, shall be considered with prior permission from the competent authority.

Note: Competent authority for the purpose of this clause shall be ZLCC and CLCC in the case of Branch and ZLCC sanctions respectively.

8.3.4 All the extant procedural and legal formalities such as documentation, transfer of securities, etc. shall be complied with. The proceeds of credit facilities being disbursed for takeover of liabilities shall be directly remitted to the transferor Bank for closure of the borrower's accounts at their end and all the documents such as title deeds of properties, other security documents, etc., shall be obtained directly from the transferor Bank.

8.3.5 Accounts which are proposed to be taken over, under corp schemes (except housing loans) should have completed 12 months (1 year) of satisfactory operation in the borrowal account prior to takeover with the last Bank. In respect of all other loans (except housing loans) the minimum period of 2 years of satisfactory operation, with the previous bank shall be considered. However, HLCC/ CAC may relax the period of satisfactory operation.

8.3.6 Takeover of loans pertaining to commercial real estate shall be with the prior permission from HLCC/ CAC only.

8.3.7 Takeover of loans pertaining to activities falling under Selective list shall be considered only with the prior approval next higher sanctioning authority in case of sanctions up to CLCC.

8.4 Sanction terms:

8.4.1 It shall be ensured that there shall not be any dilution in the security in absolute terms or guarantee standards while taking over the facility from transferor Bank.

8.4.2 The repayment schedule stipulated in the case of term loans taken over from other Banks/ FIs shall be co-terminus with the repayment schedule fixed by previous/earlier Bank, or earlier.

8.4.3 After take over, endeavor shall be made to switch over their entire dealings to our Bank. However, in the case of consortium/multiple banking arrangements, endeavor shall be made to switch over proportionate share in their entire dealings to our Bank. In case it is observed that short term fund such as bills portfolio / non-fund based liability is outstanding with the transferor Bank at the time of takeover, issue of counter guarantee to the transferor Bank may be considered for the said non-fund liability strictly on merit. However, the transferor Bank should undertake that immediately on receipt of counter guarantee from the transferee Bank, they will release the security document held by them directly to our Bank.

8.5 Monitoring:

8.5.1 The Mid-Term review of all take-over of borrowal accounts shall be conducted immediately after completion of six months from the date of disbursement to ensure satisfactory conduct of the borrowal account. Thereafter these borrowal accounts shall be subjected to review on annual basis.

8.5.2 CRMD at HO shall review the credit portfolio under take over accounts on yearly basis and such review note shall be placed before the Board for information / direction.

8.5.3 The Credit Audit shall be conducted in all take-over of accounts with limits of Rs 2 Crore and above.

8.6 Others:

8.6.1 The Credit proposals taken over by the Bank from any of the Bank where the EDs or CMD have worked earlier shall be placed before the Board with specific reasons justifying

the need for taking over the accounts.

8.6.2 The takeover Policy detailed in this chapter shall be applicable to all Credit proposals other than housing loan.

8.7 Takeover norms in respect of Housing Loans

8.7.1 Housing Loans availed with other banks/institutions which are conforming to our scheme guidelines are eligible for takeover.

8.7.2 Before taking over housing loan from other banks, the standing of the borrower their credit worthiness, risk factors, availability of security shall be assessed. Such loans shall be considered under our housing loan schemes as per extant guidelines of the Scheme.

8.7.3 Before taking over the loan, discreet enquiries shall be made to ascertain the reason for such takeover of loan. It shall be ensured that the applicant is opting for switch over only for genuine reasons such as to get interest rate benefit etc., and not that he has been marked for exit by the transferor bank.

8.7.4 Confidential opinion of the applicant shall be obtained from the transferor bank in the prescribed format

8.7.5 Housing Loan to be taken over should be regular/ a standard asset. Loan account statement, copy of terms & conditions of sanction shall be obtained and analyzed in this regard.

8.7.6 The existing Housing loan shall have run satisfactorily with transferor bank/Institution. There shall not be any irregularity of whatsoever nature relating to sanction terms and conditions stipulated by the transferor bank.

8.7.7 Minimum lock- in period at transferor bank/institution is not required.

8.7.8 It shall be ensured from the transferor bank that they are holding the original title deeds and other related documents pertaining to the property and they will release the title deeds soon after the loan is closed.

8.7.9 Where the takeover proposal is conforming to our Scheme guidelines as well as takeover policy, before booking the proposal, in principle clearance from the next higher authority shall be obtained. In case of Branch/Hub sanctions, in-principle clearance shall be obtained from ZLCC. In case of ZLCC sanctions it shall be obtained from CLCC. In case of CLCC sanctions, clearance shall be obtained from HLCC/CAC.

8.7.10 Housing loans where construction has been completed and the cases

where construction is not completed or under progress are eligible for take over.

8.7.11 Where the construction of property is not completed or under progress, the following additional precautions also shall be taken before taking over of loan:

a] The loan amount to be sanctioned shall not exceed the limit originally sanctioned by the transferor bank.

b] The amount released by the transferor bank is in line with construction schedule/ progress. In other words it is to be ensured that loan amount released and margin brought in by the borrower has been fully utilized for the construction.

c] Where entire loan amount has already been released and the construction is yet to be completed or not in line with construction schedule/progress, such cases should not be considered.

d] In case of flat under construction, it shall be ensured that the housing project is not time overrun due to Statutory/Judicial restrictions or for any other such reasons.

e] In case of flat under construction, Tripartite Agreement executed by the builder with transferor bank shall be substituted by new Tripartite Agreement as per our Bank's format.

8.7.12 Where the applicant is also enjoying a top-up loan along with housing loan, against the same property, in such cases, it shall be ensured that the top-up loan sanctioned by transferor bank is not to evergreen or to keep the housing loan regular so as to facilitate take over.

8.7.13 Wherever the applicant is enjoying top-up loans in addition to housing loan availed on genuine /valid purposes, top-up loan may be considered in appropriate Schemes of our Bank. [eg. If the top-up loan was availed for repair/renovation of property, the same shall be considered under Corp Ghar Shobha Scheme and not under Corp Home Scheme]

8.7.14 Fresh valuation of the property including the cases where construction is not completed and loan has been partially disbursed by transferor bank shall be obtained from the empanelled valuer of the Bank to ensure that the required margin on the value of the security is available.

8.7.15 The Maximum age of the building is fixed at 30 years. However Residual balance life of the building shall be at least 5 years or more than the repayment period.

8.7.16 Repayment period to be fixed shall not exceed balance/ left over repayment period of transferor Bank subject to compliance with the scheme guidelines of our Bank.

8.7.17 The proceeds of the loan sanctioned by our Bank along with the amount of margin money, if any, collected from the borrower shall be remitted directly to the transferor bank for closure of existing housing loan at their end and original title deeds along with other related security documents shall be obtained directly from the transferor bank.

8.7.18 In exceptional cases where the original title deeds are held at centralized location by transferor bank, it shall be ensured that the original title deeds are obtained at the earliest. An undertaking letter from the transferor bank to the effect that they are holding the original title deeds and they will release/handover the original title deeds directly to our bank at the earliest shall be obtained.

8.7.19 The above policy guidelines are equally applicable for housing loans extended under various Corp Schemes. [i.e Corp Home including variants, Corp Home –Premium NRI, Corp Ghar Shobha etc.,]

8.7.20 ZLCC /HLCC/ CLCC is empowered to permit deviations from above guidelines on a case to case basis, based on the merits of each case.

8.7.21 These Policy guidelines will supersede all the existing guidelines pertaining to take over of housing loans.

8.7.22 The above Policy guidelines are applicable only for takeover of housing loans. In respect of takeover of loans under various other Corp Schemes, the guidelines prescribed for takeover of loans under the Group Credit Policy of the Bank are applicable

Procedural Guidelines:

8.7.23 When the prospective borrower approaches for takeover of loan from other bank, the Branch, in the initial interview with the borrower, shall gather maximum information about his credit standing, list of title deeds/documents deposited with the other bank etc., and to ascertain the reason for takeover.

8.7.24 Copy of the loan sanction letter of the transferor bank shall be obtained and perused, to ascertain that the proposal prima-facie conforms to our Policy/ Scheme guidelines.

8.7.25 A letter from the applicant, addressed to the transferor bank informing his intention to shift the loan account to our Bank and authorizing our Bank to seek information related to the loan/borrower shall be obtained as per the prescribed format.

8.7.26 Forwarding letter seeking Confidential Opinion as per the prescribed format, along with a copy of the authorization letter given by the applicant shall be sent to the transferor bank.

8.7.27 On getting the required information from the transferor bank, the Branch shall seek in-principle clearance from the Competent Authority as per prescribed format.

8.7.28 On getting in –principle clearance, the Branch shall proceed in, formally booking the proposal as per extant guidelines of respective Housing Loan Schemes.

8.7.29 Initial repayment holiday is applicable only in cases where property is under construction/construction not completed. In all other cases, repayment should commence from the month subsequent to the date of transfer of loan account.

8.7.30 Regarding release of loan, obtention of original title deeds from transferor bank etc., guidelines stipulated in the Policy shall be strictly complied with.

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9. CREDIT APPROVAL

9.1 The Bank, as per a well laid down scheme of delegation of credit approval powers for credit lending/ non-SLR investment and CAPS, has delegated powers to approve credit / non-SLR investment/CAPS proposals to various functionaries/ committees.

9.2 The scheme of delegation of approval powers shall stipulate, inter-alia, the ceilings for aggregate credit limits to a single entity that could be approved by a functionary including those already extended – both fund based and non-fund based and the maximum extent up to which unsecured limits could be considered within the overall ceilings. The Scheme may also specify credit approval powers based on the ratings of the constituent and the grade of the functionary / categorization of the Branch / Office. It may also prescribe the aggregate exposure to the group / associate concerns, approval of temporary and ad-hoc credit facilities etc.

9.3 The structure, composition, functioning and the powers of the approval grid has been prescribed with the approval of the Board. The cut off limit beyond which the credit proposals shall be subjected to clearance by the Approval Grid has been clearly indicated. The Approval Grid shall comprise of at least 3 members, out of which one should represent the Risk Management Division or a Division other than Credit Sanctioning Division**. It shall be ensured that the composition of grid and the sanctioning committee shall be mutually exclusive and that there is no conflict of interest**.

9.4 The Scheme of delegation of credit approval shall also spell out the categories of exposure exempted from the ceilings stipulated for individual and aggregate exposures, the powers for permitting relaxations from the extant norms on security, minimum margin requirements, pricing, inter-changing of facilities etc., norms/ authority for delegation of additional/ higher powers, actions/ approvals that amount to exceeding/ abuse of authority, restriction/ suspension of delegated powers as well as its restoration, etc.

9.5 The Scheme of delegation of credit approval powers shall prescribe, in a phased manner, higher approval powers for sanctioning of limits to better rated / quality customers, the level of authority to approve credit when amounts increase and transaction risks increase / risk ratings worsen.

9.6 The detailed operative guidelines for exercising the delegated powers by various functionaries have been clearly spelt out in the Scheme of delegation of credit approval

powers.

9.7 Credit approval process involves various personnel from the business origination, credit analysis and the credit approval function. The credit granting process shall enable coordination of efforts of all the individuals involved so as to ensure that sound credit decisions are taken by the approving authority. At least two officials – one to appraise and recommend and the other empowered to independently approve the credit shall normally be involved in any credit decision.

9.8 The extant policies and procedures laid down by the Bank and as amended from time to time, as on the date of credit approval shall be kept in view while according credit approval by a functionary in respect of new credit, renewal of existing credit and/ or modifications in the terms and conditions of previously approved credits. Exceptions to the policy shall be considered only with the prior permission from the competent authority.

9.9 The scheme of delegation of credit approval powers shall be reviewed / revised periodically depending on business exigencies, RBI guidelines and feedback / suggestions received from the operational units/ functional divisions.

9.10 Issue of Letter of Interest

The letter of interest shall be issued, expressing the willingness of the Bank, for extending credit facility/ies to the existing/ prospective borrower/s clearly stating the extent of credit, rate of interest, tenor, security and repayment terms etc. without any commitment on the part of the Bank, subject to scrutiny of the relevant documents and fulfillment of such other conditions on the basis of which the credit decision is taken by the sanctioning authority competent to sanction such loans, as per the Scheme of Delegation of Lending Powers of the Bank.

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10. DOCUMENTATION AND ESTABLISHMENT OF FACILITIES

10.1 Proper documentation helps in identification of the borrower / guarantor, security, serves as a documentary evidence for the transaction, creation of charge over the security and enables the Bank to enforce its right/ security in a Court of Law or Administrative Authority for recovery of the dues.

10.2 It shall be ensured that the contractual arrangements between the Bank and the borrower are properly documented and executed. The detailed terms and conditions of credit approval to the customer shall be communicated in writing in the prescribed format in duplicate and obtain latter's concurrence for the same, in the copy of such communication and hold the same along with the documents.

10.3 The documents prepared/ obtained shall be legally enforceable. The documents obtained shall bind the borrower/s, co-obligant/s, guarantor/s, third parties mortgaging their land & building as security or pledging/ hypothecating their securities for the credit facility as well as create an effective and enforceable charge over the securities given/ obtained for the facility.

10.4 Before obtaining any document or entering into any agreement, it shall be ensured that the constituent executing the documents is competent to enter into a legally valid and enforceable contract. Further, the authority of the person/s executing the documents shall be confirmed by verifying supporting documents such as copies of relevant deeds/ resolutions of the Board/ Power of Attorney, etc.

10.5 It shall be ensured that the following requirements are met/ taken care while obtaining the documents from the borrower/s:

10.5.1 Specific documents for enforcement of security as required under specific State/ Central laws or stipulations by the trustees for such securities shall also be obtained, in addition to the document forms stipulated by the Bank.

10.5.2 Wherever the charge over securities are required to be registered with appropriate authorities such as Registrar of Companies, CERSAI, Revenue authorities, Regional Transport Officer, Issuer/ Registrars of/ for financial securities, etc., the same shall be complied with in the prescribed manner and within the stipulated period, if any.

10.5.3 All the documents shall be got executed in the presence of the Branch Manager or an officer of the Bank.

10.5.4 The documents shall be got completely filled up in all respects including the schedules and the execution shall be completed duly authenticating the corrections, if any, with full signature/s of the borrower / guarantor.

10.5.5 Documents shall be adequately stamped as required under the central/ respective States' Stamp Act/s, as the case may be, duly canceling the same in the required manner.

10.5.6 The documents so executed shall be examined/ verified for correctness and completion in all respects vis-à-vis facilities extended, securities stipulated and the terms & conditions on which such credit has been approved. This shall be confirmed by two officials by signing in the prescribed covering sheet for loan documents. All the documents shall be kept safely under joint custody.

10.5.7 It shall be ensured that the documents obtained are kept in force during the currency of the credit limit/s by obtaining periodic Acknowledgment of Debts. The supplementary documents shall also be obtained, wherever required, such as search reports, Encumbrance Certificates, tax & duty paid receipts/ challans, etc. to ensure that the securities obtained continue to be exclusively charged to the Bank and are enforceable.

10.6 Establishment of Facilities:

10.6.1 The credit facility shall be made available to the constituent only after ensuring complete documentation and compliance with the terms of sanction.

10.6.2 The facility shall be released in the manner stipulated in the terms of credit approval ensuring end use of funds.

10.6.3 However, all borrowal accounts with credit limit [Fund & Non Fund Based] of Rs. 50 Lakhs and above from our Bank, the documents have to be compulsorily subjected to legal audit before disbursement of the credit facility.

10.6.4 The branch shall forward to the concerned sanctioning authority, a certificate

of compliance of sanction terms in the prescribed format, within 7 days of the disbursal of the credit limits duly signed by the Branch head and the official concerned. In the case of Branch sanctions, such certificate shall be held at the branch.

10.6.5 Completion of legal audit of loan documentation in all applicable cases shall be arranged for immediately on establishment of facilities but before disbursement of the credit facilities. In the case of non-SLR investments the cut off limit for the purpose of legal audit shall be Rs. 3 Crore and above. In the case of credit exposure under CAPS the documentation prescribed shall be taken and the cut off limit for legal audit shall be Rs.3 Crore and above.

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11 PROBLEM LOAN MANAGEMENT

11.1 Introduction:

The Bank undertakes credit exposure after subjecting every proposal to proper risk assessment and evaluation process and considering the same as an acceptable credit risk. In spite of following systematic credit appraisal & evaluation procedure, some of the borrowal accounts may develop credit weaknesses on account of adverse internal or external factors. This results in drift in overall health of such accounts and the same turning into a problem credit. The Bank shall have a well-structured system for early tracking of such accounts before their turning into a problem account to deal effectively in terms of remedial management and curtailing losses.

11.2.0 The Standard Loan Assets shall be classified under three categories, viz, A-1 (Regular),A-2 (Irregular) and A-3 (Special Mention accounts – SMA).

11.2.1 With a view to identifying incipient stress in the borrowal account, following three sub-categories shall be carved out from the loans under Irregular (A2) Account and Special Mention (A3) Account categories:

Sub Categories	Definition
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient Stress (please see **Annexure** for illustrative list of signs of incipient sickness).
SMA-1	Principal or interest payment overdue between 31-60 days.
SMA-2	Principal or interest payment overdue between 61-90 days.

11.2.2 The operating guidelines relating to classification of Standard Loan Assets into three categories and three SMA Sub-categories as set out in 11.2.0 & 11.2.1 above shall be issued /reviewed from time to time with the approval of the competent authority.

11.3.0 The Credit Monitoring Reports under the Graded System of Monitoring of Borrowal Accounts (with Fund based and / or Non Fund Based exposure of Rs.1.00 crore and above), shall enable the monitoring authorities at ZO / CO / HO to identify and monitor the borrowal accounts under the following five aspects, based on the size of the limit at various levels:

a. Accounts with over dues of more than 30 days.
b. Review / Renewal pending for more than 3 months.

c. Position of crystallised Liabilities (Invocation of BGS / Devolvement of L/Cs).
d. Accounts which are restructured including under CDR and status thereof.
e. Accounts where noncompliance of terms and conditions of sanction is observed / pending observations in Legal Audit.

11.3.1. The monitoring authorities shall ensure to monitor the Borrowal accounts based on the above five aspects and initiate effective steps to enhance the quality of the accounts on continuous basis.

11.3.2. The operating guidelines relating to the Graded System of Monitoring of Borrowal accounts shall be issued / reviewed from time to time, with the approval of the competent authority.

11.4 <u>Action points:</u>

11.4.1 The Bank shall put in place a system wherein the potential problems could be recognized in the initial stage itself i.e., when the account starts showing first signs of weakness before turning into NPA.

11.4.2 The occurrence of one or more of the following events shall be construed as an indication of the drift in the health of an account:

11.4.2.1 Delay in submission of stock statement / other control statements / financial statements.

11.4.2.2 Return of cheques issued by borrowers.

11.4.2.3 Return of bills / cheques discounted.

11.4.2.4 Non-payment of bills discounted or under collection

11.4.2.5 Devolvement of Deferred Payment Guarantee installments/ bills under Letters of Credit and non-payment within a reasonable period

11.4.2.6 Frequent invocation of Bank Guarantees and non-payment of the crystallized amount within a reasonable period

11.4.2.7 Poor financial performance in terms of declining sales and profits, cash losses, net losses, erosion of net worth, etc.

11.4.2.8 Incomplete documentation in terms of creation / registration of charge/mortgage etc.

11.4.2.9 Non-compliance of terms and conditions of sanction

Further, EWS and red flagging guidelines as covered in Fraud Risk Management policy shall be adhered to.

11.4.3 The Bank shall, based on the early warning/ alert signals detailed above, identify accounts with overdues/ irregularities persisting for over a month's period for a proactive intervention to assess whether the default is due to some inherent weakness or due to a temporary liquidity or cash flow problem, and accordingly calibrate its response.

11.4.4 All the accounts displaying unsatisfactory features/ overdues/ irregularities persisting for more than 60 days shall be put under Special Mention Accounts category for follow up and taking time bound action to prevent their further slippage.

11.4.5 Until such time all applicable credit exposures are covered under the rating mechanism, the problem management shall be carried out based on both Rating and Health Code system. Accounts classified under A3 shall be considered under 'Special Mention Accounts'.

11.4.6 The slippage of the borrowal account to NPA category within 1 year of the initial disbursement of the loan shall be treated as account with early mortality

11.5 Restructuring/ Rehabilitation:

Proposals from Borrowers/ promoters whose sincerity, wherewithal and capability to achieve a turnaround are most likely, may be considered for rehabilitation/ additional exposures based on an objective assessment. Further, basic viability of the enterprise in the context of quality of management shall also be examined before committing additional funding. (Refer Chapter 35 & Chapter 36)

11.6 Recall/ Recovery action:

11.6.1 In the case of problem accounts, if on an objective appraisal/ study it is found that the revival of the borrowal account by way of restructuring of debt or additional funding or rehabilitation package is not feasible, the Bank shall initiate recovery action immediately.

11.6.2 In such cases, the branch shall seek permission from the competent authority to proceed with the recovery action like recall of the advance, enforcement of security interest, filing of suit, etc.

11.6.3 After getting permission from competent authority, the advance shall be first recalled by issuing an appropriate notice to the concerned parties.

11.6.4 In response to the Bank's recall notice if the borrower responds positively by putting forth a proposal for compromise settlement of the dues, the Bank shall examine the feasibility and acceptability of such a proposal in the light of Bank's/ RBI guidelines on the subject.

11.6.5 In case the borrower fails to clear the dues within the given date or does not come up with a reasonable/ acceptable plan of action for repayment of the dues, the Bank shall proceed with recovery action.

11.6.6 The Bank shall invoke the guarantee under special schemes like ECGC for export transactions, CGTMSE for MSE accounts, etc. The securities held by the Bank shall also be enforced by taking possession and disposal, if need be, under the provisions of the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 [SARFAESI Act] and the proceeds shall be adjusted towards the dues. The Bank shall also exercise the right of general lien/ set off against any other assets of the borrower held by the Bank.

11.6.7 The Bank may also take recourse to recovery action under SARFAESI Act, where malfeasance on the part of promoters / borrowers is encountered and in dealing with recalcitrant borrowers & willful defaulters.

11.6.8 The Bank shall establish specialized recovery branches such as Asset Recovery Management Branches at major centers, to deal with larger accounts identified for recovery action.

11.6.9 The Notice [under SARFAESI Act/ any other type] sent to the borrower for recalling the advances, if found futile, further action for recovery shall have to be initiated as per Recovery Policy of the Bank, immediately.

11.7 Legal aspects:

11.7.1 The facility of arbitration shall be effectively used for quick and faster settlement of dues in small and mid-sized accounts wherever arbitration agreements have been obtained.

11.7.2 The Bank shall, in respect of totally unviable units, initiate action for winding up/ selling of the unit early, so as to recover whatever is possible through legal means before the security position becomes worse in terms of its value and saleability

11.7.3 Legal action shall be initiated once the Bank concludes that rehabilitation is not feasible and no other option is available for recovery of the dues. Steps shall be taken to file suit for recovery expeditiously in the court of Law/ before Debt Recovery Tribunals to recover the dues.

11.7.4 Bank may also take recourse to criminal proceedings along with civil suit where misleading information has been furnished influencing the bank's credit decision and in case of value-less guarantees and diversion of funds.

11.7.5 The recovery suits shall be followed up till the suit is decreed. Branch officials shall file Execution Petition for enforcement of the decree within reasonable time, if the judgment debtors fail to repay the dues in terms of the decree and take steps for attachment of debtors' assets and their sale.

11.7.6 All legal aspects under suit filed accounts shall be closely and effectively followed up under legal advice from Bank's law officers/ empanelled practicing advocates.

11.7.7 In the case of all problem accounts with outstanding up to Rs.10 lakhs, irrespective of whether legal action has been initiated or not, the Bank shall follow- up with the borrowers and explore the possibility of recovery through Lok Adalats.

11.7.8 Where revenue recovery facility is available in respect of small loans, the same may be used to recover the dues.

11.7.9 Accounting policies, principles and procedures in respect of income recognition, asset classification and provisioning requirements in terms of guidelines issued by RBI from time to time shall be followed.

11.7.10 In respect of exposures, where deterioration in credit quality is observed and accounts have slipped to NPA category, say within a period of one year from the date of first release, the Bank shall undertake a detailed analysis to ascertain the causes for the deterioration in credit quality and corrective actions shall be initiated.

11.7.11 The Bank may go for OTS of the NPA in line with Recovery Policy guidelines.

11.8 The fresh credit proposals from borrowers whose loan account has been closed under compromise arrangements for one time settlement in our Bank or with any other bank with or without sacrifice may be considered provided:

I. the borrower was not a willful defaulter;
II. the proceeds of fresh credit is to be utilized only for the purpose mentioned in the application, other than for closure of existing liability with our Bank/any others.

11.8.1 Bank may consider fresh credit proposals from corporate borrowers for closure of their loan accounts through OTS with our Bank or any other banks if the new

management/promoters/directors of the company are no way connected as promoters/ directors of the earlier Company.

11.8.2 Such proposals shall be sanctioned by the HLCC/ CAC. However, proposals pertaining to agriculture and allied activities shall be considered by the respective sanctioning authority within their delegated lending powers.

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12 INTER-BANK EXPOSURE

12.1 Introduction:

Inter-Bank exposures may be assumed during the course of business arising from trade transactions, money placements for liquidity management purposes, trading and transactional Banking services such as clearing and custody, etc. Such transactions involve credit risk. While exposing to such inter Bank credit risks, following shall be adhered to:

12.1.1 The Inter Bank Liability [IBL] should not exceed 300% of Bank's networth as on 31st March of the previous financial year.

12.1.2 The limit prescribed above will include only fund based IBL within India [including IBLs in foreign currency to Banks operating within India]. In other words, the IBL outside India are excluded.

12.1.3 The above limits shall not include collateralized borrowings under CBLO and refinance from NABARD, SIDBI etc.

12.1.4 The existing limit on the call money borrowings prescribed by RBI shall operate as a sub-limit within the above limits.

12.2 Credit Risk Evaluation and Rating of Banks:

12.2.1 The credit risk evaluation of the counter party Banks shall be carried out covering the financial aspects including capital adequacy, asset quality, liquidity and profitability as well as non-financial areas such as management, ownership, peer/ market perception and country risk.

12.2.2 Uniform appraisal/ assessment methodology shall be adopted covering the above parameters while fixing limits for direct exposures on Banks or for exposures on behalf of Bank’s constituents.

12.2.3 Credit rating models shall be put in place to evaluate and rate the counter party Banks to determine exposure limits, maximum level of on balance sheet or off balance sheet exposures, maximum tenors for various exposures to a particular Bank/ Banking group for inter-Bank transactions.

12.2.4 The rating categories and Bank-wise exposure ceilings stipulated are furnished hereunder:

Rating Categories	Description of Risk	Maximum Exposure Ceiling
1	Low Risk	Equal to our Bank's Capital*
2	Modest Risk	75% of our Bank's Capital*
3	Satisfactory risk	50% of our Bank's Capital*
4	Fair Risk	25% of our Bank's Capital*
5	Acceptable Risk	10% of our Bank's Capital*
6	Watch List	NIL
7	Sub-standard	NIL
8	Doubtful	NIL
9	Loss	NIL

* Capital of our Bank as defined under Capital Adequacy standards.

12.2.5 The exposure ceilings linked to rating, as stipulated above, shall be applicable to all public sector Banks, foreign Banks – whether having branches in India or not, and private sector scheduled commercial Banks.

12.2.6 Branches of foreign Banks operating in India, for exposure purposes, shall be considered as international Banks and their global network shall be taken into account for calculation of limits. However, while fixing the limits for the Indian operations of those Banks, due weightage shall be given to the capital invested in their local branches.

12.2.7 In fixing counter party Bank exposure limits, due weightage shall be given to country risk also.

12.2.8 Documentary Bill purchased/ discounted /negotiated under Prime Bank LC, accepted for payment by the LC issuing Bank/Drawee Bank and where confirmation of due date of the bill is received, would not be reckoned as exposure on borrower. Such exposure shall be treated as exposure on LC issuing Bank/Drawee Bank.

12.3 Finance to Co-operative Banks:

12.3.1 In normal circumstances, fresh sanction of any unsecured credit facility, whether FB or NFB including Guarantees and Temporary overdrafts, are not to be sanctioned to any Co-operative Bank.

12.3.2 Also, guarantee or any other credit facility is not to be sanctioned to any customer of any co-operative Bank merely on the strength of counter-guarantee of a co-operative Bank.

12.3.3 In exceptionally meritorious cases, the proposal for sanction of fresh/ new credit facility to apex co-operative banks / other scheduled co- operative banks having good financials or to their customers on the strength of counter guarantee of such a co-operative bank may be sanctioned by the CLCC/ ZLCC within the delegated powers subject to prior permission from HLCC/ CAC.

12.3.4 However, the above guidelines shall not be applicable in respect of loans against deposits.

12.3.5 Exposure limits for each of the Banks shall be fixed by the HLCC/ CAC only at the Corporate Office based on the rating assigned and within the ceilings stipulated for the respective rating category, after due appraisal/ assessment of requirement.

12.3.6 Medium term loan facilities and standby facilities may be considered in exceptional cases only.

12.3.7 The requirement of rating/ ceilings stipulated as above shall not be applicable to Bank's dealings with/ exposures to the Reserve Bank of India.

12.3.8 The exposure shall cover dealings with all the branches / offices of a particular counter party Bank, on a consolidated basis.

12.3.9 The monitoring of exposure to Banks shall be centralised on a Bank-wide basis at the Corporate Office (TID). Bank-wise limits shall be allocated to different centres/ branches and the same shall be regularly monitored.

12.3.10 The rating and the exposure limits shall be reviewed annually or on happening of any major event having a bearing on the rating of the Bank/s.

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13 COUNTRY RISK

13.1 The Bank encounters country risk in the case of cross border lending / investment and where finance is extended to its constituents under foreign trade transactions. Country risk comprises of Transfer risk, Sovereign risk, Non-sovereign or Political risk, Cross border risk and Currency risk.

13.2 Aggregation of the country exposures and monitoring thereof against preset limits, based on a rating framework, constitutes Country Risk Management Framework.

13.3 Countries shall be broadly classified into seven risk categories based on risk level into insignificant, low, moderate, high, very high, restricted and off-credit risk.

13.3.1 The Bank shall, for the time being, make use of the sovereign ratings assigned by international credit rating agencies to rate the countries. In cases of divergence in the ratings accorded by different rating agencies, the lower/ lowest of the ratings shall be considered.

13.3.2 As and when IBA finalises the mechanism for risk categorisation of the countries, the Bank shall adopt the said mechanism for rating the countries.

13.3.3 The Bank shall adopt the country risk ratings as assessed by ECGC Ltd/ Dun & Bradstreet

13.3.4 Till such time the Bank develops internal rating system / IBA finalizes rating mechanism, the Bank may use the country risk classification followed by ECGC Ltd.

13.3.5 Treasury Branch, Mumbai shall review the country risk ratings annually and on occurrence of any major events in a country.

13.4 Based on the risk rating and rating assigned by the reputed international Rating Agencies, like S&P etc., the country-wise/ regional exposure limits for country groups shall be fixed by the Bank in relation to Bank's regulatory [Tier- I+ Tier-II] with sub-limits for products, branches and maturity. The country-wise exposure limits set shall be reviewed by Treasury Branch, Mumbai, on monthly basis.

13.5 Exposure to individual/ group of countries shall be limited as per the ceilings fixed by the Treasury Branch, Mumbai from time to time. Further, within the ceilings, sub-limits for products, branches and maturities shall be allocated by Treasury Branch, Mumbai and advised to the concerned Branches / offices.

13.6 Exposure to a country shall be aggregated, consisting of all assets that represent claims on the residents as well as the government of that country.

13.7 Whenever a credit proposal for export finance is evaluated, the country exposure shall also be examined. Exposure on countries, which are placed under restricted cover by ECGC shall not be taken.

13.8 In respect of the country, where the Bank's net funded exposure is 1% or more of its total assets, indirect country risk shall be reckoned for measuring, monitoring and controlling that country risk. Indirect exposures shall be reckoned at 50% of the exposure for the purpose of arriving at aggregate Country Risk exposure.

13.9 Provisions for Country Risk exposures shall be made as per RBI guidelines RBI/2015-16/101 DBR.No.BP.BC.2/21.04.048/2015-16 July 1, 2015 Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances and for the purpose shall use the seven-category classification of countries followed by ECGC as furnished hereunder :

Risk Category	**ECGC Classification**	**Provision requirement (Per cent %)**
Insignificant	A1	0.25
Low	A2	0.25
Moderate	B1	5
High	B2	20
Very High	C1	25
Restricted	C2	100
Off-credit	D	100

The provision for country risk shall be in addition to the provisions required to be held according to the asset classification status of the asset. In the case of 'loss assets' and 'doubtful assets', provision held, including provision held for country risk, may not exceed 100% of the outstanding.

13.10 The country exposures shall be monitored on a weekly basis regularly and additionally on real time basis in case of need.

13.11 The Treasury Branch, Mumbai shall be responsible for monitoring of country exposure.

13.12 Review of country risk exposures shall be placed to the Board at quarterly intervals. The review shall include progress in establishing internal country rating system, compliance with the regulatory and the internal limits, results of stress tests and the exit options available to the Bank in respect of countries belonging to 'high risk & above' categories.

14 CREDIT RATING FRAMEWORK

14.1 Credit-risk Rating Framework (CRF) is being utilized as a tool for individual credit selection (sanction and rejection), pricing, limiting exposure, maturity, portfolio analysis, tracking migration of exposures, monitoring and assessing the aggregate risk profile of Bank.

14.2 All applicable credit exposures shall be covered in a phased manner under the purview of risk rating including exposures under investments and Collection and Payments Services (CAPS).

14.3 Different CRF for different segments of the constituents have been introduced under commercial and retail portfolio. Different CRF for different segments like industry, trade, Banking, finance companies, real-estate developers etc. is introduced under commercial segment depending on the exposures under such activities. In respect of borrowers engaged in industry and trade, one CRF for large corporates and the other for small and medium enterprises is introduced.

14.4 The CRF is used as one of the inputs in decision-making on the proposal for sanction or rejection. Minimum standards have been prescribed on critical parameters and rating for sanction of credit proposals. Under CRF, there shall be a methodology to reject proposals, in case rating generated is below the acceptance grade.

14.5 The CRF is comprehensive covering financial risk, industry risk, business risk, management risk, project risk, transaction risk, product risk etc.

14.6 The Bank is having appropriate number of grades in the CRF, ranging from CB1 to CB8 grades for performing loans, taking into account maximum spread over/below Base rate, exposures under each grade, anticipated profitability and grade for capturing special mention accounts. Number of grades for non-performing loans shall be as per the requirement of the RBI on asset classification.

14.7 The appraisal notes put up for sanction/rejection shall accompany scoring/ rating generated from the CRF wherever applicable.

14.7.1 Maximum spread shall be maintained over MCLR for different categories of borrowers. The rate of interest applicable to borrowers under different grades shall be determined.

14.7.2 All categories of fresh rupee loans, except (a) DRI advances (b) loan to Bank's own employees (c) loan to Bank's depositors against their own deposits (d) any other exemptions as per the RBI guidelines issued from time to time, shall be priced only with reference to the MCLR(Marginal cost of funds based lending Rate).

14.8 The gradation/ rating assigned to a borrowal account shall be reviewed at half yearly intervals for accounts with limits of Rs. 10 Crore & above and on annual basis in respect of accounts with limits between Rs. 1 Crore & 10 Crore and pricing should be confirmed / revised in case of shift in the gradation / rating on such review. In the intervening period, in case there is a happening of an event, leading to deterioration or improvement in the rating of the constituent, the risk rating / pricing shall be immediately reviewed / revised.

14.9 The authority for approval of Prime gradation shall be vested with ZLCC and above, in respect of borrowal accounts whose credit limits are within their respective delegated lending powers and within the delegated lending powers of Branch.

14.10 In respect of consortium advances, the rate of interest/ commission prescribed by the lead Bank shall normally be stipulated. However, the Bank shall, based on its own risk ratings / pricing norms, decide on a lower/higher rate of interest, wherever necessary.

14.11 Maximum exposure ceilings for any credit proposals that could be sanctioned to constituents shall be prescribed depending on the risk ratings. Such exposure ceilings shall be Bank wide.

14.12 The tenure of the credit shall be decided depending on the risk rating of the constituent.

14.13 In respect of proposals of new borrowal accounts, falling within the Borrower Gradation norms of the Bank, the sanction shall be restricted only to those borrower clients falling within the Borrower Gradation categories of CB1 to CB5. **In respect of takeover proposals, the minimum hurdle rate shall be CB4 (Sanction shall be restricted to borrower gradation categories from CB1 to CB4).**

14.14 Proposals wherein the borrower has incurred net loss in the previous financial year [except in case of green field projects where the losses are relating to the period prior to COD(Commercial operation Date) and is on account of preliminary and preoperative expenses] shall not be taken up for consideration.

However, such proposals and/or accounts with CB6 to CB8 grade [**CB5 to CB6 in case of take over*] shall be sanctioned by** the next higher authority in case of sanctions up to the level of CLCC.

Further, the internal rating grades shall be mapped with external rating grades and it is expected that internal rating assigned to a borrower will be as per the mapping and where there is difference of 2 notches and above, the processing officers shall compulsory provide justification for the same in the appraisal report.

*As per chapter on Takeover of Credit limits

14.15 In respect of fresh loans granted/ loans renewed after **01.04.2016,** the actual lending rate is being determined with reference to **appropriate tenor MCLR and by including spread** as considered appropriate. However, staff loans, DRI loans and loans against Bank's own deposits or any other type of loans exempted by RBI shall be priced without reference to **MCLR. All loans linked to MCLR shall be reset as per the terms of sanction.**

14.16 The **MCLR of the respective tenor** shall also serve as reference benchmark rate for floating rate loan products, apart from external market benchmark rate.

14.17 Mapping of Internal Rating with External Rating

All borrowal accounts of more than Rs 5 Crore, except loans fully secured by Bank Deposits, Loans Guaranteed by Central/State Govt., shall be rated by RBI accredited external rating agencies. The RBI accredited external credit rating agencies are CRISIL, CARE, ICRA, India Ratings, SMERA or Brickworks. Further such rating shall be mapped with internal gradation as under:

External Rating		Corresponding Internal Rating
Short Term	Long Term	
A1+	AAA	CB1
A1	**AA**	**CB1**
A2	**A**	**CB2/CB3**
A3	BBB	CB4/CB5
A4	BB	CB6
A4	**B**	**CB6**
A4	**C**	**CB7**
A4	D	CB8

Wherever there is a difference of two or more notches between the Internal Rating being assigned to the borrower and the prevailing External Rating of the borrower (based on mapping listed above), the processing officers have to compulsorily provide justification for the same in the Appraisal report (In the comment Section under "Rating Summary Information") at the time of carrying out the rating/appraisal of the proposal. The confirming authority at Risk Management Division at HO may permit the deviation with respect to above mapping guidelines on a case-to-case basis based on the merits of each case.

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15 RISK ADJUSTED RETURN ON CAPITAL

15.1 Introduction

15.1.1 Risk Adjusted Return on Capital (RAROC) is a pricing methodology which when adopted shall help the Bank to appropriately price the exposure commensurate to the risk assumed and the economic capital at stake.

15.1.2 The term capital in 'RAROC' refers to economic capital, which has to be allocated for each exposure towards unexpected losses calculated for a desired confidence level.

15.1.3 The Bank has to move over to RAROC methodology for pricing of exposures and Internal Rating Based approach for allocation of economic capital for the unexpected losses from the year 2013-14.

15.2 All credit exposures under the purview of risk rating including exposures under investments and Collection and Payments Services shall be covered in a phased manner.

15.3 Migration of exposures from one rating category to another shall be tracked and Probability of Default (PD) viz., slippages to NPAs under each rating category shall be arrived at.

15.4 In respect of all exposures, which migrate to default category, Exposure at Default (EAD) shall be captured. EAD is the aggregate default crystallized under the committed exposures including non-fund based limits.

15.5 Historical Loss Data

15.5.1 In respect of each of the defaulted exposures, data, in relation to date of default; amount and date of each recovery made in the credit after default; expenses incurred on the credit after default for legal proceedings; maintenance of security, recoveries etc. and nature, seniority, share and value of security, shall be captured. The cash flows and work out the present Value of the net recovery in the credit as at the time of default shall be discounted. The net recovery as a percentage of the actual exposure at the time of default shall give the recovery rate (%). 100 minus the recovery rate (%) shall yield the Loss Given Default (LGD), expressed in percentage terms. LGD for every defaulted exposure shall be computed.

15.5.2 Priority shall be accorded for building up the data on PD and EAD & LGD for each exposure for a period of 3 to 5 years.

15.6 Economic Capital

15.6.1 Based on the historical data on PD, EAD and LGD for exposures under each rating category, Expected Loss (Exposure committed x PD% x EAD% x LGD %) shall be computed. The expected losses shall be taken care by way of pricing and provisioning.

15.6.2 Expected losses indicate the average or the mean loss that the Bank might incur on the exposure. However, the actual loss may vary in relation to the expected loss. The Standard Deviation of PD about the expected loss shall generate Unexpected Loss [the measure of dispersion or degree of uncertainty surrounding the expected loss outcome, on a one standard deviation basis or 1 sigma basis (equivalent to 68% confidence level)].

15.6.3 The Bank shall depending on its comfort requirement or as prescribed by regulatory authorities, multiply the unexpected losses arrived as above by the sigma number for a desired confidence level as mentioned below, to arrive at the economic capital requirement for credit risk of the Bank.

1.00 sigma - 68% confidence
1.65 sigma - 95% confidence
2.33 sigma - 99% confidence
3.00 sigma - 99.87% confidence

The Bank shall arrive at the unexpected losses based on 3 sigma factor for allocation of economic capital

15.7 Risk Adjusted Return on Capital (RAROC)

15.7.1 In order to effectively obtain returns commensurate to the risk assumed and the economic capital at stake, the Bank shall adopt RAROC framework for pricing risks.

15.7.2 RAROC involves finding out the net returns (interest spread plus all non-interest income less administrative overheads) from a risk position by the risk premium (expected loss) from that risk position and discounting it by its economic capital. In case the RAROC so arrived exceeds targeted return on shareholder equity the exposure shall be considered as worth taking.

15.7.3 This has been brought out clearly in the illustration given below:

Sl. No	Parameter	Amount	Comments
1.	Exposure	1,000,000	Principal of loan
2.	Return on the exposure	10%	Annual interest rate on Loan
3.	Expected Revenue	1,00,000	Annual interest amount
4.	Economic Capital allocated	1,20,000	Based on the guidelines stated under Para 15.6.2 & 15.6.3
5.	Income on economic capital invested in G-Secs @ 5%	6,000	Assuming that economic capital maintained is invested in G-Secs @ 5%
6.	Transfer pricing charge for funding the exposure (7%)	70,000	Funding cost for the exposure ideally from the Transfer Pricing System
7.	Expected Loss	15,000	Based on the guidelines stated under Para 15.6.1
8.	Operating Costs	5,000	Based on internal costing system
9.	Risk Adjusted Return	16,000	(3+5-6-7-8)
10.	Risk Adjusted Return on Capital	13.33%	(9/4)

A rate of return on the capital shall be determined based on the expected return on equity capital that the Bank desires. This is called the hurdle rate. RAROC may be compared with the hurdle rate while taking credit exposure.

16 PRIORITY SECTOR LENDING

16.1 Categories under Priority Sector

16.1.1 Agriculture
16.1.2 Micro, Small and Medium Enterprises
16.1.3 Export Credit
16.1.4 Education
16.1.5 Housing
16.1.6 Social Infrastructure
16.1.7 Renewable Energy
16.1.8 Others

The eligible activities under the above categories are specified in 16.3

16.2 Targets /Sub-targets for Priority sector

16.2.1 The targets and sub-targets set under priority sector lending for domestic and foreign banks (Master Direction on Priority sector Lending-Targets and classification FIDD.CO.Plan.No.1/04.09.001/2016-17 dated July 7,2016) operating in India are furnished below:

Categories	Targets /Sub-targets
Total Priority Sector	40 percent of Adjusted Net Bank Credit or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total Agriculture	18 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or credit equivalent amount of off- Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner i.e., **7 percent by March 2016 and 8 percent by March 2017.**
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent amount of off- Balance Sheet Exposure, whichever is higher to be achieved in a phased manner **i.e., 7 percent by March 2016 and 7.5 percent by March 2017.**
Advances to Weaker Sections	10 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

16.3 Description of the Categories under Priority Sector

16.3.1 Agriculture

The present distinction between direct and indirect agriculture is dispensed with. Instead, the lending to agriculture sector has been re-defined to include (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities. A list of eligible activities under the three sub-categories is indicated below:

16.3.1.1 Farm credit

16.3.1.1.1 Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:

i. Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.

ii. Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

iii. Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

iv. Loans to farmers up to Rs.50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

v. Loans to distressed farmers indebted to non-institutional lenders.

vi. Loans to farmers under the Kisan Credit Card Scheme.

vii. Loans to small and marginal farmers for purchase of land for agricultural purposes.

16.3.1.1.2 Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of Rs.2 crore per borrower. This will include:

i. Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.

ii. Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

iii. Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

iv. Loans up to Rs.50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

16.3.1.2 Agriculture infrastructure:

i. Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/ cold storage chains designed to store agriculture produce/products, irrespective of their location.

ii. Oil conservation and watershed development.

iii. Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting.

For the above loans, an aggregate sanctioned limit of Rs.100 Crore per borrower from the banking system, will apply.

16.3.1.3 Ancillary activities:

i. Loans up to Rs.5 Crore to co-operative societies of farmers for disposing of the produce of members.

ii. Loans for setting up of Agriclinics and Agribusiness Centres.

iii. Loans for Food and Agro-processing up to an aggregate sanctioned limit of Rs.100 Crore per borrower from the banking system.

iv. Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.

v. Loans sanctioned by banks to MFIs for on-lending to agriculture sector as per the conditions specified in paragraph IX of this circular.

vi. Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

vii. Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis."

Note: For the purpose of computation of 7 percent/ 8 percent target, Small and Marginal Farmers will include the following:-

(a) Farmers with landholding of up to 1 hectare are considered as Marginal Farmers.

(b) Farmers with a landholding of more than 1 hectare and up to 2 hectares are considered as Small Farmers.

(c) Landless agricultural labourers, tenant farmers, oral lessees and share-croppers.

(d) Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual Small and Marginal farmers directly engaged in Agriculture and Allied Activities, provided banks maintain disaggregated data of such loans.

(e) Loans to farmers' producer companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied Activities, where the membership of Small and Marginal Farmers is not less than 75 per cent by number and whose land-holding share is also not less than 75 per cent of the total land-holding.

16.3.2 Micro and Small Enterprises:

Manufacturing Sector	
Enterprises	**Investment in plant and machinery**
Micro Enterprises	Shall not exceed Rs. 25 lakh
Small Enterprises	More than Rs. 25 lakh but shall not exceed Rs. 5 Crore
Medium Enterprises	More than Rs.5 crore but shall not exceed Rs.10 crore
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	Shall not exceed Rs. 10 lakh
Small Enterprises	More than Rs. 10 lakh but shall not exceed Rs. 2 Crore
Medium Enterprises	More than Rs.2 crore but shall not exceed Rs.5 crore

Bank loans to Micro, Small and **Medium Enterprises**, for both manufacturing and service sectors are eligible to be classified under the priority sector as per the following norms:

16.3.2.1 **Manufacturing Enterprises**:

The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery.

16.3.2.2 **Service Enterprises:**

Bank loans up to 5 crore per unit to Micro and Small Enterprises and **Rs.10 crore to Medium Enterprises** engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

16.3.2.3 **Khadi and Village Industries Sector (KVI):**

All loans to units in the KVI sector will be eligible for classification under the sub-target of ~~7 percent /~~7.5 percent prescribed for Micro Enterprises under priority sector.

16.3.2.4 **Other Finance to MSMEs:**

(i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

(ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.

(iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector as per the conditions specified in paragraph.

(iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

(v) Outstanding deposits with SIDBI and MUDRA Ltd on account of priority sector shortfall.

Considering that the MSMED Act, 2006 does not provide for any sub-categorization within the definition of micro enterprises and that the sub-target for lending to micro enterprises has been fixed, the current sub-categorization within the definition of **micro enterprises in the existing guidelines is dispensed with**.

To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the priority sector lending status **up to three years** after they grow out of the MSME category concerned.

16.3.3 Education:

Loans to individuals for educational purposes including vocational courses upto Rs. 10 lakh irrespective of the sanctioned amount will be considered as eligible for priority sector.

16.3.4 Housing:

(i) Loans to individuals up to **Rs.28 lakh** in metropolitan centres (with population of ten lakh and above) and loans up **to Rs.20 lakh** in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed Rs. 35 lakh and Rs. 25 lakh respectively. The housing loans to banks' own employees will be excluded. As housing loans which are backed by long term bonds are exempted from ANBC, bank should either include such housing loans to individuals up to Rs. 28 lakh in metropolitan centres and Rs. 20 lakh in other centres under priority sector or take benefit of exemption from ANBC, but not both.

(ii) Loans for repairs to damaged dwelling units of families up to Rs. 5 lakh in metropolitan centres and up to Rs. 2 lakh in other centres.

(iii) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of Rs. 10 lakh per dwelling unit.

(iv) The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low income groups, the total cost of which does not exceed Rs. 10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of Rs.2 lakh per annum, irrespective of the location, is prescribed.

(v) Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs. 10 lakh per borrower.

(vi) The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.

(vii) Outstanding deposits with NHB on account of priority sector shortfall.

16.3.5 Export Credit:

Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2015 subject to a sanctioned limit of Rs.25 crore per borrower to units having turnover of up to Rs.100 crore.

Export credit includes pre-shipment and post shipment export credit (excluding off-balance sheet items) as defined in Master Circular on Rupee / Foreign Currency Export Credit and Customer Service to Exporters issued by our Department of Banking Regulation.

16.3.5.1 **Social infrastructure:** Bank loans up to a limit of Rs. 5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

16.3.5.2 **Renewable Energy:** Bank loans up to a limit of Rs. 15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non- conventional energy based public utilities viz street lighting systems, and remote village electrification. For individual households, the loan limit will be Rs. 10 lakh per borrower.

16.3.6 Others:

i. Loans not exceeding Rs. 50,000/- per borrower provided directly by banks to individuals and their SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed **Rs.100,000/-** and for non-rural areas it does not exceed **Rs. 1,60,000**/-.

ii. Loans to distressed persons [other than farmers already **included under paragraph 16.3.1.1.1 (v)** not exceeding Rs. 100,000/- per borrower to prepay their debt to non-institutional lenders.

iii. Overdrafts extended by banks upto Rs.5,000/- under **Pradhan Mantri Jan-Dhan Yojana (PMJDY)** accounts provided the borrowers household annual income does not exceed Rs. 100,000/- for rural areas and Rs. 1,60,000/- for non-rural areas.

iv. Loans sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.

16.3.7 Weaker Sections

Priority sector loans to the following borrowers will be considered under Weaker Sections category:

i. Small and Marginal Farmers;

ii. Artisans, village and cottage industries where individual credit limits do not exceed Rs. 1 lakh;

iii. Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS);

iv. Scheduled Castes and Scheduled Tribes;

v. Beneficiaries of Differential Rate of Interest (DRI) scheme;

vi. Self Help Groups;

vii. Distressed farmers indebted to non-institutional lenders;

viii. Distressed persons other than farmers, with loan amount not exceeding Rs.1 lakh.

ix. Individual women beneficiaries up to Rs. 1 lakh per borrower;

x. Persons with disabilities;

xi. Overdrafts upto Rs. 5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed Rs. 100,00/- for rural areas and Rs.1,60,000/- for non-rural areas.

xii. Minority communities as may be notified by Government of India from time to time.

In States, where one of the minority communities notified is, in fact, in majority, item (xii) will cover only the other notified minorities. These States / Union Territories are Jammu & Kashmir, Punjab, Meghalaya, Mizoram, Nagaland and Lakshadweep.

16.3.8 Investments by banks in securitised assets:

16.3.8.1 Investments by banks in securitised assets, representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector depending on the underlying assets provided:

i. The securitised assets are originated by banks and financial institutions and are eligible to be classified as priority sector advances prior to securitisation and fulfil the Reserve Bank of India guidelines on securitisation.

ii. The all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the investing bank plus 8 percent per annum.

The investments in securitised assets originated by MFIs, which comply with the guidelines in Paragraph 16.3.11 are exempted from this interest cap as there are separate caps on margin and interest rate.

16.3.8.2 Investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

16.3.9 Transfer of Assets through Direct Assignment /Outright purchases:

16.3.9.1 Assignments/Outright purchases of pool of assets by banks representing loans under various categories of priority sector, except the 'others' category, will be eligible for classification under respective categories of priority sector provided:

i. The assets are originated by banks and financial institutions which are eligible to be classified as priority sector advances prior to the purchase and fulfil the Reserve Bank of India guidelines on outright purchase/assignment.

ii. The eligible loan assets so purchased should not be disposed of other than by way of repayment.

iii. The all inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the purchasing bank plus 8 percent per annum.

The Assignments/Outright purchases of eligible priority sector loans from MFIs, which comply with the guidelines in Paragraph 16.3.11 are exempted from this interest rate cap as there are separate caps on margin and interest rate.

16.3.9.2 When the banks undertake outright purchase of loan assets from banks/ financial institutions to be classified under priority sector, they must report the nominal amount actually disbursed to end priority sector borrowers and not the premium embedded amount paid to the sellers.

16.3.9.3 Purchase/ assignment/ investment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

16.3.10 Inter Bank Participation Certificates bought by Banks

Inter Bank Participation Certificates (IBPCs) bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and the banks fulfil the Reserve Bank of India guidelines on IBPCs.

16.3.10.1 **Priority Sector Lending Certificates**

The outstanding priority sector lending certificates bought by the banks will be eligible for classification under respective categories of priority sector provided the assets are originated by banks, and are eligible to be classified as priority sector advances and fulfil the Reserve Bank of India guidelines on priority sector lending certificates.

Priority Sector Lending certificates (PSLCs) are tradable certificates issued against priority sector loans of banks so as to enable banks to achieve their specified target and sub-targets for priority sector lending through purchase of these instruments in the event of shortfall and at the same time incentivizing the banks having surplus to lend more to these sectors.

Purpose : To enable banks to achieve the priority Sector lending target and sub-targets by purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks, thereby enhancing lending to the sectors under priority.

Nature of instruments : The seller will be selling fulfillment of priority sector obligation and the buyer would be buying the same. There will be no transfer of risks or loan assets.

Modalities : The PSLCs will be traded through the CBS portal (e-Kuber) of RBI. The detailed operational instructions for carrying out the trades are available through the e-Kuber portal.

Sellers/Buyers : Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Local Area Banks (LABs), Small Finance Banks (when they become operational) and Urban Co-operative Banks who have originated PSL eligible category loans subject to such regulations as may be issued by the Bank.

<u>Types of Priority Sector Lending Certificates :-</u>

Priority Sector Lending Certificate – Agriculture : Investment by banks in these certificates shall be eligible for considering achievement of Agriculture target & overall PSL target.

a. **Priority Sector Lending Certificate – SF / MF :** Investment by banks in these certificates shall be eligible for considering achievement of SF /MF sub-target, agriculture target and overall PSL target.

Priority Sector Lending Certificate – Micro enterprises : Investment by banks in these certificates shall be eligible for considering achievement of Micro enterprises sub-target and overall PSL target.

Priority Sector Lending Certificate – General : Investment by banks in these certificates shall be eligible for considering achievement of overall PSL target.

Computation of PSL achievement: A bank's PSL achievement would be computed as the sum of outstanding priority sector loans, and the net nominal value of the PSLCs issued and

purchased. Such computation will be done separately where sub targets are prescribed as on the reporting date.

Amount eligible for issue : Normally PSLCs will be issued against the underlying assets. However, with the objective of developing a strong and vibrant market for PSLCs, a bank is permitted to issue PSLCs up to 50 % of previous year's PSL achievement without having the underlying in its books. However, as on the reporting date, the bank must have met the priority sector. target by way of the sum of outstanding priority sector lending portfolio and net of PSLCs issued and purchased. To the extent of shortfall in the achievement of target, banks may be required to invest in RIDF/other funds as hitherto.

Credit Risk : There will be no transfer of credit risk on the underlying as there is no transfer of tangible assets or cash flow.

Expiry date : All PSLCs will expire by March 31st and will not be valid beyond the reporting date (March 31st), irrespective of the date it was first sold.

Settlement : The settlement of funds will be done through the platform as explained in the e-Kuber portal.

Value and fee: The normal value of PSLC would represent the equivalent of the PSL that would get deducted from the PSL portfolio of the seller and added to the PSL portfolio of the buyer. The buyer would pay a fee to the seller which will be market determined.

Lot Size : The PSLCs would have a standard lot size of ₹25 lakh and multiples thereof.

Accounting : The fee paid for purchase of the PSLC would be treated as an 'Expense' and fee received for the sale of PSLCs would be treated as 'Miscellaneous Income'.

Disclosures: Both Seller and Buyer shall report the amount of PSLCs (Category – wise) sold and purchased during the year in the 'Disclosures to the Balance Sheet'.

16.3.11 Bank loans to MFIs for on-lending

16.3.11.1 Bank credit to MFIs extended for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises, and 'Others', as indirect finance, provided not less than 85 percent of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, should be not less than 50 percent of the total loans given by MFIs.

16.3.11.2 A "qualifying asset" shall mean a loan disbursed by MFI, which satisfies the following criteria:

i. The loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.1,00,000/- while for non-rural areas it should not exceed Rs.1,60,000/-.

ii. Loan does not exceed Rs.60,000/- in the first cycle and Rs.100,000/- in the subsequent cycles.

iii. Total indebtedness of the borrower does not exceed Rs.1,00,000/-.

iv. Tenure of loan is not less than 24 months when loan amount exceeds Rs. 30,000/- with right to borrower of prepayment without penalty.

v. The loan is without collateral.

vi. Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

16.3.11.3 Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans.

(i) Margin cap: The margin cap should not exceed 10 percent for MFIs having loan portfolio exceeding Rs. 100 crore and 12 percent for others. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.

(ii) Interest cap on individual loans: With effect from April 1, 2014, interest rate on individual loans will be the average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum or cost of funds plus margin cap, whichever is less. The average of the Base Rate shall be advised by Reserve Bank of India.

(iii) Only three components are to be included in pricing of loans viz., (a) a processing fee not exceeding 1 percent of the gross loan amount, (b) the interest charge and (c) the insurance premium.

(iv) The processing fee is not to be included in the margin cap or the interest cap.

(v) Only the actual cost of insurance i.e. actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges may be recovered as per IRDA guidelines.

(vi) There should not be any penalty for delayed payment.

(vii) No Security Deposit/ Margin are to be taken.

16.3.11.4 The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that the criteria on (i) qualifying assets, (ii) the aggregate amount of loan, extended for income generation activity, and (iii) pricing guidelines are followed.

16.4 Introduction of New Category of NBFCs:

Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions of RBI-As per RBI/2015-16/20 DNBR (PD) CC.No.047/03.10.119/2015-16 July 1, 2015

16.4.1 Introduction:

16.4.1.1 As indicated in the Second Quarter Review of Monetary Policy in November 2010, a Sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) was constituted to study issues and concerns in the MFI sector. The Committee submitted its report in January 2011. In the Monetary Policy Statement 2011-12, it was announced that the broad framework of regulations recommended by the Committee has been accepted by RBI.

16.4.1.2 RBI has decided to create a separate category of NBFCs viz., Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI).

16.4.1.3 The Sub-Committee had recommended a role for industry associations in monitoring of compliance by NBFC-MFIs with the regulations.

16.4.2 Preliminary:

16.4.2.1 **Short title and commencement of the Directions**

I. These Directions shall be known as the Non-Banking Financial Company –Micro Finance Institutions (Reserve Bank) Directions, 2011.

II. These Directions shall come into force with effect from December 2, 2011

16.4.2.2 **Extent of the Directions**

These Directions shall apply to every Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI) as defined in these Directions.

16.4.2.3 **Definition of NBFC-MFI:**

An NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

i. Minimum Net Owned Funds of Rs.5 Crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs.2 Crore).

ii. Not less than 85% of its net assets are in the nature of "qualifying assets."

Only the assets originated on or after January 1, 2012 will have to comply with the Qualifying Assets criteria. As a special dispensation, the existing assets as on January 1, 2012 will be reckoned towards meeting both the Qualifying Assets criteria as well as the Total Net Assets criteria. These assets will be allowed to run off on maturity and cannot be renewed.

For the purpose of (ii.) above,

"Net assets" are defined as total assets other than cash and bank balances and money market instruments.

"Qualifying asset" shall mean a loan which satisfies the following criteria:

1. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000.
2. loan amount does not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles.
3. total indebtedness of the borrower does not exceed Rs.1,00,000; Provided that loan, if any availed towards meeting education and medical expenses shall be excluded while arriving at the total indebtedness of a borrower.
4. tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000/- with prepayment without penalty.
5. loan to be extended without collateral.
6. Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs so that the remaining 50 per cent can be for other purposes such as housing repairs, education, medical and other emergencies.
7. Loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

iii. Further the income an NBFC-MFI derives from the remaining 15 percent of assets shall be in accordance with the regulations specified in that behalf.

iv. An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.

16.4.2.4 **Regulatory Framework for NBFC-MFIs:**

i. Entry Point Norm

Existing NBFCs

a. All registered NBFCs intending to convert to NBFC-MFI must seek registration with immediate effect and in any case not later than October 31, 2012, subject to the condition that they shall maintain Net Owned Funds (NOF) at Rs.3 Crore by March 31, 2013 and at Rs.5 Crore by March 31, 2014, failing which they must ensure that lending to the Microfinance sector i.e. individuals, SHGs or JLGs which qualify for loans from MFIs, will be restricted to 10 per cent of the total assets.

b. In order to provide encouragement to NBFCs operating in North Eastern Region, the minimum NOF is to be maintained at Rs.1 Crore by March 31, 2012 and at Rs.2 Crore by March 31, 2014.

New Companies

All new companies desiring NBFC-MFI registration will need a minimum NOF of Rs. 5 Crore except those in the North Eastern Region of the country which will require NOF of Rs. 2 Crore till further notice, as hitherto and would comply, from the beginning, with all other criteria laid out in the following paragraphs.

ii. Prudential Norms

a. Capital Adequacy

All new NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets. The total of Tier II Capital at any point of time shall not exceed 100 percent of Tier I Capital. The risk weights for on-balance sheet assets and the credit conversion factor for off-balance sheet items will be as provided in Para 16 of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve bank) Directions 2015.

Note:

i. Among the existing NBFCs to be classified as NBFC-MFIs, those with asset size less than Rs.100 Crore will be required to comply with this norm w.e.f April 01, 2012. Those with asset size of Rs.100 Crore and above are already required to maintain minimum CRAR of 15%.

ii. The CRAR for NBFC-MFIs which have more than 25% loan portfolio in the state of Andhra Pradesh will be at 12% for the year 2011-2012 only. Thereafter they have to maintain CRAR at 15%.

For the calculation of CRAR, the provisioning made towards AP portfolio shall be notionally reckoned as part of NOF and there shall be progressive reduction in such recognition of the provisions for AP portfolio equally over a period of 5 years. Accordingly 100 per cent of the provision made for the AP portfolio as on March 31, 2013 would be added back notionally to NOF for CRAR purposes as on that date. This add-back would be progressively reduced by 20 per cent each year i.e. up to March 2017. An illustration of this has been provided in Annex-3. No write-back or phased provisioning is permissible.

Capital adequacy on non-AP portfolio and the notional AP portfolio (outstanding as on the balance sheet date less the provision on this portfolio not notionally added back) will have to be maintained at 15 per cent of the risk weighted assets.

b. Asset Classification and Provisioning Norms:

With effect from April 01, 2013 all NBFC-MFIs shall adopt the following norms(till then they shall follow the asset classification and provisioning norms as given in the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007).

Asset Classification Norms:

a. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

b. Nonperforming asset means an asset for which, interest / principal payment has remained overdue for a period of 90 days or more.

Provisioning Norms:

In view of the problems being faced by MFIs in Andhra Pradesh many of them have had to provide sizeable amounts towards the non-performing assets in the state. To reflect the true and fair picture of the financials of the NBFC-MFI in the Balance Sheet, the provisioning made towards the AP portfolio should be as per the current provisioning norms i.e. Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015. Provisioning for the non-AP portfolio would be as per the December 02, 2011 Directions with effect from April 1, 2013 which is as given below:

The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the

aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more.

c. All other provisions of the Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 will be applicable to NBFC-MFIs except as indicated therein

iii. Other Regulations

I. Pricing of Credit: (w.e.f . 01.04.2014):

i) Margin Cap: Should not exceed 10 percent for MFIs having loan portfolio exceeding 100 crore and 12 percent for others. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.

ii) Interest cap on individual loans: Interest rate on individual loans will be the average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum OR cost of funds plus margin cap [para (i) above], whichever is less. The average of the Base Rate shall be advised by Reserve Bank of India.

iii) Only three components are to be included in pricing of loans viz., (a) a processing fee not exceeding 1% of the gross loan amount, (b) the interest charge and (c) the insurance premium.

iv) There should not be any penalty for delayed payment.

v) No Security Deposit/ Margin are to be taken.

vi) Compliance: The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that (i) 85% of total assets of the MFI are in the nature of "qualifying assets", (ii) the aggregate amount of loan, extended for income generation activity, is not less than 50% of the total loans given by the MFIs, and (iii) pricing guidelines are followed.

vii) Investments may also be made in securitised assets originated by MFIs or outright purchase the loan portfolio of MFIs provided they qualify the priority sector treatment i.e. they satisfy the criteria of qualifying assets and adhere to the pricing guidelines stated above.

viii) Exposure to the MFIs which do not fulfil the above criteria for classification of advance as Priority Sector shall normally be restricted. Banks' exposure to MFIs under the category of Non-Priority Sector Advance shall be on a very selective basis.

II. Fair Practices in Lending

a. Transparency in Interest Rates

i. There shall be only three components in the pricing of the loan viz., the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof).
ii. There will be no penalty charged on delayed payment.
iii. NBFC-MFIs shall not collect any Security Deposit / Margin from the borrower.
iv. There should be a standard form of loan agreement.
v. Every NBFC-MFI should provide to the borrower a loan card reflecting:
    1. the effective rate of interest charged.
    2. all other terms and conditions attached to the loan.
    3. information which adequately identifies the borrower and
    4. acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge.
    5. All entries in the Loan Card should be in the vernacular language.

vi. The effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it and on its website.

b. Multiple-lending, Over-borrowing and Ghost-borrowers:

i. NBFC-MFIs can lend to individual borrowers who are not member of Joint Liability Group (JLG) / Self Help Group (SHG) or to borrowers that are members of JLG / SHG.
ii. A borrower cannot be a member of more than one SHG / JLG.
iii. Not more than two NBFC-MFIs should lend to the same borrower.
iv. Here must be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment. The moratorium shall

not be less than the frequency of repayment. For e.g: in the case of weekly repayment, the moratorium shall not be less than one week.

v. Recovery of loan given in violation of the regulations should be deferred till all prior existing loans are fully repaid.

vi. All sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function.

c. Ensuring Compliance with conditionalities

Membership of Credit Information Companies will facilitate ensuring compliance with many of these conditionalities. Accordingly it is reiterated that every NBFC-MFI has to be a member of at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the conditions regarding membership of SHG / JLG, level of indebtedness and sources of borrowing. While the quality and coverage of data with CICs will take some time to become robust, the NBFC-MFIs may rely on self-certification from the borrowers and their own local enquiries on these aspects as well as the annual household income.

d. Non-Coercive Methods of Recovery

NBFC-MFIs shall ensure that a Code of Conduct and systems are in place for recruitment, training and supervision of field staff. The Code of Conduct should also incorporate the Guidelines on Fair Practices Code issued for NBFCs vide circular CC No.80 dated September 28, 2006 as amended from time to time.

Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions.

All other elements of the Fair Practices Code issued for NBFCs vide CC No 80 dated September 28, 2006 as amended from time to time shall be adhered to.

III. Corporate Governance:

The Master Circular issued for NBFCs on Corporate Governance dated July 01, 2015 shall be applicable to NBFC-MFIs also.

IV. Improvement of Efficiency

NBFC-MFIs shall review their back office operations and make the necessary investments in Information Technology and systems to achieve better control, simplify procedures and reduce costs.

16.4.2.5 Existing NBFCs that satisfy the above conditions may approach the Regional Office in the jurisdiction of which their Registered Office is located, along with the original Certificate of Registration (CoR) issued by the Bank for change in their classification as NBFC-MFIs. Their request must be supported by their Statutory Auditor's certificate indicating the asset (loan) pattern as on March 31, 2011. The onus of including only eligible assets for the purpose of classification as NBFC-MFI shall be that of the company concerned. The change in classification would be incorporated in the Certificate of Registration issued by the Bank as NBFC-MFI.

16.4.2.6 In terms of paragraph 15 of the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 all NBFCs are required to submit Statutory Auditors Certificate with reference to the position of the company as at end of the financial year ended March 31 every year. For an NBFC-MFI, such Certificate will also indicate that the company fulfils all conditions stipulated to be classified as an NBFC-MFI in this circular.

16.4.2.7 Non-compliance with these Directions shall invite penal provisions **under** the RBI Act, 1934.

16.4.2.8 Taking into consideration the specific business nature of NBFC-MFIs, they are subject to specific guidelines issued vide DNBS.CC.PD.No 266 dated March 26,2012 on Fair Practice Code (FPC) in addition to the general FPC applicable to all NBFCs. All elements of the Fair Practices Code issued by the Bank vide DNBS.PD.CC.No.286/03.10.042/2012-13 dated July 2, 2012 will need to be adhered to by the MFIs. NBFC-MFIs must also ensure that greater resources are devoted to professional inputs in the formation of SHG / JLG and appropriate training and skill development activities for capacity building and empowerment after formation of the groups.

16.4.2.9 **Geographical Diversification**

NBFC-MFIs may approach their Boards for fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations.

16.4.2.10 **Formation of SRO**

The Malegam Committee has recommended greater responsibility to be placed on industry associations for monitoring of regulatory compliance. All NBFC-MFIs will have to become member of at least one Self-Regulatory Organization (SRO) which is recognized by the Reserve Bank and will also have to comply with the Code of Conduct prescribed by the SRO. Guidelines on the SRO structure will follow shortly.

16.4.2.11 Monitoring of Compliance

The responsibility for compliance to all regulations prescribed for MFIs lies primarily with the NBFC-MFIs themselves. The industry associations / SROs will also play a key role in ensuring compliance with the regulatory framework. In addition, banks' lending to NBFC-MFIs will also ensure that systems practices and lending policies in NBFC-MFIs are aligned to the regulatory framework.

16.4.2.12 Application for Registration as NBFC-MFIs

All existing NBFCs intending to be registered as NBFC-MFIs must seek registration with Regional Office of RBI in the jurisdiction of which their registered office is located along with the original Certificate of Registration (CoR) issued by RBI for change in their classification as NBFC-MFIs. The change in classification would be incorporated in the CoR as NBFC-MFI. New companies will need to provide additional information, while applying on-line for registration as NBFC-MFI.

16.4.3 Internal norms on lending to MFIs (NBFC MFIs & non-NBFC MFIs):

16.4.3.1 The sanction / disbursal of additional loans shall be only to well managed MFIs operating outside Andhra Pradesh. The MFI should not have any exposure in the State of Andhra Pradesh. Additional loans if sanctioned shall be strictly utilized for creating MFI portfolio outside the State of Andhra Pradesh.

Industry Exposure & Ceiling:

The maximum exposure of the Bank to all MFIs (excluding the investment in the securitised assets originated by MFIs and outright purchase of loan portfolio of MFIs) shall not exceed 2% of Adjusted Net Bank Credit (ANBC) of our Bank (as per last Audited B/S). However, the total exposure of the Bank in the Securitisation Market including the securitisation exposure to MFIs shall be within the overall ceiling stipulated in Group Credit Policy on Securitisation.

16.4.3.2 Exposure Norms per Borrower / Group:

The Maximum Exposure per MFI borrower shall be restricted to Rs. 200 crore and Rs. 300 crore per group. However, the Management Committee shall have the power to exceed the above ceilings in justifiable cases. Wherever the total borrowing from the banking system exceeds Rs.150 crore, endeavours shall be made to switch over to consortium banking arrangement.

16.4.3.3 Entry level Criteria:

An entry level MFI borrower shall qualify the following minimum requirements:

i. The MFI should have a minimum existence of 3 years.

ii. Non NBFC-MFI should have a minimum Net Worth of Rs. One Crore. NBFC-MFIs should have minimum Net Owned Funds of Rs. 5 crore (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF required is Rs.2 crore)

iii. The MFI should be earning profit for last three years and have a minimum Capital Adequacy as stipulated by RBI (at present 15%).

iv. The MFI should conform to Minimum CB - 4 gradation of internal rating. However, the CAC has power to sanction loans to new MFIs with CB-5 & CB-6 gradation. Borrower gradation of CB-7 and above shall not be sanctioned.

v. The MFI should have achieved an outreach of at least 3000 members and shall maintain Satisfactory Accounting, MIS and Internal Audit Systems.

vi. The average recovery rate of the MFI shall not be less than 97% during last 3 years.

vii. Sanction of fresh/additional loans to MFIs shall be exercised by CLCC only to the extent of Rs 5 crore per occasion and beyond Rs 5 crore by HLCC/CAC/MC up to the extent of its delegated lending powers.

viii. However, enhancement/additional loans shall be considered by CLCC in respect of their sanctions after a lapse of 12 months from the date of previous sanction. The exposure should not exceed its delegated lending power.

ix. HLCC/CAC/MC can consider enhancement/additional loans in respect of their own sanctions within 12 months from the date of previous sanction. HLCC to also consider CLCC sanctions in respect of enhancement/additional loans within 12 months from the date of previous sanction.

x. Respective party files shall be transferred to ZO/Branches, as the case may be for review/renewal/monitoring, if the limits fall within their respective delegated lending powers.

xi. ZLCC/Branches do not have powers for sanction of fresh/addition/ enhancement of credit limits to MFIs.

16.4.3.4 **Purpose/ Eligibility**:

The loan shall be utilized by the MFIs for on lending to individuals, SHGs / JLGs for the purpose of Agriculture, Micro & Small Enterprises (Manufacturing as well as Services) and shall be classified as Priority Sector Advance. Further the MFI shall fulfil the following conditions stipulated by RBI:

16.4.3.4.1 Qualifying Assets: As under 16.4.2.3

16.4.3.4.2 Loan Purpose:

Loans given for income generation should constitute at least 50 per cent of the total loans of the NBFC-MFI and the remaining 50 per cent can be for other purposes such as housing repairs, education, medical and other emergencies.

16.4.3.4.3 Pricing Guidelines: As under 16.4.2.4 iii I (i to viii)

16.4.3.5 **Appraisal / Assessment standards for MFIs:**

Assessment of the MFI to be done from the following point of view:

a. Scoring Model: A separate rating model shall be developed in RAM considering risk factors associated in this MFI segment. Till such time, all MFIs proposals are to be rated under NBFC Model of Internal Scoring in RAM.

b. Tangible Net worth: The Maximum Permissible loan from Banking System shall not exceed 10 times of Tangible Net Worth (audited / provisional) of the MFI, as on 31st March of the previous financial year.

c. Capital Adequacy: As per stipulation of regulator from time to time, which at present is 15%.

d. Accounting Ratios / Performance Ratio: All the entry level MFIs satisfying the minimum rating standards considered for financing shall also conform to the following benchmark ratios:

Particulars	**Ratios**
NOF as a % to TFD -	≥ 10 %
TOL/TNW-	≤ 10 : 1
Debt Equity Ratio	≤ 8:1
4. Interest Coverage Ratio (Net Profit Before Interest & Tax ÷ Total Interest Cost)	≥ 1.20 : 1
5. NP A Norm	**Gross NPA ≤ 3.00 %** **Net NPA ≤ 1.00 %**

16.4.3.6 **Tenor of the Loan:**

The maximum tenor of the loan shall be 36 months including moratorium period. The loan shall be repaid with monthly or quarterly instalments. However, the tenor already permitted for existing sanctioned loans may continue till their closure.

16.4.3.7 **Security, Margin & Guarantee Standards:**

Loan to MFIs shall be normally secured by exclusive first charge / hypothecation of specific book debts created out of such bank finance. A minimum margin of 15% on loan portfolio shall be maintained. However, equivalent cash collaterals in case on lower margins on Book Debts may be stipulated. Endeavour shall be made to obtain collateral security wherever possible.

The book debts hypothecated should be specifically earmarked to the Bank with details of groups, area of operation, activity/activities financed etc.

However, in case of financing of MFIs under Consortium Banking, pari-passu charge on the book debts may be accepted. The margin requirement in such case shall normally be in line with the Lead Bank.

Personal Guarantee of the promoters / directors has to be obtained compulsorily for loans sanctioned to MFIs.

The CAC/MC is empowered to extend concession/relaxations in the eligibility criterion, credit assessment including margin, security, guarantee etc in justifiable cases.

Sanction of fresh / additional loans shall be considered by HLCC in respect of its own / CLCC sanctions and by CAC/MC in respect of their own sanctions.

16.4.3.8 **Control Measures:**

a. Disbursement: The disbursement of loans to MFIs shall be made in convenient stages. Subsequent disbursements shall be made only after ensuring the satisfactory end use of funds made in the previous disbursement. Preferably, disbursement shall be made based on group list/list of individuals furnished by the MFI in advance.

b. End use Certificate: MFI shall submit Utilization Certificate from a Chartered Accountant once in a quarter certifying the end use of funds. The MFI shall also furnish age-wise book debt statement (assigned / hypothecated to our Bank) on quarterly basis duly certified by a Chartered Accountant. Such certificate shall also state that the book debts assigned to our Bank has not been hypothecated / assigned to any other Bank.

c. Documentation: Documentation shall be done as per the guidelines prescribed by our Bank. Our charge shall get registered with ROC within the stipulated time wherever applicable.

d. Post sanction Follow up: After receipt of certified book debts statement, the Branch Manager / Credit officer shall visit the project area (to the place of ultimate borrower of MFI where our money has been deployed) once in a quarter and on sample basis verify that our loan has been properly utilized. Independent outside agency may also be appointed for conducting due diligence exercise to ensure end use of funds.

e. Before sanction/disbursal of additional loans to well managed MFIs, it should be ensured that all existing loans to MFI by our Bank/other banks are regular and satisfactory credit opinion shall be obtained from all existing banks before sanction of the loan.

f. Compulsory Bank loan Rating must be obtained before fresh/additional sanction and the rating shall not be below the investment grade [i.e. minimum BBB[+/-].

16.5 Policy on Micro Credit:

Micro credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards.

The objective of Micro Credit is to provide credit at reasonable cost, to the hitherto neglected sections of the society whose economic operations are at subsitance level. Micro credit shall cover consumption/production loan and other credit needs such as housing and shelter improvement. Endeavour shall be made to enhance share of Micro Credit in a phased manner.

The micro credit shall be in the form of:

[a] Finance to SHGs/JLGs

[b] Financing through Micro Finance Institutions

16.5.1 Financing SHGs:

Despite the vast expansion of the formal credit system in the country, the dependence of the rural poor on moneylenders somehow continued in many areas, especially for meeting emergent requirements. Such dependence was pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons, credit to these sections of the population had not been institutionalized. The studies conducted by NABARD, APRACA [Asia-Pacific Rural and Agricultural Credit Association] and ILO [International Labour Organization] on the informal groups promoted by Non-Governmental Organizations (NGOs) brought out that Self-Help Savings and Credit Groups had the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working had been encouraging.

The working Group constituted by RBI under the Chairmanship of Shri S. K. Kalia, the then Managing Director, NABARD was of the view that the linking of SHGs with the banks is a cost effective, transparent and flexible approach to improve the accessibility of credit from the formal banking system to the unreached rural poor, which is expected to offer the much needed solution to the twin problems being faced by the banks, viz recovery of loans in the rural areas and the high transaction cost in dealing with small borrowers at frequent intervals.

The Group, therefore, felt that the thrust of the policy should be to encourage the formation of SHGs and their linking with the banks and in this regard, the banks have a major role to play. The Working Group had recommended that the banks should treat the linkage programme as a business opportunity and they may design area specific and group specific loan packages taking into account inter alia the potential, local needs, available talent / skills etc.

16.5.1.1 **Separate Segment under Priority Sector**: In order to enable to report SHG lending without difficulty, banks have been advised to report lending to SHGs and / or to NGOs for on-lending to SHGs / members of SHGs under the new segment, viz. 'Advances to SHGs' irrespective of the purposes for which the members of SHGs have been disbursed loans. Lending to SHGs will be classified under weaker section advances and depending on activity either under Agriculture or MSE.

16.5.1.2 **Opening of Savings Bank A/c:** The SHGs either registered or unregistered which are engaged in promoting savings habit among their members would be eligible to open savings bank accounts. These SHGs need not necessarily have already availed credit facilities before opening savings bank accounts. KYC verification of all the office bearers of SHG should be done to open SB accounts of SHG. KYC verification of all the other members of SHG is not required. Further, it is clarified that since KYC would have already been verified while opening the savings bank account and the account continues to be in operation and is being used for credit linkage, no separate KYC verification of the members or office bearers is necessary at the time of credit linking of SHGs.

16.5.1.3 **Characteristics of SHGs:**

i. The Group shall have members of homogeneous background in terms of economic status, caste, gender, occupation or commonality of interest, and have been in active existence preferably for minimum period of 6 months. The Group should have successfully undertaken savings and credit operations from its own resources.

ii. The Group shall have bye laws relating to their functioning, meeting, membership criteria, credit, leadership, etc.

iii. All the members in the Group shall have equal stake. The Group should be democratic in working, wherein all members feel that they have an equal say and it should be evident in the Group's functioning.

iv. Branch Officials should be convinced that the group has not come into existence only for availing benefits and there should be genuine need to help each other and work together.

v. Group shall be maintaining proper accounts / records.

SHGs shall maintain simple and easy books of accounts for all transactions. The common books to be maintained are:

1. Minutes Book of the meetings
2. Savings Register
3. Loan Register
4. Cash Book

vi. The group size should preferably be between 10 and 20 members to enable effective participation. However, in hilly tracts / regions and predominantly tribal dominated areas where communities are dispersed, smaller groups of less than 10 are also formed into SHGs. The internal savings mobilised by the group are then lent by it to its members for emergent needs or such purposes as decided by the group.

vii. In case, the SHG consist of more than 20 members, it shall be registered as company under the Companies Act.

viii. Village Panchayat Leader should not normally be the Office bearer or leader of the SHG. There should not be any interference from any local authority/ies.

16.5.1.4 **Loan Amount** : As per operational guidelines of NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of SHGs securing higher gradation with good track record of adherence to the loan repayment schedule, loan amount beyond the limit of four times the savings may be considered as detailed in Para 1.11 below.

16.5.1.5 **Documentation**: A simple system requiring minimum procedures and documentation is a **precondition** for augmenting flow of credit to SHGs. Keeping in view the nature of lending and status of borrowers, Bank has introduced a comprehensive booklet containing loan application, appraisal, grading and loan documentation.

16.5.1.6 **Presence of defaulters in SHGs** : The defaults by a few members of SHGs and / or their family members should not ordinarily come in the way of financing SHGs per se, provided, the SHG is not in default to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

16.5.1.7 **Capacity Building and Training**: An important step in the Linkage Programme would be the training of the field level officials and sensitization of the controlling and other senior officials of the bank. Suitable awareness / sensitization / training programmes may **be** conducted.

16.5.1.8 **Monitoring and Review of SHG Lending**: In order to give a boost to the ongoing

SHG bank linkage programme for credit flow to the unorganized sector, monitoring of SHG bank linkage programme may be made a regular item on the agenda for discussion at the SLBC and DCC meetings.

16.5.1.9 Group dynamics and peer pressure bring about an excellent recovery from the members of the SHGs. The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon. The approach to financing of SHGs should be totally hassle-free and may include consumption credit.

16.5.1.10 **Eligibility criterion for financing SHGs through NGOs**:

The NGO

- **i.** shall have a good track record with proper system of book-keeping and audited balance sheet for the immediate proceeding three years.
- **ii.** to hand hold and nurture the SHGs during the first two/three years until group dynamics takes firm role.
- **iii.** shall possesses basic financial management capabilities.
- **iv.** shall have the history of promoting and working with groups of people belonging to weaker section
- **v.** shall not have any kind of association/ involvement with any organisation/ entities which has been banned by any law in force.

16.5.1.11 **Credit Assessment**

A) Eligibility for first phase of credit linkage:

SHGs with satisfactory transactions in their SB account for at least a minimum period of six months reflecting regular savings of their members, withdrawal of the amount shared for internal lending amongst the members and deposit of recovery made by the members, would be eligible for the first phase of credit linkage subject to, scoring "Excellent" in **12 & above** indicators under grading parameters as detailed below.

The branch shall make a formal assessment of the strength of the Group keeping in mind the characteristics of the SHGs as outlined in **Para 16.5.1.3 above**. The branch shall disburse the credit in bulk directly to the Group. The group in turn would undertake on-lending to the members. The quantum of the credit given to the group shall be in proportion to the savings mobilised by the group. The proportion of savings / corpus fund # to the loan may range from 1:1 to 1:4 depending on the assessment of SHG subject to a maximum ceiling of Rs.50,000/- per member.

The Savings / Corpus Fund of a SHG will comprise of :
• Balance in their Savings Bank Account. • Amount held as cash with the authorised persons. • Amount internally lent amongst the group members. • Amount received as interest on loans to members. • Any other contributions received by the Group like grants / donations etc.

Grading of eligible SHGs:

The eligible SHGs would be graded as per the grading criteria suggested by NABARD on 16 indicators as per the checklist given herein below.

Check list for assessing the performance /grading of Self Help Groups:

Indicators for grading		**Excellent**	**Good**	**Unsatisfactory**
1	Size of the Group	15 to 20	10 to 15	Less than 10
2	Status of the members	Only from very poor families	2-3 members not that poor	Most of the members not from poor families
3	Number of meetings	Four meetings in a month	2-3 meetings in a month	Less than 2 meetings per month
4	Time of meetings	After 6 PM in the evening or at night	Morning 7 to 9 AM	At any other time
5	Attendance of members	More than 90%	70 to 90%	Less than 70%
6	Participation of members in the meetings	High percentage	Low percentage	Lower than normal percentage
7	Deposit of Savings of the Group	Four times in a month	Three times in a month	Less than 3 times in a month
8	Amount of savings	Fixed amount as decided through consensus	Variable amount of savings as per capacity of the member	-

9	Rate of interest on loans disbursed to members of SHG	Interest rate depending on the purpose of the loan	Rs.2/- or Rs.3/- per Rs.100/- monthly	More than Rs.3/- per Rs. 100/- per month
10	Utilization of savings accumulated in the group	Fully utilized for providing loans to members	Partially utilized for providing loans to members	Very less amount of savings utilized for providing loans to members
11	Recovery of loans disbursed to members	More than 90%	70 to 90%	Less than 70%
12	Maintenance of books of accounts	All registers are maintained regularly & timely entries are made in them	Only important registers like Minute book, Savings & Loan accounts, etc. are maintained regularly & timely entries are made	Irregular maintenance of registers, lack of timely updating
13	Savings amount collected & deposited in the group	More than Rs. 5000/-	Rs.3000/- to Rs. 5000/-	Less than Rs.3000/-
14	Awareness of rules & regulations of the group amongst the members	Good awareness of rules & regulations to all members	Good awareness to most of the members & some awareness to others	Most of the members are not properly aware of the rules & regulations
15	Literacy status of the members of the group	More than 30% of the members can read & write	20% to 30% of the members can read & write	Less than 20% of the members can read & write
16	Awareness about programmes & schemes of the Government	Good awareness about programmes & schemes of the Government to all the members	Awareness about programmes & schemes of the Government to most members	No awareness about programmes & schemes of the Government to most members

Evaluation

1	Group scores “Excellent” in 12 to 16	Group will be immediately considered

	indicators	eligible for Bank loan.
2	Group scores "Excellent" in 10 to 11 indicators	Group must be allowed a time of 3-4 months for necessary improvement. After this 3 – 4 months, Group has to be evaluated and considered as eligible for loan if the Group scores "Excellent" in 12 & more indicators.
3	Group scores "Excellent" in less than 10 indicators	Group will not be considered good for providing loan until it improves to secure "Excellent" in more than 12 indicators.

B) Eligibility for second phase of credit linkage:

i. SHGs which have taken first phase of loan from the Bank, utilised the same properly and conducted the account satisfactorily for a minimum period of six months.

ii. SHGs scoring "Excellent" in **13 to 16** indicators while assessing for second phase of credit linkage.

iii. SHG groups qualifying the above criterion will be eligible for loan up to 1:10 times savings / corpus fund subject to a maximum of Rs. 50000/- per member.

C) Eligibility for third & subsequent phases of credit linkage:

i. SHGs which have taken second phase of loan from the Bank, utilised the same properly and conducted the account satisfactorily for a minimum period of twelve months of availing the second loan.

ii. SHGs scoring "Excellent" in **14 to 16** indicators while assessing for third or subsequent phase of credit linkage.

iii. SHG groups qualifying the above criterion will be eligible for loan up to 1:10 times savings / corpus fund subject to a maximum of Rs. Ten lakh per Group.

D) Eligibility in respect of loan under Kisan Credit Card Scheme:

In case of loans under Kisan Credit Card Scheme [CKSHG] for SHGs, the maximumloan limit stipulated is Rs.20.00 lakhs per group subject to adherence of Scheme guidelines.

E) Bank exposure to SHGs hitherto and henceforth would be in the form of Cash Credit Limit alone subject to changes if any as advised by the GOI / RBI / NABARD from time to time. However, Term Loans can be sanctioned to SHGs in case the loan is under Govt. sponsored schemes with back-

ended subsidies or under interest subvention, where release of subsidy is contingent on repayment of term loan.

It should be ensured that the loans to SHGs (Term Loan / Cash Credit / Over Draft) shall run for the entire tenure of the loan without pre-mature closure for the purpose of availing higher loan / limit.

F) In view of availability of mutual guarantee of SHG members and peer pressure, collateral security need not be insisted. Rate of interest will be as per the rates notified from time to time.

G) Cash Credit / Over Draft for SHGs:

i) There are instances of non-sanction of repeat loans to SHGs, as also cases of limiting need based credit. Sanction of cash credit / overdraft system of lending for SHGs for a longer operational tenure (i.e., prompt renewal and enhancements as per eligibility on due dates) to be adopted to permit SHGs to have larger loans in tune with increased pooled savings.

ii) This approach will provide considerable flexibility to SHGs in meeting their frequent needs as well as help them in reducing their cost of borrowings.

iii) The loan limit may be sanctioned for a period of three to five years based on the projected savings of the SHGs up to the end of 3 to 5 years, thus avoiding repeated documentation. Drawal limits for each year can however, be fixed within this aggregate ceiling as a multiple of actual pooled savings reached and the grading scores secured at that time as detailed under the credit assessment above. At the time of each annual renewal, grading as per the checklist should be done.

iv) Repeat loans shall be considered, after taking into consideration factors such as quality of SHG as reflected in its rating score, credit absorption capacity, managerial ability to handle income generating projects entailing higher outlay, risk taking ability etc. These approvals may be done based on the performance review of existing operations, actual growth in SHG's own corpus and the debt servicing history and capacity of SHG.

v) Review/ Renewal of the cash credit limits of SHGs to be carried out once in a year as applicable in other types of loans. As the proposed SHG lending will be under Cash Credit (Clean), these loans may be exempted from submission of stock statements and financials.

vi) In case, some members of SHGs require large loan than that to be covered under the savings related loaning, the SHG may appraise the requirement and recommend the proposal for direct lending to the concerned member. In such cases, loan will be assessed and sanctioned to individual member as per our usual norms. Documents will be taken from individual members. Further Guarantee Agreement is required to be taken from all the remaining members of the SHG.

vii) There are apprehensions that granting of direct loans to members could drive to financial indiscipline at the SHG level and lead to over borrowing and potential defaults. This can be overcome by ensuring that sanction of any credit directly to individual members will have to be as per conditions acceptable to all Group members who will be guaranteeing the loan.

viii) In order to ensure financial discipline, servicing of interest at monthly rests should be insisted.

ix) Besides servicing interest, it should also be ensured that the SHGs route the transactions through the Cash Credit account.

16.5.1.12 **Enabling Joint Liability Groups (JLGs) within SHGs:**

a) A few members of an SHG may graduate faster to start or expand economic activities requiring much higher levels of loans than required by other SHG members. In such cases, the other members may not like to stand mutual guarantee for a few large sized loans.

b) In such cases, a smaller "Joint Liability Group (JLG)" from members of an SHG may be created. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs as earlier.

c) Creation of such enterprise / livelihood based JLGs as a separate entities may be encouraged.

d) These JLGs may be created and financed on the lines of NABARD guidelines on JLGs already in vogue and such financing would be in addition to the loan / credit limit to the SHG.

16.5.1.13 **Allowing voluntary savings:**

a) Presently, SHGs save fixed amounts as compulsory savings in weekly / fortnightly / monthly meetings.

b) Growth in rural economy and opportunities like MNREGS and other schemes has positively influenced the SHGs and their member's capacities to save.

c) While many SHGs and their members have enhanced the amount of compulsory savings over the years, the compulsory savings in the SHGs are often restricted to the lowest savings potential of a member of SHG.

d) It has been observed that the savings capacity and potential varies across members. Therefore, the concept of voluntary savings by members over and above the compulsory savings provides an opportunity for banks.

e) It is desirable that such SHG members are encouraged to open individual bank accounts / revive their existing "no frill accounts" by depositing the surplus so as to facilitate them to steadily graduate from community banking to individual banking.

f) However, until the members of SHGs graduate to the level of opening and maintaining individual bank accounts, there is a need to create a suitable alternate framework within the group. SHG members with greater savings potential may be allowed to park their surplus fund within the group in the form of voluntary savings over and above the compulsory savings mandated in the group and a suitable accounting system may be started in the SHG for this purpose.

g) Voluntary savings can be reckoned in two ways: (1) not forming a part of the group corpus (2) as a part of group corpus and utilized for intra group lending. In case of (2), it will also be reckoned for assessing the quantum of loan to the group. However, it is desirable that the additional savings by group members does not entitle the concerned members to seek proportionately higher dosage of credit for themselves. The SHGs should have freedom to decide as to whether the voluntary savings by members of the group are eligible for proportionate share in the interest income or dividend from the group.

16.5.1.14 **Purpose of bank loan**

Loan granted to the SHG is purpose neutral as the group decides the purpose for which loan can be given to its members. While financing the SHGs, the entire credit requirements of SHG members for (a) income generation activities, (b) social needs like housing, education, marriage, etc., and (c) debt swapping, etc. are to be met.

16.5.1.15 **Classification of loans granted to SHGs:**

a) Advances to SHGs may be classified under different categories (Direct Agriculture / MSE) of Priority Sector credit on the basis of predominant activity undertaken by the Group members out of the Bank loan.

b) Loans not exceeding Rs.50,000/- per borrower provided through SHG will also be classified under Micro Credit with in the Priority Sector.

16.5.1.16 **Improving Risk Mitigation Systems:**

In order to further strengthen the Bank's comfort and confidence in financing of SHGs, a few risk mitigation mechanisms, viz; self-rating tools by SHGs, conduct of audits at SHG level, etc are recommended.

a) The self-rating mechanism by SHGs is intended to educate SHG members of their strengths and weakness in SHG's functioning for initiating corrective action.

b) Audit of SHGs by a third party covering aspects such as regularity in meetings, savings, internal lending process, correctness of interest application, accounting for all receipts and payments, drawing out final accounts of SHGs, etc. can be introduced.

c) Services of SHG-level Business Facilitators (Auditors) from amongst active SHG members or NGOs or other agencies, which promote SHGs, or existing BCs of the bank can be utilised for audit process in SHGs as detailed in Para 1.16 (b) above.

16.5.1.17 Members may be covered under group insurance scheme of LIC.

16.5.1.18 **Building second tier institutions:**

a) Experience gathered over the years in promotion and nurturing of SHGs suggests the need for a much longer and sustained hand holding by SHG Promoting Institutions (SHPIs) to ensure SHG's sustainability.

b) Members of well-functioning or active members of SHGs and NGOs or other entities engaged in promotion of SHGs best provide these support services to SHGs. Such entities may be engaged to serve as Business Facilitators for helping to monitor the functioning of SHGs and take corrective action.

c) Besides nurturing SHGs and conducting their audits, they could also facilitate financial literacy, help SHG members' to open individual savings accounts, guide and improve existing livelihoods.

16.5.1.19 Crop Loans (CCCKs) can also be granted to SHGs and detailed guidelines are furnished in HO Circular number 710/2013 dated 28.11.2013).

16.5.2 Financing JLGs:

Micro credit may also be extended through other entities adopting Group Dynamics, such as Joint Liability Groups [JLGs].

16.5.1.20 **Objectives:**

i) To augment flow of credit to farmers, especially small, marginal, tenant farmers (who has taken land on lease), oral lessees (tenancy without written agreement), share croppers (tenants who pay rent to land lords by way of sharing crops grown, in lieu of rent by cash) / individuals taking up farm activities / Micro entrepreneurs / artisans / individuals in Non-Farm sector activities.

ii) To serve as collateral substitute for loans to be provided to the target group.

iii) To build mutual trust and confidence between bank and the target group.

iv) To minimize the risks in the loan portfolio for the banks through group approach, cluster approach, peer education and credit discipline ; and

v) To provide sustainable livelihood opportunities to vulnerable section for enhanced productivity and livelihood promotion through JLG mechanism.

16.5.1.21 **General Features of JLG**:

A Joint Liability Group (JLG) is an informal group comprising of 4-10 individuals coming together for the purpose of availing bank loan on individual basis or through group mechanism against mutual guarantee. Generally, the members of a JLG would engage in a similar type of economic activity in the on farm / non-farm sector. The members would offer a joint undertaking to the bank that enables them to avail loans. JLG members are expected to provide support to each other in carrying out occupational and social activities.

16.5.1.22 **Criteria for Membership**:

i) Members should belong to similar socioeconomic status, background and environment carrying out similar activities and agree to function as a Joint Liability Group. This way, the groups would be homogeneous, organized by Individuals and develop mutual trust and respect.

ii) The members should be residing in the same village/ area/ neighborhood and should know and trust each other well enough to take up joint liability for group/ Individual loans.

iii) Person who has defaulted to any other formal financial Institution, in the past, is debarred from the Group Membership except those who have defaulted on account of genuine reasons like natural calamities, repeated crop loss, crop failure, continuous declining price trend in the local market, unforeseen set back in the family etc.

iv) More than one person from the same family should not be included in the same JLG.

v) The groups must be organized by the likeminded persons and not imposed by the bank.

16.5.1.23 **Group Approach:**

i) All members of the JLG should be active enough to assume leadership of the group to ensure the activities of the JLG. The selection of an effective / able / active leader for the JLG is essential as this will ultimately benefit all the JLG members. The leader fosters a sense of unity, oversees and maintains discipline, shares information and facilitates repayments. For the bank, the leader is the focal point for group activities.

ii) The JLG should hold regular meetings which must be attended by all the members regularly to discuss issues of mutual interests.

iii) The principles of self - help and group strength need to be emphasised. Group cohesion has to be ensured. Adequate emphasis should be placed on the roles, expectations and functions of the group / members & the benefits of group dynamics.

iv) The JLG can easily serve as a conduit for technology transfer, facilitating common access to market information, for training and technology dissemination in activities relating to on farm / non-farm sector training and assessing input / raw material requirements.

v) The JLGs for specific on farm /non-farm activity, e.g. production of handicrafts / other non farm products may be federated at village / block level for development of the product.

vi) The JLG in the clusters on their stabilization could come together in the form of cluster federation or producers' companies with a view to contributing the entire value chain and thereby achieving economies of scale in production and marketing of the product.

vii) The JLGs and evolving JLG structures are expected to build up empathy and understanding and create responsive lending mechanisms leading to greater interaction and interdependence between the members of JLGs.

16.5.1.24 **Who can form JLGs ? :**

Business Facilitators, NGOs, Farmers Clubs, Farmers Associations, Panchayat Raj Institutions (PRIs), Krishi Vikas Kendras (KVKs), State Agriculture Universities (SAUs), Agriculture Technology Management Agency (ATMA), Bank branches, PACS, other cooperatives, Govt. Depts., Producer Associations, Artisan Guilds, Department of SMEs, Small Scale industries / Agro industries, Individuals, Input dealers, and Document writers (in cooperative banks), MFIs / MFOs, etc.

16.5.1.25 **Savings**:

JLG members need to be encouraged to save regularly. Banks may open savings account by the JLG / individual members of the JLG to ensure regular savings and thrift habit amongst them. However, the quantum of loan to be given to the groups should be related to the credit needs of the enterprise and not to the quantum of savings.

16.5.1.26 **JLG Models:**

Banks can finance JLGs by adopting any of the two models.

Model A - Financing Individuals in the JLG

Each member of the JLG could be provided with an individual loan or Swarojgar Credit Card (SCC) or Kisan Credit Card (CCCK) or general purpose card or short term Loan or term loan depending upon the purpose/activity. The assessment / appraisal of the credit requirement will be based on the crops cultivated, allied activities undertaken, other on farm activities /product / enterprise to be undertaken and the credit absorption capacity of the individual. Loan documents will be taken from the respective individual member as borrower and all other remaining members as guarantors, thus making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group.

The guarantee agreement will ensure consensus among all members about the amount of individual debt liability that will be created including liability created out of the individual loan,

Swarojgar Credit Card or any other card. Any member opting out of group or joining the group, will necessitate a new loan agreement, to be kept on record in the bank branch.

The rate of interest , security, repayment schedule, type of loan etc., will be as per our usual norms depending on the loan amount, purpose etc., like any other loan.

Model B - Financing the JLG as a Group

The JLG functions, operationally, as one borrowing unit. The group would be eligible for accessing one loan, which could be combined credit requirements of all its members. The credit assessment of the group could be based on the cropping pattern, allied activities, other on farm activities, micro enterprise/ activity to be undertaken. All members would jointly execute the document and own the debt liability jointly and severally. The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created. Any change in the composition of the group, will lead to a new document being registered by the bank branch.

The rate of interest will be as applicable to respective activity / purpose. For fixing rate of interest, the per capita loan amount has to be considered.

16.5.1.27 **Credit Appraisal in Model B – Financing as a group:**

Thorough credit appraisal should be done to avoid under or over-financing. Rating tools as in Para 2.12 to be used in case of financing the JLG as a group i.e., Model B. The finance to JLG is expected to be a flexible credit product addressing the credit requirements of its members including crop production, marketing and investment credit, besides other productive purposes in the agriculture and allied sectors, production / working capital, marketing and investment credit, besides other productive purposes in the non-farm sector. The credit requirement of the group will be the combined credit needs of individual members and the JLG will avail a single loan.

Loan limit: Considering that the loan to be sanctioned is against the mutual guarantee offered by the group, maximum amount of loan may be restricted to **Rs.50,000/- per individual and Rs. Five lakh per group in Model B i.e., financing the JLG as a group**.

In case of financing JLG as a group, due to availability of mutual guarantee of JLG members, security need not be insisted.

The type of loan can be cash credit, short term or term loan depending upon the purpose / activities undertaken.

Loan can be for any productive economic activity in which the group/members have experience /expertise.

16.5.1.28 **Documentation**: A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of credit to JLGs. Keeping in view the

nature of lending and status of borrowers, Bank is introducing a comprehensive booklet containing loan application cum appraisal, letter of undertaking, grading, agreement, standing instruction, letter of authorisation etc.

16.5.1.29 **Classification of JLGs:**

Credit to JLGs of Micro enterprises / artisans / individuals in Non-Farm Sector will be treated as normal business activity under Priority Sector. Lending to JLGs of farmers will be treated as agricultural advances under the priority sector.

16.5.1.30 **Monitoring and Review**:

i) The JLGs through peer pressure ensure loan utilisation and timely repayment. The bank may hold all members liable in case of default.

ii) The Bank Officers are expected to maintain harmonious relations and continuous close contact and relationship with the JLG leader and other members so as to convert them into good reliable customers of the bank. Maintenance of good credit history by the JLGs will gradually lead to lowering of the bank's own transaction costs in terms of intensity of appraisal and monitoring.

16.5.1.31 **Norms for Assessing Joint Liability Groups (JLGs) by Banks for financing as a group:**

Norms for Assessing Joint Liability Groups (JLGs) by Banks						
Sl No.	**Parameter**	**Means of Measurement**	**Maximum Mark per Parameter**	**Performance**	**Value (Marks)**	**Marks obtained**
1	Group Size and composition of group	Interview with the group	3	Size - 4 to 10 members	1	
				Homogeneous (Similar economic condition / livelihoods)	1	
				Located with close proximity to each other	1	
2	Availability of support from specific agency / association@	Discussion with the group	1	Support available and screening of individual members done before formation of	1	

				JLGs		
3	Knowledge of JLG functioning or has received training on JLGs	Interaction with Group members / profile of members / promoter JLGPI*	1	Received training on JLG functioning / has knowledge about JLG	1	
4	Potential for proposed activity and skills of the group members	Interaction with the group	2	Activities have potential and members have adequate skills	2	
				Activities have potential but members are yet to acquire adequate skill	1	
5	Viability of investment to be made by JLG / members	Interaction with the group	2	Proposed investment is financially viable	2	
6	Monitoring by volunteers in JLGs or through BF / BC or JLGPI * after credit linkage with bank	Discussion with members / BC / BF/ JLGPI	1	Available	1	
	Total		**10**			
Note						
JLGs scoring 6 marks and above will be eligible for Credit linkage.						
@ Initial client level Screening is done by association, bodies to which JLG members are likely to be associated viz. petty traders' association, fish farmers' association, farmers' club, producers' organization, other interest groups, etc.						
* JLGPI : Joint Liability Group Promoting Institution						

SHGs and JLGs are tools for bringing about empowerment and economic development of the poorer section of the society. It is at the same time a sound business proposition. Branches / Offices should promote SHGs and JLGs in a hassle free timely and a need based manner and built a strong portfolio.

16.6 Policy on Lending against Gold Jewellery:

16.6.1 Introduction:

Down the ages, in the backdrop of our culture and traditions, Gold and Gold Jewellery has retained its traditional sheen as a legendary and safe investment option. It is not only an immediate and dependable means to bridge finance and bail out people from unforeseen critical situations but is also a robust tool for masses to mitigate their problems and meet the financial needs of their personal /professional / business requirements.

Our Bank over the decades has been engaged in Gold Loan Financing following the established systems and procedures which are subject to modifications from time to time based on regulatory requirements, field level feedbacks and market requirements.

The Ministry of Finance has advised all the Banks to formulate a policy for lending against Gold for all purposes either by way of Overdraft / Cash Credit or Term Loan or Composite Loan for each individual segment or in the form of "all purpose" Credit Scheme including lending against Gold coins and for business requirements. Bank's Policy on Lending against Gold Jewellery is furnished below.

16.6.2 Objectives of the Gold Loan Policy:

The policy on lending against Gold Jewellery seeks to achieve the following broad objectives:

16.6.2.1 To ensure orderly growth of Gold Loan portfolio of the Bank.

16.6.2.2 To formulate suitable exposure norms and operate within the laid down norms.

16.6.2.3 To ensure compliance with all the directives / guidelines issued by the Government / Reserve Bank of India and other legal / regulatory requirements.

16.6.3 Exposure Norms:

16.6.3.1 **Industry Exposure Ceiling**: The overall exposure of the Bank under Gold Loans shall be within 6% of the aggregate exposure under lending, non-SLR investments and CAPS of the preceding Financial Year.

16.6.3.2 **Exposure Norms per Borrower**: Maximum exposure of Rs.50 lakh per borrower.

16.6.4 Credit Delivery:

In general lending against Gold coins / ornaments/ Jewellery shall be routed through all Bank branches, depending on the feasibility and the scope for such lending. Wherever, there is more potentiality, such lending shall be done through exclusive Gold Loan Cells, within the existing branches identified by the respective Zones.

16.6.5 Types of Gold acceptable as security:

Gold necklaces, chains, bangles and such other articles normally worn by persons which do not contain extraneous materials other than gold; e g. — Ornaments containing precious stones. Where ever, Gold Loans are sanctioned against Gold ornaments containing precious stones, though, in certain cases, the precious stones may cost more than the value of gold, but for all practical purposes, as a matter of policy, only the contents of the gold in the ornament should be valued for purpose of advance i.e. net weight of gold and adequate margin maintained.

Reserve Bank of India's Circular No. RBI/ 2011-12/ 59 – DBOD.No.Dir.BC.6/ 13.03.00/ 2011-12 dated 1st July 2011 on "Advances against Bullion/ Primary Gold" advised that loan should not be granted against Bullion/ Primary Gold. However, specially minted gold coins sold by Banks shall not be treated as "Bullion" or "Primary Gold". Gold coins sold by Banks are made of 999.9 fine pure Gold i.e., 24 Carat with Assay Certification – the international Hallmark of Gold purity. Hallmarks are official marks used in many countries as a guarantee of purity or fineness of Gold Jewellery.

In short, Hallmark is the certificate of purity of Gold. Hence, Hallmark Jewellery must be treated as preferred items for pledge.

The loans can be granted against specially minted coins sold by our Bank and other Banks. The facility of advances against the security of gold coins per customer is restricted to gold coins weighing up to 50 grams.

Advances against units of gold Exchange Traded Funds (ETF) and gold Mutual Funds are not permitted as these products are backed by bullion / primary gold.

While granting loans against the coins, it should be ensured without fail that the end-use of the funds is for approved non-speculative purposes.

16.6.6 Identification of Borrowers:

Jewel Loan should generally be granted only to our customers, or persons known to the Bank and or to others who are properly introduced to the Bank. KYC norms should be adhered to in all the cases with due diligence.

The loan proceeds of Jewel Loan are required to be routed through the SB/CA/CC/OD account of the borrower customer.

16.6.7 Jewel Appraisers

16.6.7.1 No loans against gold ornaments are to be granted without getting the gold ornaments appraised by the appraiser empanelled by the Bank for the purpose.

16.6.7.2 Based on the background, antecedents, reputation and experience in the line of Jewellery business, the Jewel Appraiser will be empanelled.

16.6.7.3 Jewel Appraisers will be empanelled by the Zonal Heads on the recommendation of the Branches.

16.6.7.4 Resignation as well as discontinuance of the services of Jewel Appraisers shall be dealt by the Zonal Heads based on the recommendation received from the Branches.

16.6.7.5 Apart from empanelled Jewel Appraisers, installation of Gold purity testing machines in select branches based on the level of Gold business would be examined to ensure more accuracy in the appraisal and cross verification of the value of the Gold as appraised by the empanelled Jewel Appraiser.

16.6.7.6 No jewel Loans should normally be granted to jewel appraisers, or to his relatives, or to persons introduced by him, unless the jewels proposed to be pledged are got independently appraised by another jewel appraiser of the same branch or our other nearby Branch.

16.6.8 Assessment of Loan Amount

16.6.8.1 Gold jewellery accepted as security / collateral to be valued at lower of the following two (a) The average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)]. (b) Assessed value of gold as assessed by the Branch Jewel Appraiser based on that day's gold price. If the gold is of purity less than 22 carat, the collateral should be translated into 22 carat to arrive at the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.

16.6.8.2 The Head Office Level Credit Committee [HLCC] is authorized to approve the Scale of Finance for Jewel Loans as and when required depending upon the movement of the gold prices based on the average closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)]. Whenever there is a need for revision in the Jewel Loan Scale of Finance, the Division would place the note before HLCC and on approval, circular on the Jewel Loan Scale of Finance would be issued. For variations in the Gold price arising in between, as per the prevailing practice, the Branch would finance based on 75% of the day's market value determined by the Jewel Appraiser and the Jewel value arrived based on the Jewel Loan Scale of Finance prescribed by the Head Office, whichever is lower.

16.6.8.3 The loan amount shall be need based for the particular activity of the borrower, on the basis of Scale of Finance/ Cost of Cultivation/Project Cost to meet the requirements of the activity or on the basis of LTV ratio, whichever is lower.

16.6.9 Safe keeping

16.6.9.1 Tamper evident high security pouches would be used for preserving the Jewels pledged with the details of the loan recorded on the writable portion as this is a more secured way of storing the jewels pledged than use of conventional cloth bags.

The duly packed Jewels shall be kept inside the safe room under joint custody. In the absence of safe room, the duly packed Jewels shall be safely kept in Fire & Burglar Resisting safes (FBR safe) under joint custody.

16.6.9.2 The value of Gold ornaments accepted shall be within the available insurance coverage for securities / cash held in the premises.

16.6.9.3 The insurance coverage shall be continuously monitored by the Branches and advance intimation should be sent by the Branches to their respective Zonal Offices. On receipt of such intimation from the Branches, the Zonal Offices shall take up with the Financial Management Division at Head Office to make the necessary revision in the blanket insurance system before it exceeds the prescribed insurance coverage.

16.6.10 Follow up / Recovery Measures

If the loan amount, principal /interest, is not paid within the stipulated period fixed for repayment, a registered notice shall be sent to the borrowers in the prescribed format. If there is no response within 30 days, steps shall be taken to auction the Jewels pledged as per the procedure laid down for recovery of the dues by disposing off the Jewels pledged.

Branches shall conduct auction sale on obtaining the approval from the Zonal Office. Proceeding and the outcome of the auction has to be reported to the Zonal Office.

16.6.11 Monitoring of the portfolio:

16.6.11.1 The branches shall keep track of the movement in the price of gold, the realizable / market values of the Jewels pledged as security for the loans and the liability along with accrued interest in the loan account and ensure that the liability is fully covered by the realizable value of the Jewels pledged.

16.6.11.2 During the Monthly / Quarterly Surprise Verification of the branches, and during the risk based audit by the Inspection Division, it shall be ensured that the total number of Jewel Loan bags physically tallies with total number of outstanding loans in addition to undertaking random verification of the contents of Jewel Loans.

16.6.11.3 As an extra precaution, in branches having sizeable Gold Loan portfolio, the Zonal Head shall carry out random checking, appraisal and re-certification of Gold for accuracy up to 5% of the gold loans sanctioned by branch every quarter deputing empanelled Jewel Appraiser of one branch to another branch on non-reciprocal basis (Non–reciprocal basis means, when the

Jewel Appraiser of Branch 'A' deputed to Branch 'B' for recertification, the Jewel Appraiser of Branch 'B' shall not be deputed to Branch 'A'). The size of the Gold Loan portfolio above which random checking has to be undertaken shall be revised based on need on approval from the Credit Approval Committee, at Head Office.

16.6.12 Modifications / Deviations in the Scheme Guidelines

16.6.12.1 The sanction of loans shall be as per the Scheme guidelines. Wherever, deviation from the Scheme guidelines is required, the sanctioning authority, before considering such proposal, shall obtain deviation from the Competent Authority on a case to case basis, based on the merit.

16.6.12.2 The Credit Approval Committee at the Circle Office level shall permit deviation on case to case basis based on the merits pertaining to the quantum of loan exceeding per borrowal limit in respect of Schemes subject to maximum per borrower exposure as furnished under point 16.6.3.2.

16.6.12.3 All other modifications in the Scheme guidelines shall be approved by the Credit Approval Committee at Head Office, within the Gold Loan Policy of the Bank.

16.6.12.4 The policy guidelines are subject to change from time to time, as per RBI/Government of India instructions/directives, subject to approval of the Board.

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17 COMMERCIAL CREDIT

17.1 Introduction:

17.1.1 Commercial credit policies apply to situations that involve commercial risk. Commercial risk exists while lending / investing funds to business segment / Corporate or when repayment of amount lent / invested is dependent on the cash flow / sale of primary/ collateral security relating to the business.

17.1.2 The general policy guidelines enumerated in earlier chapters shall be applicable to all types of credit including commercial credit. This section deals with specific guidelines relating to commercial lending / investment.

17.2 Appraisal Standards

17.2.1 The financial strength of the borrower constituent shall be adequate, in relation to the project size / volume of operations proposed to be undertaken and risks involved therein.

17.2.2 All new proposals, with satisfactory credit rating shall conform to the following Benchmark ratios:

17.2.2.1 Ratios shall be based on the audited annual financial statements in case of the existing units/ business enterprises. In case any capital infusion/ funding of unsecured loans by the promoters during the current/ subsequent financial year, the same may be taken into account for calculation of the ratios based on the strength of the certificate by the Chartered Accountants of the company.

17.2.2.2 However, in exceptional and deserving cases, the ratios may be based on the latest certified quarterly financial statements.

17.2.3 Working Capital Limits

- Current Ratio of 1.33:1 [Acceptable ratio is 1.25:1]
- For export oriented units current ratio shall be 1.10:1

17.2.3.1 **Term Loans**

- Promoters contribution of 25% [20% for infrastructure]
- Debt Equity of 3:1 [4:1 in the case of Infrastructure projects]
- **Average** Debt Service Coverage Ratio of 1.50:1 [1.25:1 in the case of Infrastructure projects]
- **Minimum** Debt Service Coverage Ratio of 1.10:1 [1.00:1 in the case of Infrastructure projects]

- ❖ The ratio of Total Outside Liability (excluding unsecured loans from promoters / shareholders and their relatives considered as quasi equity) to Tangible net worth (including unsecured loans from promoters / shareholders and their relatives considered as quasi equity) shall not normally go beyond 4:1
- ❖ The ratio of Net Owned Funds to Total Funds Deployed [NOF/TFD] shall be a minimum of 25%.
- ❖ For Green Field Projects above Rs 10 Crore, NPV shall be positive.

17.2.3.2 In case of New Project Loans, Quasi Equity, Subordinate Debt and Grants may be treated as Promoter's Contribution.

17.2.3.3 The benchmark ratios mentioned above shall not be applicable for lending to NBFCs.

17.2.3.4 The new credit proposals from NBFCs shall conform the following:

i. The credit rating shall be a minimum of investment grade and above
ii. Shall have a minimum capital adequacy ratio of 12%; and
iii. Gross NPA and net NPA shall be less than 3.5% and 1.25% respectively
iv. Total borrowings shall not exceed15 times or 16 times of NOF

17.2.3.5 However, in deserving and on justifiable grounds, the following mechanism may be adopted by the sanctioning authority to permit deviations from the above benchmark ratios.

ZLCC/ CLCC	Current ratio	1.15:1
	Debt equity ratio	3.50:1
	TOL/TNW	4.50:1

HLCC/ CAC shall have the power to permit any deviation beyond the power of ZLCC/ CLCC.

17.3 Methods of Assessment of Working Capital

17.3.1 The following methods of lending, as per guidelines separately laid down by the Bank, shall be adopted for assessing working capital requirements of different categories of borrowers:

Method of Assessment	Borrower Category/ Economic Activity	Working Capital
PTM **Projected Turnover Method** (as enunciated by Nayak Committee)	Borrowers in industry, trade and service segments, Software industry	Fund based working capital limits up to Rs.2 Crore from the Banking system (Rs. 5 Crore in the case of SSI units)
PBF **Permissible Bank Finance Method** (modified version of MPBF method)	Borrowers in Industry, trade and service segments Civil Contractors / Builders / borrowers engaged in construction activities	Fund-based working capital limits above Rs. 2 Crore (above Rs.5 Crore in the case of SSI units) Irrespective of size of the credit limit PBF or CBM
(**NOTE:** Borrowers having Fund-based working capital limits above Rs.10 Crore from the Banking system will have an option to go in for Cash Budget Method)		
CBM **Cash Budget Method** (as prescribed by Kannan Committee with modifications to suit industry-specific needs)	Borrowers in industry, trade and service segments Civil contractors / builders /borrowers engaged in construction activities	Optional for borrowers having Fund-based working capital limits above Rs.10 Crore from the Banking system Irrespective of the size of the credit limit PBF or CBM

Note:

17.3.1.1 In respect of Consortium Advances, the Bank shall generally fall in line with method of lending adopted by the lead Bank.

17.3.1.2 In the case of software industry, Projected Turnover Method shall be

adopted for assessment of working capital requirements where the aggregate credit limits from the Banking system do not exceed Rs.2 Crore. In other cases, assessment of MPBF on the basis of monthly Cash Budget System shall be considered. For the borrowers enjoying working capital limits of Rs.10 Crore and above from the Banking system, the guidelines regarding the loan delivery system shall also be applicable.

17.3.1.3 Wherever separate schemes are formulated to finance working capital requirements of different types of borrowers, the norms stipulated there under shall be applicable [Eg. Corp Vyapar Scheme]

17.3.1.4 Wherever financing to multiple activities is involved, endeavor shall be made to fix activity wise separate limits

17.4 <u>Bank finance to NBFCs:</u>

17.4.1 Registered NBFCs with RBI

Need-based working capital facilities may be extended as well as term loans to all NBFCs registered with RBI and engaged in equipment leasing, hire purchase, loan, factoring and investment activity. While assessing the requirements, either PBF or cash budget or any other method as the case may be shall be followed. Finance to NBFC may also be extended against the second-hand assets financed by them.

17.4.2 NBFCs not required to be registered with RBI

In respect of NBFCs which do not required to be registered with the RBI [viz., [I] Insurance Companies registered u/s 3 of Insurance Act, 1938; [ii] Nidhi Companies notified u/s 620A of the Companies Act, 1956; [iii] Chit Fund Companies carrying on Chit Fund as a principal business; [iv] Stock Broking Companies registered u/s.12 of the SEBI Act; [v] Housing Finance Companies regulated by NHB], need based credit facilities may be extended on the basis of usual factors, like the purpose of credit, nature & quality of underlying assets, repaying capacity as also risk perception etc.

17.4.3 Residuary Non-Banking Companies

Residuary Non-Banking Companies are the companies registered with department of Non-Banking supervision of RBI.

In respect of Bank's finance to Residuary Non-Banking Companies [RNBCs], Bank's finance shall be restricted to the extent of their net owned funds as defined in Sec.45 [I][a] of RBI Act, 1934.

a. Financial assistance may be extended to equipment leasing companies which are not NBFCs.
b. Further, any lease agreements with equipment leasing companies financed by the Bank shall not be entered into.
c. Banks' exposure to these activities shall not exceed 5% of NBC.

17.5 Bank Finance to Factoring Companies:

17.5.1 Notwithstanding the restrictions on financing to NBFCs, as detailed in Chapter No.23: Statutory Restrictions on Lending Activity, financial assistance shall be extended to support the factoring business of the factoring companies which comply with the following criteria As per RBI Circular No. RBI/2015-16 -247 DBR.BP.BC.No.55/21.04.172/ 2015-16 dated 26.11.2015 on Bank Finance to Factoring Companies.**:**

I. Companies shall carry out all components of standard factoring activity, viz. financing of receivables, sale ledger management and collection of receivables.
II. Derive at least 50% of their income from factoring activity.
III. The receivable purchased/ financed, irrespective of whether on `with recourse' or `without recourse' basis form atleast 50% of the assets of the factoring company.
IV. Assets/ income referred to above shall not include assets/ income relating to any bill discounting facility extended by the factoring company.

17.5.2 The financial assistance extended by the factoring company is secured by hypothecation of assignment of receivable in their favour.

17.5.3 Bank shall not grant Bridge Loan of any nature or interim finance against capital/ debenture issues and / or in the form of loans of a bridging nature pending raising of long term fund from the market by way of capital, deposits etc. to all categories of NBFCs, viz. equipment leasing and hire purchase finance companies, loans and investment companies and also Residuary Non-Banking Companies. It shall be ensured that these are not circumvented in any manner whatsoever by purport and/or intent by sanction of credit under a different nomenclature like unsecured negotiable notes, floating rate interest bonds, etc. as also short-term loans, the repayment of which is expected to be made out of funds to be or likely to be mobilised from external/ other sources and not out of surplus generated by the use of the assets.

17.5.4 The shares and debentures shall not be accepted as collateral securities for secured loans granted to NBFCs borrowers for any purpose.

17.5.5 Guarantees covering inter-company deposits/ loans, thereby guaranteeing refund

of deposits/ loans accepted by NBFCs/ firms from other NBFCs/ firms shall not be executed. Guarantee shall not be issued for the purpose of indirectly enabling the placement of deposits with NBFCs.

17.5.6 The aggregate exposure of the Bank to a single NBFC / NBFC-AFC [Asset Financing Companies] shall not exceed 10% / 15% respectively, of the Bank's own capital funds as per last audited Balance Sheet. However, the same shall be 15% / 20%, respectively of the capital funds provided the exposure in excess of 10% / 15% respectively is on account of exposure by the NBFC / NBFC-AFC to the infrastructure sector. Exposure of the Bank to Infrastructure Finance Companies [IFCs] shall not exceed 15% of the capital funds of the Bank as per the last audited balance sheet. However it can be considered upto 20%, if the same is on account of exposure by the IFCs to the infrastructure sector.

17.5.7 In respect of NBFCs and Housing Finance Companies, the total borrowings, whether by way of deposits, issue of debentures/ bonds, loans and advances from Banks or from financial institutions including any loans obtained from NHB shall not exceed 15 times and 16 times, respectively, of their net owned funds [paid up capital and pre- reserves less accumulated balance of losses, deferred revenue expenditure and intangible assets].

17.5.8 The aggregate exposure of the Bank to a single NBFC/ NFBC-AFC [Asset Financing Companies] in private sector shall not exceed Rs.500 Crore and Rs.1000 Crore for group. The said ceiling is not applicable for NBFCs in Public Sector.

However, the exposure ceiling on single NBFC having Gold loans to the extent of 50% or more of its financial assets shall not exceed 7.5% of the Banks Capital Fund.

However, exposure can go upto Maximum of 12.5% of capital fund, if the additional exposure is on account of funds on lent by NBFC to infrastructure.

17.5.9 Further, the aggregate exposure to all NBFCs put together other than those engaged in Housing Finance and All India Financial Institution shall be restricted to 10% of aggregate exposure under lending, non-SLR investment and CAPS.

17.6 <u>Financing of Infrastructure projects</u>

17.6.1 Considering the inherent strengths and weakness connected with infrastructure financing, the Bank may selectively take up technically feasible and financially viable and Bankable projects undertaken by both public sector and private sector undertakings subject to the following conditions:

17.6.1.1 The quantum of the limits sanctioned shall be within the overall ceiling of the prudential exposure norms prescribed by RBI for infrastructure financing.

17.6.1.2 In respect of projects undertaken by public sector units, term loans shall be sanctioned only for corporate entities and such term loans shall not be in lieu of or to substitute budgetary resources envisaged for the project. The term loan could supplement the budgetary resources if such supplementing was contemplated in the project design. While such public sector units may include Special Purpose Vehicle [SPV] registered under the Company's Act set up for financing infrastructure projects, it shall be ensured that these loans/ investments are not used for financing the budget of the State Government. While such financing, due diligence shall be undertaken on the viability and Bankability of the projects to ensure that revenue stream from the project is sufficient to take care of the debt servicing obligations and the repayment/ servicing of debt is not out of budgetary resources. Further, in the case of SPVs, it shall be ensured that the funding proposals are for specific monitorable projects.

17.6.1.3 Bank shall also lend to SPVs in the private sector, registered under the Company's Act for directly undertaking Infrastructure Projects, which are financially viable and not for acting as mere financial intermediaries. It shall be ensured that Bankruptcy or financial difficulties of the parent/ sponsor shall not affect the financial health of SPVs.

17.6.2 Credit facilities shall not be extended by way of working capital finance, term loan, project loan, subscription to bonds and debentures/ preference shares/ equity shares acquired as a part of the project finance package which is treated as deemed advance and any other form of funded or non-funded facilities.

17.6.3 Bank shall enter into take-out financing arrangements with IDFC/ other financial institutions or avail of liquidity support from IDFC/ other FIs.

17.6.4 Guarantees favouring other lending institutions shall be issued in respect of infrastructure projects, provided the Bank takes a funded share in the project atleast to the extent of 5% of the project cost and undertakes normal credit appraisal, monitoring and follow-up of project.

17.6.5 Bank under exceptional cases, shall finance for acquisition of promoters share in an existing company which is engaged in implementing or operating an infrastructure project in India, subject to:

a. The Bank finance shall be made with the approval of the Board, for acquisition of shares of existing companies, providing infrastructure

facilities. Further, acquisition of such shares shall be in respect of companies, where the existing foreign promoters [and/or domestic joint promoters] voluntarily propose to disinvest their majority share in compliance with SEBI guidelines, where applicable.

b. Companies, to which loans are extended, inter alia, shall have sufficient satisfactory networth.
c. The company financed and the promoter/ director of such companies shall not be a defaulter to Banks or FIs.
d. In order to ensure that the borrower has a substantial stake in the infrastructure company, Bank finance shall be restricted to 50% of the finance required for acquiring the promoter's stake in the company being acquired.
e. Finance extended shall be against the security of the assets of the borrowing company or the assets of the company acquired and not against the shares of that company or the company being acquired. The shares of the Borrower Company/ company being acquired may be accepted as additional security and not as primary security. The security charged to the Bank shall be marketable.
f. Maintenance of stipulated margins at all times shall be ensured.
g. The tenor of the Bank loans shall not be longer than seven years. However, the Board may make an exception in specified cases, where necessary, for financial viability of the project.
h. This financing shall be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949 and Prudential Exposure Ceilings fixed RBI.

17.6.6 The Bank shall enter into arrangements with IDFC/ Other financial institutions for takeout finance as a liquidity support measure in terms of the Bank's Policy on Take out Finance.

17.6.7 Flexible Structuring of New Term Loans to Infrastructure Projects and Core Industries.

17.6.7.1 New term loans to infrastructure projects, as per the harmonized master list of Infrastructure enumerated under "Credit Strategies" of the Group Credit Policy guidelines and projects in core industries sector [viz., Coal, Crude Oil, Natural Gas, Petroleum Refinery Products, Fertilisers, Steel (Alloy + Non Alloy), Cement and Electricity] shall be considered;

17.6.7.2 At the time of initial appraisal of such projects, Bank shall fix an amortization schedule (Original Amortisation Schedule) while ensuring that the cash flows from such projects and all necessary financial and non-financial parameters are robust even under stress scenarios;

17.6.7.3 The tenor of the Amortisation Schedule shall not be more than 80% (leaving a tail of 20%) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 80% of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 80% of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects;

17.6.7.4 Bank shall sanction the loan for a medium term, say 5 to 7 years, to take care of initial construction period and also cover the period at least up to the date of commencement of commercial operations (DCCO) and revenue ramp up. The repayment(s) at the end of this period (equal in present value to the remaining residual payments corresponding to the Original Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it shall be refinanced. That repayment may be taken up by the Bank or a set of new lenders, or combination of both, or by issue of corporate bond, as Refinancing Debt Facility, and such refinancing may repeat till the end of the Amortisation Schedule;

17.6.7.5 The repayment schedules of Initial Debt Facility fixed by the Bank shall normally correspond to the Original Amortisation Schedule, unless there is an extension of DCCO. In that case, mere extension of DCCO would not be considered as restructuring subject to certain conditions, if the revised DCCO falls within the period of two years and one year from the original DCCO for infrastructure and non-infrastructure projects respectively. In such cases the consequential shift in repayment schedule by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged or are enhanced to compensate for the delay and the entire project debt amortisation is scheduled within 85%[1] of the initial economic life of the project as prescribed in paragraph 'c' above;

17.6.7.6 Bank may modify the Amortisation Schedule of a project loan once during the course of the loan (after DCCO) based on the actual performance of the project in comparison to the assumptions made during the financial closure without being treated as 'restructuring' provided:

i. The loan is a standard loan as on the date of change of Amortisation Schedule;
ii. Net present value of the loan remains the same before and after the change in Amortisation Schedule; and
iii. The entire outstanding debt amortisation is scheduled within 85%[1] of the economic life of the project as prescribed in paragraph 17.6.7.3 above;

17.6.7.7 If the Initial Debt Facility or Refinancing Debt Facility becomes NPA at any stage, further refinancing by the Bank shall be stopped and the loan account shall be classified as such and necessary provisions as required under the extant guidelines shall be made. Once the account comes out of NPA status, the account shall be eligible for refinancing in terms of these instructions;

17.6.7.8 Bank shall determine the pricing of the loans at each stage of sanction of the Initial Debt Facility or Refinancing Debt Facility, commensurate with the risk at each phase of the loan, and such pricing should not be below the Base Rate of the bank;

17.6.7.9 Bank shall secure its interest by way of proper documentation and security creation, etc.;

17.6.7.10 Bank shall initially count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, bank may undertake in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

17.6.7.11 From the risk management perspective, there will be a probability that the loan will not be refinanced by other Banks which should be taken into account when estimating liquidity needs as well as stress scenarios. Further, unless the part or full refinancing by other banks is clearly identified, the cash flows from such refinancing should not be taken into account for computing liquidity ratios. Similarly, once committed, the refinancing bank should take into account such cash flows for computing their liquidity ratios; and

17.6.7.12 These guidelines shall be applicable to all the new loans to infrastructure projects and core industries projects sanctioned from the date of approval of this policy. Further instructions on 'take-out finance' and 'transfer of borrowal accounts' shall not be applicable to loans sanctioned under these guidelines.

[1]A relaxation of only 5% of initial economic life is provided in case of delay in achieving DCCO from the 80% ceiling of amortisation of project debt prescribed in para 'e' & 'f(iii). Bank may factor the same while determining the original Amortisation Schedule.

17.6.8 Flexi Structuring of Existing Long Term Project Loans to Infrastructure and Core Industries

17.6.8.1 Existing term loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs. 500 crore, in the infrastructure sector projects , as per the harmonized master list of Infrastructure enumerated under "Credit Strategies" of the Group Credit

Policy guidelines and projects in core industries sector [viz., Coal, Crude Oil, Natural Gas, Petroleum Refinery Products, Fertilisers, Steel (Alloy + Non Alloy), Cement and Electricity] shall be eligible for flexible structuring and refinancing under these guidelines;

17.6.8.2 Bank may fix a fresh amortisation schedule for the existing project loans once during the life time of the project, after the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' provided:

i. The loan is a standard loan as on the date of refixing the amortisation schedule;
ii. The Net present value of the loan remains same before and after the change in loan amortisation schedule;
iii. The tenor of the fresh amortisation schedule so fixed shall not be more than 85% (leaving a tail of 15%) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85% of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 85 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects; and
iv. The viability of the project is reassessed by the bank and vetted by the Independent Evaluation Committee constituted under the aegis of the Framework for Revitalising Distressed Assets in the Economy.

17.6.8.3 In case, a project loan is classified as 'restructured standard' asset as on the date of fixing the Fresh Loan Amortisation Schedule as per para 'b' above, while the current exercise of fixing the Fresh Loan Amortisation Schedule may not be treated as an event of 'repeated restructuring', the loan should continue to be classified as 'restructured standard' asset. Upgradation of such assets would be governed by the extant prudential guidelines on restructuring of accounts taking into account the Fresh Loan Amortisation Schedule;

17.6.8.4 Any subsequent changes to the above mentioned Fresh Loan Amortisation Schedule shall be governed by the extant restructuring norms;

17.6.8.5 Bank may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) could be structured as a bullet repayment, with the intent

specified up front that it will be refinanced. The refinance may be taken up by the same lender or a set of new lenders, or combination of both or by issue of corporate bond, as refinancing debt facility, and such refinancing may repeat till the end of the Fresh Loan Amortisation Schedule. The proviso regarding net present value as at para 'b' would not be applicable at the time of periodic refinancing of the project term loan;

17.6.8.6 If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing by the Bank shall be stopped and the loan account shall be classified as such and necessary provisions as required under the extant guidelines shall be made. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

17.6.8.7 Bank shall determine the pricing of the loan at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing shall not be below the Base Rate of the bank;

17.6.8.8 Banks shall secure their interest by way of proper documentation and security creation, etc.;

17.6.8.9 Bank shall initially count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, bank may undertake in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

17.6.8.10 From the risk management perspective, there will be a probability that the loan will not be refinanced by other Banks which should be taken into account when estimating liquidity needs as well as stress scenarios;

17.6.8.11 In this regard, it is hereby clarified that Bank may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as 'non-performing assets'. However, such an exercise would be treated as 'restructuring' and the loan account would continue to be treated as 'non-performing asset'. Such accounts may be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant prudential guidelines on restructuring of accounts), i.e. principal and interest on all facilities in the account are serviced as per terms of

payment during that period. However, periodic refinance facility would be permitted only when the account is classified as 'standard' as prescribed in the para '17.6.8.6' above.

17.6.8.12 Flexible structuring and refinancing under the policy shall be carried out only after DCCO. Further, instructions on 'take-out finance', 'transfer of borrowal accounts', 'refinancing of project loans by way of partial takeover as part of the Framework on revitalisation of distressed Assets' and one of the conditions on restructuring of borrowal accounts that the repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances for availing special asset class benefits under restructuring guidelines will not be applicable to any loan to infrastructure and core industries projects covered under this policy guidelines.

17.7 Corporate Loan

17.7.1 Corporate Loans shall be granted, very selectively, to well-managed corporate entities with uninterrupted profit earning record during the immediate preceding 3 years and conforming to gradation from CB1 to CB4. .Corporate loans shall be granted for purposes such as, for augmenting long term sources for working capital and to improve liquidity thereon, for on-lending to subsidiaries/ associate concerns as unsecured loans (not as promoters contribution or equity capital) or for meeting any need based business requirements. Corporate loan may also be sanctioned to meet its on-going normal capital expenditure which shall not generally add to significant capacity addition thereon, (i.e., for purposes like construction of extra spaces, creation of infrastructure facilities, replacement of machineries etc.) Such entities shall have comprehensive DSCR of 1.5 and above including existing term loans.

17.7.2 Further, the Bank's aggregate exposure to these corporate loans shall not exceed 10% of the Net Bank Credit.

17.7.3 Corporate loans shall not, normally, be granted to Companies dealing in Real Estate, Capital Market and Sensitive Commodities. However corporate loans may be sanctioned, selectively, for commercial real estate business for specific projects/purposes.

17.7.4 Corporate loans shall not normally be granted for a period more than two years and in certain exceptional and on justifiable grounds, it can go upto a maximum period of three years.

17.7.5 CLCC/ HLCC/CAC is empowered to sanction such facilities for borrowers

graded upto CB4. Accounts which are graded under CB5 can be considered by HLCC/CAC. **Borrowers graded under CB6 and above shall not be considered for corporate loans.**

17.7.6 In respect of Corporates where the facilities are under CDR/Corrective Action Plan [CAP] of the Joint lenders Forum [JLF], sanction of Corporate Loans / Priority loans /WCTLs etc., shall be in line with the decision of CDR/JLF. Further the terms of sanction shall also be in commensurate with the terms of CDR/JLF and shall not contravene the guidelines / directions issued by Ministry of Finance /RBI. Sanction of such facilities shall vest with the respective sanctioning authority depending on the Aggregate Commitment per borrower/ group irrespective of the gradation of the Borrower Corporate.

17.8 Sanction of unsecured credit limits of above Rs.50 Crore shall be considered only for well managed PSUs, well run corporates from reputed groups with uninterrupted profit earning record during the immediate preceding three years and conforming debt: equity ratio of 2:1 and TOL: TNW of 4:1 and having investment grade rating and above by the accredited external rating agencies.

17.9 <u>Financing for Takeover of companies:</u>

Credit proposals from companies for the purpose of taking over of existing company which is engaged in infrastructure activity shall be considered, subject to following:

17.9.1 Compliance with the SEBI/ RBI/ Govt. guidelines, such as:

i. The bank shall finance only for acquisition of shares of existing companies providing infrastructure facilities. Further, Acquisition is due to voluntary sale by promoter in compliance with SEBI guidelines, wherever applicable.

ii. The companies to which loans are extended shall, inter alia, have a satisfactory net worth. Further, it shall be ensured that the acquiring company has adequate cash flows to meet the loan obligations and such cash flows shall be regularly monitored through escrow and other related mechanisms.

iii. The company financed and the promoters/ directors of such companies should not be a defaulter to banks/ FIs.

iv. In order to ensure that the borrower has a substantial stake in the infrastructure company, bank finance shall be restricted to 50% of the finance required for acquiring the promoter's stake in the company being acquired.

v. Finance extended shall be against the security of the assets of the borrowing company or the assets of the company acquired and not against the shares of that company or the company being acquired.

vi. The shares of the borrower company / company being acquired may be accepted as additional security and not as primary security. The security charged to the bank should be marketable.

vii. Bank shall ensure maintenance of stipulated margins at all times.

viii. The tenor of the loans may not be longer than seven years. However, the Board can make an exception in specific cases, wherever necessary, for financial viability of the project.

ix. The financing acquisition of equity shares by promoters should be within the regulatory ceiling of 40 per cent of their net worth as on March 31 of the previous year for the aggregate exposure of the banks to the capital markets in all forms (both fund based and non-fund based).

x. The proposal for bank finance shall have the approval of the Board.

17.9.2 There should be synergy of operations between the two companies or takeover of a company is for backward/ forward integration. Further, taking over company shall have reputation and standing in the comity of corporates.

17.10 <u>Financing of Special Purpose Vehicles [SPVs]</u>

17.10.1 Project Finance to SPVs floated by reputed companies/ trusts shall be extended. An SPV is a legal entity created by a firm [known as sponsor or originator] by transferring assets to the SPV to carry out some specific purpose or a series of such transactions. Bank shall normally prefer to finance Non-Recourse Model SPVs, where appraisal of the Project Finance proposal shall be made on stand-alone basis without linking the same to the financials / standings of the sponsoring company/ promoters. Further, the personal / corporate guarantee of the sponsors/ promoters shall not be mandatory.

17.10.2 Finance shall be extended to technically feasible, financially viable, Bankable projects undertaken by public sector and private sector undertakings, subject to the following conditions:

i. The amount sanctioned shall be within the overall ceiling of the prudential exposure norms prescribed by RBI.

ii. Risk analysis and sensitivity analysis shall be carried out in respect of projects.
iii. In respect of projects undertaken by PSUs, term loans shall be sanctioned only to corporate entities [PSUs registered under companies act or corporations established under relevant statutes].
iv. Loans shall not be in lieu of or to substitute budgetary resources envisaged for the project. The term loan could supplement the budgetary resources, if such supplementing was contemplated in the project design.
v. It shall be ensured that the loan shall not be used for financing the budget of the State Government. Due diligence on the viability and Bankability of such project shall be undertaken to ensure that the revenue stream from the project is sufficient to take care of the debt obligations and repayment/ servicing of the debt is not out of budgetary resources.
vi. It shall be ensured that the funding proposals are for specific monitorable projects.

17.10.3 Bank shall also lend to SPVs in the private sector registered under the Company's Act for directly undertaking the infrastructure projects which are financially viable and not for acting as mere financial intermediaries.

17.10.4 It shall be ensured that Bankruptcy or financial difficulties of the parent/ sponsors shall not affect the financial health of the SPVs.

17.10.5 Further, while assessing the loan requirements of SPVs, the financial credentials/ viability of the SPV shall be carefully analysed on a consolidated basis supported by the consolidated accounts/ position of the group

17.11 Discounting of Future Receivables

17.11.1 Advances may be granted in the form of loans against the security of future receivables that might arise on account of valid contracts in respect of infrastructure projects pertaining to Power, Road etc.**, subject to the following:**

i. Such receivable/ purpose of such loan is not forbidden by Govt/ RBI/ Bank guidelines.
ii. The loan amount shall be arrived by adopting the "Net Present Value" method.
iii. The receivables shall be escrowed in the name of the Bank and repayment of loan shall be adjusted from out of the escrow account maintained for the purpose.
iv. The maximum amount that may be sanctioned under the facility shall not normally exceed Rs.250 Crore. However MC is empowered to relax this ceiling in justifiable & deserving cases.

v. The tenor loan shall not exceed the remaining period of the contract or 10 years, whichever is less. However, if the tenor of the loan above 10 years, CLCC/HLCC/ CAC at H.O. is empowered to sanction such loans.

vi. Tripartite Agreement to be entered into or suitable arrangement to be made so that the Bank shall get the receivable directly from the party.

vii. Delegated Lending Powers for sanction of limits for discounting future receivables (other than rent discounting) shall rest with HLCC/ CAC.

17.12 Project Financing

17.12.1 The project finance shall mean and include financing for setting up of a new unit/ undertaking new activity, which may be agricultural, educational, transport, industry/ infrastructure etc. Project finance facility for both under Infrastructure and non-infrastructure sectors shall be considered. Infrastructure sector includes Road and urban infrastructure, power and utilities, Oil & gas and other natural resources, ports and airports. Non-infrastructure sector includes Manufacturing [Cement, Steel, mining, engineering, auto components, textiles, pulp & papers, chemical & pharmaceuticals etc.] and Services [Tourism, hospitality, educational institutions and health industry etc.]

17.12.2 Fund Based Credit upto a maximum of 50% of the total project cost subject to Prudential Exposure Norms where total project cost is Rs.100 Crore and above shall be granted.

17.12.3 The project finance shall be granted under floating rates of interest and repayable with a tenor of 5 to 15 years, depending upon project, industry, timeframe for venture & stable revenue streams. Further, repayments can be periodic or bullet with/ without repayment holiday.

17.12.4 HLCC/CAC is empowered to deviate from the lending norms laid down in this regard and shall subsequently report to the Board.

17.12.5 The project finance shall be granted in rupee loans or by way of foreign currency or both

17.12.6 At the time of financing projects, bank shall adopt one of the following methodologies for determining the level of promoters' contribution:

a) Promoters bring their entire contribution upfront before the bank starts disbursing its commitment.

b) Promoters bring certain percentage of their contribution (40% – 50%) upfront and balance is brought in stages.

c) Promoters agree, ab initio, that they will bring in contribution funds proportionately as the banks finance the debt portion.

17.13 Loan System for Delivery of Bank Credit

17.13.1 The Bank shall, in respect of borrowers extended with aggregate fund based credit facilities of Rs.10 Crore and above from the Banking system, carve out loan component and cash credit component in the ratio of 60:40. The loan component viz., WCDL facility, shall be for a minimum period of 7days and may be permitted to be rolled over at the option of the borrowers. HLCC/ CAC is empowered to stipulate the change in the composition of loan and cash credit portion in the credit limit. However, in case of consortium advances, the Bank may fix the loan and cash credit component as approved by the Consortium Leader.

17.13.2 In respect of aggregate fund based working capital facilities of Rs.5 Crore and above but below Rs.10.00 Crore from the Banking system, an option for the borrowers to opt for the loan delivery system shall be given. Separate interest rate structure for such working capital demand loans may be stipulated.

17.13.3 The Bank has identified Petroleum, Oil and Gas, Fertilizers, Sugar, Export Credit veretc. as the industries requiring exemption from the loan delivery system, in the light of nature of their operations and higher volumes, which lead to large cash mismatches.

17.13.4 In respect of consortium accounts under sectors other than mentioned above, **wherever the lead Bank has agreed to exempt the borrower from the loan system for delivery of Bank credit, the specific approval of Management Committee of the Board shall be obtained for extending such exemptions.** In respect of other industries / borrowers, requests for exemption from loan delivery system shall be considered by the respective sanctioning authority on case to case basis, subject to approval of the Board.

17.13.5 All borrowal accounts referred to BIFR and overdraft limit sanctioned to meet short- term cash mismatches shall be exempted from the norms applicable to loan system for delivery of Bank credit.

17.14 Loan Syndication / Consortium Lending

17.14.1 Under loan syndication/ consortium, a reasonable share may be taken up

initially, subject to compliance with the prudential as well as entry-level exposure ceilings stipulated. The share of the Bank under consortium may be enhanced based on the experience gained and comfort levels.

17.14.2 The Bank, as far as possible, may accept the assessment method adopted by the lead Bank in assessment of credit needs of the borrower and shall also stipulate terms and conditions on par with those stipulated by the lead Bank.

17.14.3 Endeavour shall be made to secure pro-rata share in both fund based and non-fund based business from the borrower / lead Bank.

17.15 <u>Financing Group / Associate Concerns</u>

17.15.1 In the case of group / associate concerns, the method of lending, interest rate applicable, etc., shall be decided independently based on the type of facility, risk perception and merits of the proposals of the respective units. Adequate care shall be taken to ensure that no diversion of funds between different units takes place and there is no inter-locking of funds lent by the Bank.

17.16 <u>Loan Pricing:</u>

17.16.1 In respect of credit facilities where the rates of interest are governed by the guidelines of the RBI, appropriate rates of interest may be stipulated in tune with relevant RBI guidelines in vogue from time to time.

17.16.2 In respect of commercial advances above Rs.2 lakh, where Banks are free to determine rate of interest subject to PLR / Base rate / MCLR and spread guidelines, pricing shall be determined / revised in the manner stated in Chapter 14, Para 14.8, 14.9, 14.10 and 14.11.

17.16.3 Term Loans shall be reviewed at Sub-PLR rate / COBAR of interest only to those constituents who are eligible in terms of the policy guidelines framed for the purpose. Similarly, loans at fixed rate of interest shall be extended only to those constituents who are eligible in terms of the policy guidelines framed for the purpose as mentioned in Chapter 37 on Fixed Rate Loan Guidelines.

17.16.4 Revision in pricing of credit shall be effected, subject to securing necessary approvals from ALCO/Board.

17.16.5 In order to provide value added products to customers in line with the products offered by peer Banks, floating rate lending products may be offered;

17.16.6 Loans linked to outside benchmark shall not be linked to PLR / Base Rate / MCLR.

17.16.7 To ensure transparency in the floating rate computation mutually acceptable to the borrowers, external/ market-based rupee benchmark interest rates such MIBOR, GSEC rates etc. may be used, for pricing its floating rate loan products;

17.16.8 The system of computation and periodicity of reset of these interest rates shall be as per prevailing MCLR guidelines;

17.16.9 The source of getting these benchmark rates shall be specified clearly at the time of sanction, itself.

17.17 Pre-payment penalty

17.17.1 The borrower shall, at any time, have the option to prepay to Bank, in part or in full, the facility together with all interests, prepayment premium and other charges and monies due and payable to Bank up to the date of such prepayment, on payment of prepayment premium at the stipulated rate of the amount prepaid.

17.17.2 However, no Prepayment Penalty would be payable to the Bank under the following circumstances:

i. The prepayment is effected at the instance of the Bank.
ii. If, the Re-set Interest Rate is not acceptable to the Borrower, the borrower shall then have the right to prepay the outstanding amount of loan or any part(s) thereof without any prepayment premium. Provided that, the borrower shall notify its intention for such prepayment to Bank within thirty (30) days from the notification of Re-set Interest rate and shall make prepayment within 30 days of the Interest Reset Date(s).
iii. With a prior written notice of 90 days, the borrower shall have the option to cancel the undrawn Rupee Term Loan (RTL) facility, upto 30% (in total of Rupee debt) by raising funds by way of ECA\ECB\FCL or loan required to meet project import, or undrawn amount of RTL, whichever is lowest. Correspondingly, the RTL component will get reduced to that extent.
iv. From the surplus internal cash accruals

17.17.3 The prepayment penalty shall not be applicable to loans granted under Corp Schemes unless otherwise specifically mentioned in the scheme.

17.18 Bank shall while sanctioning/ renewing credit limits for large borrowers [borrowers enjoying working capital limits of Rs. 10 Crore and above from the Banking system] fix separate sub-limit [within the overall limits], specifically for meeting payment obligations in respect of purchases from SSIs units.

17.19 Bridge loan shall be extended against the expected proceeds of equity, non-convertible debentures, external commercial borrowings, global depository receipts and/or funds in the nature of foreign direct investment, provided the Bank is satisfied that the borrowing company has already made firm arrangement for raising the aforesaid resources/ funds.

17.19.1 The exposure under bridge loan facility to be included to the capital market exposure of the Bank and the aggregate of the both should be within the ceilings fixed by the Bank for capital market exposure.

17.19.2 Bridge loan shall not be extended against amounts receivable from Central/ State Governments by way of subsidies, refunds, re-imbursements, etc. However, in the following instances such bridge loan shall be granted:

i. Against subsidies receivable in respect of fertilizer industries under the normal Retention Price Scheme [RPS] for a period upto 60 days, which is allowed as temporary measure.
ii. Against the receivable from Govt. by the Exporters [such as Duty Draw Back and IPRS]

17.20 While financing the second hand assets, directly, the minimum residual life of such second hand assets shall not be less than 10 years and the repayment period of the loan shall be fixed in such a way that there is a minimum positive gap of two years between the residual life of the asset and the repayment period of the loan.

17.20.1 However, maximum period of the loan shall not exceed 7 years.
17.20.2 The residual life of the asset shall be certified by a Chartered Engineer/ Valuer.
17.20.3 However, margin shall be 50%..
17.20.4 Such proposal / request shall not be considered below the rank of CLCC/ HLCC/ CAC.

17.21 Non-Committal Line of Credit

Non-Committal Line of Credit shall be sanctioned to Medium / Large industries / Business unit for efficient management of their borrowing requirements, without any specific commitment on part of the Bank to release the loan. The facility shall be in the nature of an offer to extend the facility subject to Bank approving the ROI and the availability of funds at the time of each disbursement under the sanctioned credit facility.

17.21.1 The facility of Non-committal Line of Credit shall be granted to the Semi-Govt. bodies, reputed corporate entities, Public Sector Units having External credit rating of BBB & above or with and internal credit rating of CB4 & above.

17.21.2 All Line of credit proposals shall be placed before the HLCC/ CAC/MC for sanction.

17.21.3 The drawals under LOC shall be permitted entirely at the sole discretion of the Bank depending upon the yield on such credit; availability of funds with the Bank at the time of release etc. The sanctioned limit may be cancelled at the discretion of the Bank at any point of time.

17.22 Holding on Operations

17.22.1 Timely and adequate assistance as part of rehabilitation effort shall begin on a proactive basis when early signs of sickness caused for the reasons beyond the control of the Borrower are detected. Any stoppage of transactions in the account at this stage would either result in the account deteriorating faster or the borrower moving to another Bank. This would harm the interest of the Bank in so far as the downgrading of the account and deterioration of the security provided to the Bank. This stage would be termed as 'handholding stage' and the account can be put on "Holding on Operations" mode to tide over the immediate crisis. This shall ensure intervention by the Bank immediately after detecting early symptoms of sickness so that sickness can be arrested at an early stage.

17.22.2 In the above background, Holding on Operations may be permitted as a temporary measure under the following cases: -

a. The integrity of the borrower is not in doubt.

b. The irregularities are beyond the control of the Borrower.

17.22.3 The following guidelines shall be applicable for permitting Holding on Operations: -

a. Holding on operation in respect of branch and ZLCC sanctions shall be permitted by ZLCC. CLCC shall permit holding on operations in respect of sanctions by authorities higher than ZLCC.

b. Holding on operations shall not be generally permitted beyond 6 months However, on selective basis and on justifiable reasons the authorities mentioned in Para a above may permit such operations up to 12 months, but not exceeding 6 months at a time.

c. During holding on operations the borrower would be permitted to draw funds from the cash credit account to the extent of the credits in the account.

d. The asset classification shall be as per the extant IRAC norms.

e. Rehabilitation/Revival/Restructuring of the account, under the extant guidelines including revitalization of distressed assets shall be undertaken at the earliest and the entire process shall be completed/ implemented as per the stipulated time lines.

f. It shall be ensured that the sickness is not caused on account of willful mismanagement, willful default, unauthorized diversion of funds, disputes among partners/ promoters, etc.

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18 RETAIL LENDING

18.1 REGULATORY GUIDELINES

18.1.1. Retail Loan portfolio consists of the exposure (both fund -based and non-fund based) to an individual person or persons or to small business enterprises. Person would mean any legal person capable of entering into contracts and would include individual, proprietorship concern, HUF, partnership firm, trust, private limited company, public limited company, co-operative society etc.

18.1.2. Small business is one where the total average annual turnover is less than Rs.50 Crore. In case of existing entities- last 3 years average turnover, in case of new entities- projected turn over and in case of entities which are yet to complete 3 years -both actual and projected turnover may be considered to arrive at the average annual turnover of less than Rs.50 Crore.

18.1.3. Further, aggregate retail loan exposure to 'one counterpart' [i.e. one or several entities that may be considered as a single beneficiary] shall not exceed 0.20% of retail credit portfolio of the Bank. Based on the information/data furnished in the application and other relevant documents, the commonality of management and effective control on the management, the group accounts shall be identified.

18.1.4. The exposure under retail loans shall be as per the individual exposure limit fixed by the Bank in each Corp Scheme.

18.1.5. The Bank's aggregate exposure under retail lending shall be within 50% of Net Bank Credit.

18.1.6. Under Housing & Vehicle loan Schemes, the aggregate exposure shall be within 30% & 7.50% of the Net Bank Credit respectively.

18.1.7. In respect of other retail lending schemes, the exposure under each scheme shall be within 5% of Net Bank Credit.

18.1.8. The sanction of loans shall be as per extant guidelines of the respective Schemes. Wherever the proposal do not conform to one or more guidelines of Schemes, Sanctioning Authority, before considering such proposal, shall obtain permission for deviation from the Competent Authority for the change in scheme guidelines on a case to case basis, based on the merits.

18.2. Marketing:

18.2.1. As part of marketing strategy, MOU shall be entered between reputed vehicle manufacturers for sourcing vehicle loan proposal through their dealers. Scheme of payment of Service Charges/Handling Charges to builders /vehicle dealers and dealer representatives as business facilitators to source housing/vehicle loan applications etc., may be introduced & modified from time to time having regard to market demand and viability.

18.2.2. Wherever feasible, Insurance Agents, TRP (Tax Return Preparer) personnel shall be engaged as business facilitators for sourcing retail loan proposals within the broad frame work of outsourcing policy of the Bank. The Retired Employees of Bank are also engaged as business facilitators for sourcing Corp Scheme Loans.

18.2.3. In order to source large number of housing loan proposals, housing projects of reputed builders shall be approved before entering into MOU or tie-up with builders for financing flats in such housing projects. This will speed up sanctioning process by obtaining single legal opinion.

18.2.4. As a prudent measure to mitigate concentration of risk in a single housing project/builder, builder-wise, project -wise exposure limit shall be fixed. Proper system/technology shall be developed /introduced to monitor the exposure limits fixed to builder/housing project.

18.2.5. Builder/Project approval shall be extended only after doing the due diligence of the builder/project, his past history, market standing etc.

18.2.6. Builder/Housing projects already approved by other Banks including private sector Banks may be approved and housing loans may be extended for acquiring flats in those housing projects.

18.2.7. Wherever loans are sanctioned for acquiring flats in the housing projects where project finance is extended by other Banks, as a matter of caution, the same shall have to be brought to the notice of project financing Bank.

18.2.8. Wherever housing projects of reputed builders are approved and project finance is extended by the Bank, tie-up arrangement shall be made to route all proposals under the project to our Bank only. This not only liquidates project finance but also gives an opportunity for bulk housing loans.

18.2.9. In cases any builder has defrauded any of the Banks either himself or colluded with the borrower, such builder shall be immediately black listed. Such list shall be circulated among all the Branches including other Banks, IBA and shall be published in the Bank's website. No loan shall be entertained for acquiring flats in any of the housing projects of blacklisted builders.

18.2.10. Group housing loan proposals from housing projects of reputed builders shall be encouraged for group of employees working in reputed Company/Organization. Special concession may be offered for group loans where the employer undertakes to deduct loan installment and to remit the same directly to the Bank.

18.2.11. In case of group housing proposals of employees, exposure limit shall be fixed and the same may be reviewed at regular intervals based on health of the loans extended to such group of employees.

18.2.12. Housing /Vehicle loan fairs/melas shall be organized at various centers in association with Builders/Vehicle dealers/Trade Associations etc. In principle loan sanction letter shall be issued on the spot to entice the visitors for future business proposition.

18.3. Retail Loan Centers [RLCs]:

In order to shift back office work related to processing and sanction of loan, maximum number of Branches shall be linked to Retail Loan Centers. As a measure of risk mitigation, external due diligence shall be undertaken before sanction/disbursal of such loans as prescribed by the Bank from time to time.

18.3.1. Separate lending powers shall be delegated to Retail Loan Centre-Heads to enable sanction/disposal of more number of proposals routed through the Centers.

18.3.2. Separate panel of external due diligence agencies, Advocates, Valuers shall be attached to Centers for speedy sanction of loans.

18.3.3. As a part of contingency plan, the Centers shall have adequate number of DDAs (Due Diligence Agents), Advocates, Valuers on its panel.

18.3.4. Retail Loan Centers shall function under the direct supervision of Zonal Office.

18.3.5. Center's performance shall be regularly monitored by Retail Lending Division at Head Office.

18.3.6. The revised policy on delegation of powers to link branches especially for the purpose of conducting annual review & renewal of running account limits under Corp Schemes in respect of loans sectioned by Retail Loan Centers is introduced and reviewed by the division on regular intervals.

18.4. Credit Delivery System:

Benchmark time norms shall be fixed for sanctioning retail loans under Corp Schemes to enhance confidence level of prospective borrowers and to develop disciplined credit delivery mechanism over a period.

18.4.1. Rate of interest for all retail credit Schemes shall be linked to the Base Rate. The rate of interest under the schemes shall undergo change as and when the Base Rate changes.

18.4.2. Fixed interest rate option may be offered for housing loans as well as for other loans as per market demand. Fixed rate loans are subject to reset at the discretion of the Bank at a period prescribed by the Bank from time to time. The Bank may, at its discretion discontinue fixed rate option for fresh loans depending upon market response.

18.4.3. Interest under Corp Schemes shall be calculated on monthly rest on daily reducing balance.

18.4.4. Interest debited during the repayment holiday period shall be accumulated and added to the principal and EMI shall be fixed on the amount outstanding at the beginning of the repayment period in relation to tenor of the loan. However, the borrower may service the interest debited during repayment holiday period to reduce his liability. The Bank may, at its discretion evolve suitable guidelines in this matter from time to time to make the system customer friendly and hassle free.

18.4.5. Borrower shall be issued Credit Sanction Intimation, incorporating all important terms and conditions especially rate of interest, type of interest, revision in rate of interest, reset period, if any, Processing Charges, revision in EMI, Pre payment penalty, if any, etc.

18.4.6. All charges/fees related to loan shall be transparent and informed to the borrower while booking the proposal.

18.5. Post Sanction Monitoring

18.5.1. Borrowers may exercise their option to convert the loan from floating rate to fixed rate or vice-versa by payment of conversion charges prescribed from time to time, on loan amount outstanding at the time of conversion. The guidelines in this regard shall be prescribed from time to time.

18.5.2. Intimation on revision in rate of interest charged to loan account shall be sent to the borrower from time to time and also a notice in this regard to be displayed in the Branch notice board.

18.5.3. A system generated loan account statement as on 1st of April every year indicating appropriation of amount out of installments paid during the year towards interest/principal shall be given to the borrower.

18.5.4. Amortization chart/table has to be provided to borrower on demand so as to enable him to understand the repayment pattern of loan. Amortization chart is available in the Bank's website

18.6. Loans to NRI/ PIO:

18.6.1. NRIs/PIOs are eligible for loan under retail lending schemes, if NRI/PIO is eligible for loan as per extant guidelines of respective scheme. NRI/PIO borrower who does not have any Banking relationship with the Bank and approaching for retail loan for the first time is also eligible for loan subject to his conforming to the respective scheme guidelines.

18.6.2. Branches can sanction only housing loans and loans against deposits at the branch level, within their delegated lending powers.

18.6.3. Housing loans beyond the delegated lending powers of the branch and all other retail loans shall be sanctioned only by the Zonal Office (ZLCC) or Retail Loan Centers or Circle Office (CLCC) or Head Office (CAC) within their delegated lending powers based on the loan amount.

18.6.4. Except Housing loans, Education Loans to NRI students for study abroad [i.e students going abroad for pursuing studies] and loan against NRO deposits, no other retail loans shall be sanctioned against power of Attorney [POA] executed by NRI/PIO.

18.6.5. Rupee loans against NR[E]GA and FCNR[B] deposits either to the depositor or third parties can be granted without any ceiling subject to usual margin requirements.

18.6.6. Foreign currency loans against NR[E]GA and FCNR[B] deposits either to the depositor or third parties can be granted without any ceiling subject to usual margin requirements.

18.6.7. Special tailor made schemes may be introduced to garner more business from this potential segment.

18.7. Outsourcing:

18.7.1. The Bank may outsource any activity related to retail credit by engaging Third Party Entities (TPE) or Business Facilitator within the purview of the Bank's approved Policy of Outsourcing.

18.7.2. Powers to appoint/renew Due Diligence Agency (DDA) shall be delegated to ZLCC. ZLCC shall appoint/renew DDA within the criteria stipulated in this matter.

18.7.3. Zonal Office shall ensure that a minimum of 3 DDAs are appointed to Retail Loan

18.7.4. Centers to have a business contingency plan. Further, performance of DDA shall be reviewed /renewed at least once in a year before renewing the agreement.

18.7.5. Zonal Office shall ensure the following aspects before appointing any DDA:

18.7.5.1. Due Diligence Agency being appointed shall have a minimum of one year of experience in the field.

18.7.5.2. The Concurrent Auditors already in the Bank's panel shall not be given the assignment of DDA till their tenure as concurrent auditors is completed.

18.7.5.3. Appointment of DDA shall be as per RBI guidelines prescribed from time to time.

18.7.5.4. That name of DDA is not appearing in black list of DDA circulated by IBA.

18.7.6. Due diligence reports submitted by DDAs, if necessary, shall be cross verified conducting yet another due diligence exercise by a DDA other than the one who has conducted due diligence earlier.

18.8. Technology Support:

18.8.1. In line with international practice, Retail Score Cards shall be implemented at Retail Loan Centers to facilitate the Sanctioning Authority to take prudent credit decision. Score Cards shall be introduced to a few schemes and be extended to other schemes in a phased manner.

18.8.2. Review and up-gradation of Score Model shall be a continuous process. Based on modification of scheme guidelines, market conditions and statutory/regulatory policies, Score Cards shall be upgraded.

18.9. Bulk Proposals /Housing Projects related policies:

18.9.1. Wherever, bulk loan proposals are received from the employees of any company/ firm/ organization, sponsored by employer or builder, following shall be adhered to: -

18.9.2. Confirm the status of the employees from the concerned company /firm/ organization by stringent application of key KYC norms.

18.9.3. All the documents submitted by the employees such as salary slips, Income Tax Returns etc., shall be independently verified by our staff. Further, on-site visit shall be carried out at the residence of the applicant so as to verify the genuineness of the residential address furnished by the applicant. All the applicants/ employees shall be individually called in person for pre sanction discussion to ensure discreet verification of personal details with reference to their documents and photograph submitted by them.

18.9.4. Applications submitted by the promoters/directors of the company, builders/developers etc., in bulk shall not be accepted in normal circumstances with the sole purpose of portfolio enhancement or predatory lending considerations.

18.9.5. The market reports on builders/developers shall be obtained and loans should be sanctioned in respect of projects being undertaken by reputed builders/ developers only.

18.9.6. Existing exposure to the employer companies shall be taken into account and exposure arising out of bulk loan proposals shall be notionally booked as exposure to such employer company and compared with the prescribed prudential limits to avoid any breach of such limits.

18.9.7. The documents to the title of property mortgaged with the Bank shall be verified with regard to their genuineness at the time of their acceptance and not deferred till the time of initiation of recovery proceeding.

18.9.8. The written undertaking from the authorized drawing/disbursing officer to provide check off facility and also an undertaking to obtain NOC from the loan disbursing branch of the Bank before releasing the terminal/ superannuation benefits of the employee and to advise the disbursing branch of any transfer/ re-location of the employee or before shifting the employee's salary credit to another Bank or mode of payment shall be obtained. The concurrent audit/ regular internal inspection/ vigilance inspection, statutory audit shall bestow particular attention on bulk proposals for early detection of disquieting features in the portfolio.

18.9.9. The controlling offices of the Bank shall review the position of Retail Loan portfolio of the branches on an ongoing basis with focused attention on bulk proposals to avoid their quick mortality or signs of delinquency.

18.9.10. As per the policy on Retail Lending, retail loans are governed by the scheme specific guidelines prescribed for respective scheme. However, group exposure norms are common for all types of loans including the retail loans.

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19 REAL ESTATE ADVANCES

19.1 Introduction:

Real Estate essentially covers residential housing, commercial offices and trading spaces, such as theatres and retail outlets. Real Estate business involves purchase, sale and development of residential and non-residential buildings.

19.2 Review of the Portfolio:

19.2.1 The Credit Risk Management Division at the Head Office shall annually review the "Real Estate Loan Portfolio" of the Bank.

19.2.2 The Credit Policy and Planning Section shall furnish to all the sanctioning sections/divisions/offices, the overall exposure of the Bank on this sector at half yearly intervals.

19.2.3 While undertaking portfolio reviews, a study of the actual performance of the portfolio and its constituents shall be made in relation to the performance of the industry/sector/segment, future prospects, possible threats/anticipated problems etc.

19.2.4 The portfolio evaluation shall be done by adopting stress testing techniques such as scenario analysis and sensitivity analysis.

19.2.5 During the review of the portfolio, if a significant number of borrowal accounts show signs of credit weakness, the acceptable rating for taking exposures shall be increased to ensure that the Bank's exposure is restricted to better rated constituents. The existing accounts with ratings below the revised acceptance level shall be reviewed and appropriate action shall be initiated, wherever necessary.

19.3 CLASSIFICATION OF ADVANCES UNDER REAL ESTATE

19.3.1 In tune with reporting to RBI, total exposure to Real Estate shall be broadly classified as under:

a) Direct Exposure:

i. Residential Mortgages (Inclusive of Corp Mortgage loans granted for personal purposes against the security of residential properties)
ii. Commercial Real Estate
iii. Investments in Mortgage Backed Securities and other securitized exposures
   1. Residential

2. Commercial Real Estate

b) <u>Indirect Exposure:</u>

Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs), Housing Boards, other public housing agencies etc.

19.3.2 Residential Mortgages (Housing Sector):

19.3.2.1 The housing sector is witnessing a volume growth due to population growth and urbanisation. The growth is further fuelled by the increase in the level of incomes, falling interest rates and tax incentives offered by the Government. Advances fully secured by mortgages of residential properties which will be occupied by the borrowers or that will be rented are covered under this category. In view of the above, all housing loans sanctioned under our Corp Home Scheme shall be grouped under this category.

19.3.2.2 The housing loans are further segregated for the purpose of reporting to RBI as under:

i. Corp Home loans upto Rs.25 lakhs
ii. Corp Home loans of above Rs.25 lakhs

19.3.2.3 Mortgage loans granted for personal purposes and secured by residential properties shall also have to be grouped under this category. In view of the above, loans sanctioned for the above purpose under Corp Mortgage scheme and secured by residential properties shall be shown under this category.

19.3.2.4 In order to have a healthy housing loan portfolio, identification of borrower and due diligence shall be given due importance. KYC norms shall be followed without any exception. In order to avoid some unscrupulous elements taking loan from the Bank, the due diligence mechanism may be strengthened by outsourcing the due diligence audit wherever feasible.

19.3.2.5 Quantum of loan shall be assessed based on the need having regard to the cost of the project, funding pattern acceptable to the Bank and current / expected income of the applicants.

19.3.2.6 It shall be ensured that the applicant/s have adequate income to service the loan and a minimum margin, as stipulated by RBI/ Bank from time to time, shall be maintained

19.3.2.7 Builders shall be approved by the Zonal Office, before entering into tie-ups for financing flats/ apartments constructed by them.

19.3.3 Commercial Real Estate:

19.3.3.1 Real Estate is generally defined as an immovable asset - land (earth space) and the permanently attached improvements to it. As per Basel-II Framework, Income-producing real estate (IPRE) refers to a method of providing funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset. The primary source of these cash flows would generally be lease or rental payments or the sale of the asset. The borrower may be, but is not required to be, an SPE (Special Purpose Entity), an operating company focused on real estate construction or holdings, or an operating company with sources of revenue other than real estate. The distinguishing characteristic of IPRE versus other corporate exposures that are collateralised by real estate is the strong positive correlation between the prospects for repayment of the exposure and the prospects for recovery in the event of default, with both depending primarily on the cash flows generated by a property";

19.3.3.2 An exposure to be classified as IPRE/CRE, the essential feature would be that the funding will result in the creation / acquisition of real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment would depend primarily on the cash flows generated by the asset. Additionally, the prospect of recovery in the event of default would also depend primarily on the cash flows generated from such funded asset which is taken as security, as would generally be the case. The primary source of cash flow (i.e. more than 50% of cash flows) for repayment would generally be lease or rental payments or the sale of the assets as also for recovery in the event of default where such asset is taken as security.

19.3.3.3 The above guidelines will also be applicable to certain cases where the exposure may not be directly linked to the creation or acquisition of CRE but the repayment would come from the cash flows generated by CRE. For example, exposures taken against existing commercial real estate whose prospects of repayments primarily depend on rental/ sale proceeds of the real estate should be classified as CRE. Other such cases may include: extension of guarantees on behalf of companies engaged in commercial real estate activities, exposures on account of derivative transactions

undertaken with real estate companies, corporate loans extended to real estate companies and investment made in the equity and debt instruments of real estate companies.

19.3.3.4 As per the above, if the repayment primarily depends on other factors such as operating profit from business operations, quality of goods and services, tourist arrivals etc., the exposure would not be counted as Commercial Real Estate.

19.3.3.5 Finance may be extended to public agencies, and not to private builders, for acquisition and development of land provided it is a part of the complete project including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc. In such limited cases, where land acquisition is financed, such finance shall be limited to the acquisition price plus such development cost. However, valuation of such land as prime security shall be limited to the current market price.

19.3.3.6 Wherever land is acquired and developed by State Housing Boards and other public agencies, credit shall be extended to private builders on commercial terms by way of loans linked to each specific project.

19.3.3.7 However, fund based or non-fund based facilities shall not be extended to private builders for acquisition of land even as part of a housing project. Finance shall be granted to individuals for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, within maximum period of five years.

19.3.3.8 The CRE exposures collateralized by eligible credit risk mitigants would be reduced to the extent of risk mitigating effects of the collaterals. The CRE exposures to the extent secured by CRE would attract a risk weight of 100 per cent. In cases where a part of the CRE exposure is not covered by the security of CRE, that part would attract a risk weight for CRE exposure or as warranted by the external rating of the borrower, whichever is higher.

19.3.3.9 All necessary permissions, clearances, approvals from statutory/competent authorities for taking up the project and construction of the building shall be obtained and copies shall be held on record before release of the limits. Pre/ Post sanction visit shall be conducted at regular intervals and **the frequency between any two visits shall not be more than three months**.

19.3.3.10 Term loans shall not be sanctioned to corporations set up by

Government, for construction of residential quarters for allotment to employees where the loans were envisaged to be repaid out of budgetary allocations.

19.3.3.11 As FDI is permitted in real estate, the Bank, subject to usual safeguards entertain proposals with foreign equity participation.

19.3.3.12 The investments made in interbank participation certificates wherein the underlying assets are real estate loans are also covered under this Policy and all the norms enunciated shall be made applicable.

19.3.3.13 RBI guidelines in the matter, from time to time, shall be adhered to.

19.3.4 Investments in Securitised Paper: All investments made in mortgage based securities and other securitiesed exposures (residential / commercial) shall be shown under this category. All transactions, which are routed through SPV by issuing PTCs, are covered under this head. In case of direct assignment of debt, the amount invested either gets included under residential mortgages or commercial real estate as the case may be**.**

19.3.4.1 Bank's investment in MBS (Mortgage Based Securities) should satisfy the following terms and conditions:

I. The right, title and interest of an HFC (Housing Finance Companies) in securitised housing loans and receivables there under should irrevocably be assigned in favour of a Special Purpose Vehicle

II. Mortgage securities underlying the securitised housing loans should be held exclusively on behalf of and for the benefit of the investors by the SPV/Trust.

III. The SPV or Trust should be entitled to the receivables under the securitised loans with an arrangement for distribution of the same to the investors as per the terms of the issue of MBS. Such an arrangement may provide for appointment of the originating HFC as the servicing and paying agent. In case of originating HFC is participating in a securitisation transaction as a seller, manager, servicer or provider of credit of credit enhancement of liquidity facilities, it shall comply with all the guidelines prescribed by RBI.

a. Shall not own any share capital in the SPV or be the beneficiary of the Trust used as a vehicle for the purchase and securitisation of assets. Share capital for this purpose shall include all classes of common and preferred

share capital.

b. Shall not name the SPV in such manner as to imply any connection with the Bank.
c. Shall not have any directors, officers, employees on the board of the SPV unless the board is made of at least three members and where there is a majority of independent directors. In addition, the official[s] representing the Bank will not have veto powers.
d. Shall not directly or indirectly control the SPV, or
e. Shall not support any losses arising from the securitisation transaction or by investors involved in it or bear any of the recurring expenses of the transaction.

IV. The loans to be securitised should be loans advanced to individuals for acquiring/constructing residential houses, which should have been mortgaged to HFC by way of exclusive first charge
V. The loans to be securitised should be accorded an investment grade rating by any of the credit rating agencies at the time of assignment to the SPV
VI. The investors should be entitled to call upon the issuer-SPV to take steps for recovery in the event of default and distribute the net proceeds to the investors as per the terms of issue of MBS
VII. The SPV undertaking the issue of MBS should not be engaged in any business other than the business of issue and administration of MBS of individual housing loans.
VIII. The SPV or Trustees appointed to manage the issue of MBS should have to be governed by the provisions of Indian Trust Act, 1882 and within the purview of SEBI / RBI.

19.3.5 Indirect Exposure: Finance granted to housing finance companies (HFCs), housing boards, other public housing agencies and NHB should be reckoned under this category.

19.3.5.1 Indirect finance shall be extended by way of term loans to housing finance institutions; Housing Boards, other public housing agencies etc. are primarily meant for augmenting the working capital / supply of serviced land and constructed units.

19.3.6 Lending to Housing Finance Institutions:

19.3.6.1 Term loans to Housing Finance Institutions shall be considered taking into account debt-equity ratio, track record, recovery performance and other relevant factors

19.3.6.2 The quantum of loan sanctioned to these Housing Finance intermediaries shall not exceed 16 times of their net owned funds (i.e. paid up capital and free reserves less accumulated balance of loss, deferred revenue expenditure and intangible assets)

19.3.7 Lending to Housing Boards and other Agencies:

19.3.7.1 Term loans to state level Housing Boards and other public agencies may be considered keeping in view the past performance of these agencies in the matter of recovery from the beneficiaries.

19.3.8 Financing of Land Acquisition:

19.3.8.1 Advances to public agencies by way of term loans may be considered by the Bank for acquisition and development of land, provided it is a part of the complete project, including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc. The project should normally be completed as early as possible, say, within three years, so as to ensure quick recycling of Bank funds.

19.4 Exposure Norms

19.4.1 RBI has directed banks to frame comprehensive prudential norms relating to the ceiling on the total amount of real estate loans, single/group exposure limits for such loans, margins, security, repayment schedule and availability of supplementary finance and the Policy should be approved by the bank's Board.

19.4.2 The Bank's exposure shall normally be restricted as under:

Sector	Ceiling	Remarks
I. RESIDENTIAL MORTGAGE i. Housing loans	30% of aggregate exposure under lending, non-SLR investment and Caps [overall ceiling] AND Individual Loan proposals shall not exceed Rs. 5 Crore. However, such proposals above Rs. 5 Crore shall be sanctioned by ZLCC and	Both wholesale & retail advances together constitutes housing loan portfolio and shall not exceed 30% ceiling prescribed. **Wholesale (indirect Exposure)**: Exposure to

	higher level committees within their delegated lending powers subject to obtention of permission for deviation from the competent authority.	Housing Finance Companies, Housing Development Boards / Corporations, HUDCO etc. Indirect exposure shall not exceed 15% of aggregate exposure under lending, non-SLR investment and CAPS
	OR Such other ceiling fixed from time to time	**Retail (Direct Exposure)**: Housing Loans sanctioned in the name of individuals. Retails housing loans shall not exceed 30% of NBC. Mortgage loans secured by residential properties shall also be covered under this category.
II. COMMERCIAL REAL ESTATE	The aggregate advances to commercial real estate [including those Corp Rental advances classified as commercial real estate advances] shall not exceed 10% of the NBC. However, exposure to single borrower and Group borrowers [excluding Corp Rental Advances], shall not exceed Rs. 150 Crore and Rs. 500 Crore, respectively.	Includes funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset. The primary source of these cash flows would generally be lease or rental payments or the sale of the asset.
III. INVESTMENTS IN SECURITISIED PAPER	Shall not exceed Rs.500 crore at any point of time	Investments made in Mortgage Backed Securities (MBS) and other Securities in Residential or in Commercial Real Estate shall be grouped under this category.

19.4.3 Norms as enunciated under Group Credit Policy with regard to entry level restrictions, per party / group exposure shall be equally applicable for these loans as

well subject to the overall ceiling as prescribed above.

19.5 COLLATERALS AND GUARANTEE STANDARDS

19.5.1 Security:

19.5.1.1 In case of housing loans, Equitable Mortgage of house / flat purchased / constructed out of bank finance shall be held as security. Alternate properties shall not be taken in substitution of the property purchased or constructed out of bank finance.

19.5.1.2 The real estate property offered as security shall be a free hold property with a clear marketable title. However in exceptional cases, where the land is held on long term / perpetual lease basis, the proposal can be considered even on lease hold property subject to legal clearance.

19.5.1.3 Normally equitable mortgage of the properties proposed to be acquired, developed, securitised from out of bank finance shall be held as security, after due compliance with all legal formalities. However, the authorities of the rank of CLCC/HLCC/ CAC may, on case-to-case basis and on merits, permit security of alternate properties in exceptional cases. Based on the need felt, in addition to / or in lieu of equitable mortgage of land proposed to be developed, other properties in the name of the developer may also be obtained as security.

19.5.1.4 The commercial real estate loan shall normally give an asset coverage ratio of 133% due to the price and demand risk involved in commercial real estate business.

However, in deserving cases and for justifiable reasons, the authorities of the rank of HLCC/CAC/MC are empowered to relax the requirement of Asset Coverage Ratio as under:

Authority	**Maximum Relaxation up to**	**Minimum Asset Coverage Ratio shall be**
HLCC	23%	110%
CACB	33%	100%
MC	>33%	<100%

19.5.1.5 The properties offered as security shall be valued once in three years and if there is a shortfall in the asset coverage ratio prescribed, the borrower shall be asked to replenish the same.

19.5.2 Guarantee:

19.5.2.1 In case of loans to partnerships, trusts and private limited companies, personal guarantee of partners, trustees and promoter directors respectively shall generally be obtained. However, wherever possible, a suitable third party guarantee may be obtained depending upon the quantum of loan, security coverage and net worth of the partners/ trustees/ directors.

19.5.2.2 In all other cases, other than corporates, suitable third parties guarantee having sufficient net worth and acceptable to the bank should invariably be obtained.

19.5.2.3 Wherever third party properties are offered as security, guarantee of the property owners shall be obtained.

19.5.2.4 However, the authorities in the rank of HLCC/ CAC are empowered to waive or modify this clause on justifiable grounds

19.6 MARGINS AND TENOR

19.6.1 In respect of loans extended for development / construction of buildings, minimum margin as stipulated by the Bank from time to time shall be maintained. Further, for arriving at need based finance, the advance money / partial sale considerations expected to be received during the construction phase shall also be taken into account. However, the margin money that would be infused out of own funds and from out of advances received from the proposed purchaser of flats shall be reckoned separately.

19.6.2 In respect of the stipulated margin, the promoter shall bring in atleast 20% of total project cost [excluding land cost] from his own funds, excluding advances, if any received from the prospective customers. Any deviations in respect of above stipulated margin to be approved by the HLCC/ Credit Approval Committee of the Board.

19.6.3 The Tenor of Real Estate loans shall be as under:

Sl. No.	Nature of Real Estate Loan	Maximum Tenor
1	Housing Loan	30 years *
2	Corp Rental Scheme	10 years**
3	Corp Mortgage Scheme	10 years
4	Others	5 years***

* In the case of Fixed Rate interest loans, the maximum tenor to 15 years and for salaried class, the same to be extended by 5 years.

** In exceptional and justifiable cases, the functionaries of the rank of HLCC/ CAC, shall extend the maximum tenor upto 15 years.

*** Normally, tenor of the commercial real estate advances [other than Corp Rental and Corp Mortgage] shall be five years. In respect of loans to infrastructure sector falling under the commercial real estate advances, due to dual classification nature, the tenor of the loan, may go upto 10 years. However, the HLCC/ Credit Approval Committee of the Board, in exceptional cases may consider on selective basis longer tenure under both CRE and infrastructure categories subject to the condition that the overall tenure of the loan shall not exceed 15 years.

19.7 RISK MANAGEMENT

Following risks are associated with the development of commercial real estate / housing projects.

Financial Risks

Real Estate Price Risk

Demand Risk

19.7.1 Financial Risk

19.7.1.1 As the cash flows will accrue only after the project is completed, the developer may face financial crunch in completing the project if adequate resources are not raised and the project may ultimately become unviable. It is in this respect that it shall be ensured that the applicants have the capability to raise the resources from their own sources / borrowings or through advance money from the prospective customers.

19.7.1.2 In case of multiple banking arrangements, proposals shall be taken up subject to ensuring that the funding requirements are tied up to the full extent. In case of sole banking arrangement, it shall be ensured that the property developers have the capacity and means to introduce their share of money as margin into the business and releases shall be made directly in proportion to the own funds introduced into the project by the promoters.

19.7.1.3 Chartered Accountant’s Certificate be obtained as a proof of investments made into the business/ project, wherever required.

19.7.2 Real Estate Price Risk

19.7.2.1 Real Estate price cycles have the maximum impact on the margins of

developers / builders/contractors, because land costs account for a large portion of the constructed property. Real estate prices in the past have fluctuated during the span of procuring land, commencing construction on a project and its eventual completion, thereby exposing project developers to volatility in land prices. Currently, real estate prices especially in the residential segment have stabilised and with prices expected to move up by 10 per cent over the medium term, the risk of real estate prices moving unfavourably is offset to a large extent.

19.7.2.2 As costs will appreciate due to escalation in the input costs, it shall be ensured that requisite amount is separately provided by way of Contingencies to take care of these eventualities.

19.7.2.3 In order to minimise the impact of price risk, a higher margin shall be stipulated so that the project will give an asset coverage ratio of atleast 133% at any given point of time. The Asset coverage ratio shall be applicable in respect of commercial real estate loans. However, in deserving cases and for justifiable reasons, the authorities of the rank of HLCC/ CAC are empowered to relax the above guidelines.

19.7.3 Demand Risk:

19.7.3.1 Demand risk for residential developers / builders indicates the ability to sell properties based on location, brand, track record (quality and timeliness of completion). Most builders/developers have addressed this risk by undertaking market surveys, in order to assess the demand for their properties. Demand is also strongly influenced by policy decisions relating to housing sops.

19.7.3.2 While entertaining proposals from developers, the Bank shall keep in mind the reputation of the developers in the market, their past track, quality of work, demand for flats/space in the location and their ability to sell the flats.

19.7.3.3 Each of these risks shall be addressed in the appraisal memorandum.

19.8 <u>PRICING</u>

19.8.1 To ensure that the return compensates for the capital charge and other risks involved in commercial real estate loans, the loans are generally priced as per the gradation of the borrowers and relaxation may be permitted to be continued in well-deserved and justifiable cases as per the scheme of delegation of lending powers. But in respect of schematic lending by way of Corp Home, Corp Mortgage and Corp Rent, interest rate shall be as per scheme guidelines.

19.9 SANCTIONS

19.9.1 Sanction of loans shall be made as per the delegation of lending powers duly approved by the Bank.

19.9.2 While the housing loans continue to be sanctioned at branch level/ other controlling offices, Advances towards commercial real estate shall be restricted to the level of ZLCC/ CLCC/ HLCC/ CAC. This is to have a total control on the extent of exposure the Bank can take on this sensitive sector.

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20 ADVANCES AGAINST SHARES, DEBENTURES & BONDS/ UNITS OF MUTUAL FUNDS

20.1 Loans against the security of shares/debentures/bonds held by an individual may be granted to meet contingencies/ personal needs or for subscribing to rights or new issues of shares/ debentures/ bonds or for purchase in the secondary market, etc. subject to RBI guidelines.

(i) Maximum loan amount per borrower shall be Rs. 20 lakhs against dematerialized shares from the banking system. It shall also be ensured that such accommodation from different banks is not obtained against shares of a single company or a group of companies by taking appropriate declaration from the borrower.

(ii) It shall be ensured that the objective of the regulation is not defeated by granting advances to other joint holders or third party beneficiaries to circumvent the above limits placed on Loans/advances against shares and other securities.

20.2 Only securities in the demat form from the specified list approved by the bank shall be considered for financing.

20.3 A minimum margin of 50% subject to RBI guidelines shall be maintained on the market value of securities. Higher margins may be stipulated based on volatility in the scrips and risk perceived by the credit approving authority.

20.4 While granting advances against Units of mutual funds including Units of UTI, the following guidelines shall be complied with:

20.4.1 The Units should be listed in the Stock Exchanges or repurchase facility for the Units of mutual fund should be available at the time of lending.

20.4.2 The Units should have completed the minimum lock-in-period stipulated in the relevant scheme.

20.4.3 The amount of advances should be linked to the Net Asset Value (NAV)/ repurchase price or the market value, whichever is lower and not to the face value in case of units of mutual funds.

20.4.4 A minimum margin of 50% subject to RBI guidelines shall be maintained on the NAV/ repurchase price or market value, whichever is less

20.4.5 Advances against units of mutual funds would attract the quantum and margin requirements as are applicable to advances against shares and debentures.

20.5 Stock brokers shall be provided with need based overdraft facility/ Line of Credit for their broking activity against the security of shares/ debentures or other collaterals on the basis of commercial judgment. These credits shall be priced from time to time on the basis of cost of funds and risk perceptions. The credit facilities to stockbrokers shall be treated as exposure to capital market even though the same is against other collaterals.

20.5.1 Further, the need based credit requirement for such finance shall be made taking into account the financial position of the borrower, operations in his own account and on behalf of clients, income earned, the average turnover, period of stocks and shares and the extent to which the broker's funds are required to be involved in his business operations. Large scale investment in share and debenture in own account by the stock/ share brokers with bank finance shall not be encouraged.

20.5.2 Working capital facility shall be granted to stock brokers registered with SEBI and who have complied with capital adequacy norms prescribed by SEBI/ Stock Exchange to meet the cash flow gap between delivery and payment for DVP transactions undertaken on behalf of institutional clients, viz. FIs, FIIs, Mutual Funds and banks, the duration of such facility shall be short and would be based on the assessment of the financing requirement, keeping in view the cash flow gaps, the brokers funds required to be deployed for the transactions and overall financial position of the broker.

20.5.2.1 Guarantees shall be issued on behalf of share and stock brokers in favor of stock exchanges in lieu of margin requirements as per stock exchange regulations. While issuing such guarantees, a minimum margin of 50% shall be ensured.

20.5.2.2 A minimum cash margin of 25% (within the above margin 50%) would be maintained in respect of such guarantees issued by the Bank.

20.5.2.3 The above minimum margin of 50% and minimum cash margin requirement of 25% (within the margin of 50%) will also apply to guarantees issued by Bank on behalf of commodity brokers in favour of the national level commodity exchanges viz., National Commodity & Derivatives Exchange (NCDEX), Multi Commodity Exchange of India Ltd., (MCX), National Multi-Commodity Exchange of India Ltd. (NMCEIL) or any other commodity exchanges as approved by SEBI in lieu of margin requirements as per the commodity exchange regulations.

20.5.3 Guarantees shall also be issued in lieu of margin requirement as per the stock exchange regulations.

20.6 No advances against primary security of shares and debentures including promoters' shares to industrial, corporate or other borrowers shall be granted.

20.6.1 However, such securities can be accepted as collateral for secured loans grated as working capital or for other productive purposes from borrowers other than NBFCs.

20.6.2 The shares accepted, as security must be only in dematerialized form wherever demat facility is available.

20.7 In the context of Government of India's programme of disinvestments of its holdings in some public sector undertakings (PSUs), it has been clarified to banks by RBI that banks can extend finance to the successful bidders for acquisition of shares of these PSUs, subject to certain conditions.

20.7.1 The ceiling in respect of the above would be subject to prior approval from RBI

20.8 <u>Margin Trading</u>

20.8.1 Finance shall be extended to stock brokers for margin trading on following broad parameters:

i. The finance extended to margin trading shall be reckoned as exposure to capital market.
ii. A minimum margin of 50% [of which not less than 25% by way of cash margin] shall be maintained on the funds lent for margin trading.
iii. The shares purchased with the margin trading shall be in dematerialized mode under pledge to the Bank.
iv. It shall be ensured that margin of 50% is maintained on an on-going basis.
v. It shall be ensured that no nexus develops between inter-connected stock broking entity / stock brokers and the Bank in respect of margin trading.
vi. Margin trading exposure of the Bank shall not be concentrated with few share brokers or few stock broking entities.

20.9 While granting loans and advances against shares, statutory provisions contained in sections 19 (2) and (3) and 20 (1) (a) of the Banking Regulation Act 1949 shall be strictly observed which are as under:

20.9.1 As per Section 19(2), no Banking company shall hold shares in any

company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding thirty per cent of the paid-up share capital of that company or thirty percent of its own paid-up share capital and reserves, whichever is less.

20.9.2 As per section 19(3), a Banking company shall not hold shares, whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or manager of the Banking Company is in any manner concerned or interested.

20.9.3 As per section 20 (1) (a), no Banking company shall grant any loans or advances on the security of its own shares.

20.10 While considering grant of advances against shares/debentures, branches shall follow the normal laid down procedures for the sanction, appraisal and post sanction follow-up.

20.11 Shares/debentures/bonds shall be valued at prevailing market prices when they are lodged as security for advances. **Thereafter the market value shall be assessed on a weekly basis to ensure maintenance of prescribed margin**. If the borrower does not make up the shortfall in the margin, action shall be taken to sell the securities and recover the dues after giving due notice.

20.12 No advance shall be granted against partly paid shares.

20.13 The Bank shall with the approval of the Board fix overall and sub-ceiling on Bank's exposure to the capital market.

20.13.1 Banks' capital market exposures shall include both its direct exposures and indirect exposures.

20.13.2 The computation of the aggregate exposure (both fund and non-fund based) of Bank to capital markets in all forms shall be as per the RBI guidelines issued from time to time.

20.14 Bank shall finance under IPOs to individuals [such as salaried persons, professionals, businessmen, pensioners etc.], either individually in their own names or jointly with others.

20.14.1 Under IPOs, loan amount shall be subject to a maximum limit of Rs. 10 Lakhs.

20.14.2 The corporates shall not be extended with credit facilities by Bank for investment in other companies IPOs.

20.14.3 Bank shall not provide finance to NBFCs for further lending to individuals for IPOs.

20.15 Bank Finance for Market Makers

20.15.1 Bank shall provide need based finance to meet the genuine credit requirements of approved Market Makers. Detailed guidelines issued from time to time by the bank may be referred for financing them including exposure limits, method of valuation, etc. Following guidelines, as per RBI, shall be followed:

a) Market Makers approved by stock exchange would be eligible for grant of advances by scheduled commercial banks.

b) Market Making shall not only be for equity but also for debt securities including State and Central Government securities.

c) Bank shall exercise their commercial judgment in determining the need based working capital requirements of Market Markers by taking into account the Market Making operations.

d) A uniform margin of 50 per cent shall be applied on all advances / financing of IPOs / issue of guarantees on behalf of market makers. A minimum cash margin of 25 per cent (within the margin of 50%) shall be maintained in respect of guarantees issued by banks for capital market operations.

e) Bank shall accept, as collateral for the advances to the Market Makers, scrips other than the scrips in which the market making operations are undertaken.

f) Bank shall ensure that advances provided for Market Making are not diverted for investment in shares other than the scrip earmarked for Market Making purpose.

g) The ceiling of Rupees ten lakhs (As per Para 20.14.1)/ Rupees twenty lakhs (As per Para 20.1 (i)) for advances against shares/debentures to individuals shall not be applicable in the case of Market Makers.

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21 EXPORT CREDIT

21.1 Export Sector is an important sector of the economy and is major source of precious foreign exchange for the country. The Government of India and the RBI have been giving full support to the export sector by way of tax / duty benefits, financial incentives, and making available adequate credit at reasonable rate of interest through banks.

21.2 Endeavour shall be made to channelize sufficient credit to export sector to achieve the target of not less than 12% of Net Bank Credit on average basis, as prescribed by RBI.

21.3 Pre-shipment / packing credit shall be extended against letter of credit or confirmed and irrevocable order for the export of goods, unless having regard to the trade practice these requirements are specifically waived by the sanctioning authority.

21.3.1 Repayment period shall be fixed for packing credit advance depending on the circumstances of the individual case taking into account time required for procuring, manufacturing or processing and shipping the relative goods, subject to a maximum of 180 days period. In exceptional and justifiable cases, where exporters due to reasons beyond their control are not able to ship the goods within a period of 180 days, HLCC/ CAC shall be empowered to extend repayment period upto 360 days.

21.3.2 End use of pre-shipment credit is to be monitored to ensure that the use is for genuine requirements of exports.

21.4 Post shipment credit shall normally be granted for a maximum period of 180 days from the date of shipment inclusive of Normal Transit Period (NTP) and grace period, if any. Post-Shipment credit shall be liquidated out of the proceeds of export bills received from abroad in respect of goods exported and / or duty drawback received from the Government.

21.5 Rupee pre-shipment loans and post-supply rupee export credit may be extended at concessional rate of interest to parties against orders for supplies in respect of projects aided/financed by bilateral or multilateral agencies/funds (including World Bank, IBRD, IDA), as notified from time to time under "Deemed Exports" in the Exim Policy, which are eligible for grant of normal export benefits by Government of India.

21.5.1 Advances so provided shall be adjusted from free foreign exchange representing payments for the supplies of goods to these agencies.

21.6 The Bank may also extend rupee

21.6.1 pre-shipment credit, and

21.6.2 post-supply credit (for a maximum period of 30 days or upto the actual date of payment by the receiver of goods, whichever is earlier)

21.6.3 To other categories of supply of goods specified as 'Deemed Exports' in the Exim Policy from time to time.

21.7 The export credit pre-shipment and post shipment credit extended by the Bank shall be covered by Whole Turnover Packing Credit Guarantee Scheme (WTPCG) and Whole Turnover Post-shipment Guarantee Scheme (WTPSG) of ECGC.

21.7.1 The post-shipment credit extended by the Bank shall also be covered by buyer wise ECGC policy except in cases where the same is specifically waived by the sanctioning authority.

21.8 The guidelines issued by RBI and other regulatory agencies from time to time shall be adhered to.

21.9 With a view to simplifying access to bank credit by exporter especially small and medium exporter and make it borrower friendly in terms of procedures, exporters Gold Card Scheme for credit worthy exporter clients shall be formulated with the approval of the Board.

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Section – I

22 ADVANCES TO MICRO, SMALL & MEDIUM ENTERPRISES [MSMEs]

22.1 Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

22.1.1 The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the Services Sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing/ production and or providing/rendering of services.

22.2 Definition of Micro, Small and Medium Enterprises

22.2.1 **Enterprises:** An "enterprises" means an Industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use or engaged in providing or rendering of any service or services.

22.2.2 The following enterprises whether Proprietorship, Hindu Undivided Family, Association of Persons, Cooperative Society, Partnership or undertaking or any other legal entity, by whatever name called shall be categorized as under:

S. No.	Category	Definition Of Micro, Small And Medium Enterprises (MSME)
1.	**MICRO ENTERPRISES (MANUFACTURING)**	Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery (Original cost excluding Land and Building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O.1722 (E) dated October 5, 2006 as detailed in Annexure 1) **does not exceed Rs.25Lakh**.

2.	**MICRO ENTERPRISES (SERVICE)**	Enterprises engaged in the providing / rendering of services and whose investment in Equipment (Original cost excluding Land and building, furniture, fittings and other assets not directly related to rendering of services or as may be notified under the Micro, Small and Medium Enterprises Development, Act 2006) **does not exceed Rs.10 Lakh.**
3.	**SMALL ENTERPRISES (MANUFACTURING)**	Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery (Original cost excluding Land and building) and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O.1722 (E) dated October 5, 2006 as detailed in Appendix 1) **is above Rs.25 Lakh & up to Rs.5 Crore.**
4.	**SMALL ENTERPRISES (SERVICE)**	Enterprises engaged in the providing / rendering of services and whose investment in Equipment (Original cost excluding Land and building and furniture, fittings and other items as detailed in Appendix 1) **is above Rs.10 Lakh & up to Rs.2 Crore.**
5.	**MEDIUM ENTERPRISES (MANUFACTURING)**	Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery Original cost excluding Land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O.1722 (E) dated October 5, 2006 as detailed in Appendix 1) is **more than Rs.5 Crore** but **does not exceed Rs.10 Crore.**
6.	**MEDIUM ENTERPRISES (SERVICE)**	Enterprises engaged in the providing/rendering of services and whose investment in Equipment (Original cost excluding Land & building, furniture & fittings and other items as detailed in Appendix 1) is more **than Rs.2 Crore** but **does not exceed Rs.5 Crore.**

22.2.3 W.e.f.23.04.2015, Bank loans to medium enterprises engaged in manufacturing and / or service activities (Up to Rs.10 crore) will form part of priority sector lending.

22.2.4 Since the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person / company for the purpose of classification as Micro, Small and Medium Enterprises, Government of India, vide office memorandum No.5(10)2007 MSME/POL dated April 15, 2009, have intimated that the provision, as notified in the Gazette Notification No. S.O.2 (E) dated January 1, 1993 on clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI (further notified in the principal

notification no. S.O.857 (E) dated December 10, 1997) has been rescinded vide GOI Notification No. S.O. 563 (E) dated February 27, 2009.

22.2.5 Loans for Food and Agro processing units up to an aggregate sanctioned limit of Rs 100 crore per borrower from banking system will form part of Agriculture.

22.2.6 Bank loans up to Rs.5 crore per borrower / unit to Micro & Small and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services will be eligible for classification under priority sector.

22.2.7 All loans to units in Khadi and Village Industries sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro enterprises under priority sector.

22.2.8 Other Finance to MSMEs:

a) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of Outputs of artisans, village and cottage industries.

b) Advances to cooperatives of producers in the decentralized sector viz. artisans, village and cottage industries.

c) Loans granted by banks to Micro Finance Institutions (MFIs) for on-lending to MSME sector subject to the compliance of guidelines on lending to Priority Sector.

d) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udhyami Card, Swarojgar Credit card and Weaver's card, etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

e) Overdrafts extended by banks after April 8, 2015 up to Rs.5,000/- under Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts provided the borrower's household annual income does not exceed Rs.100,000/- for rural areas and Rs.1,60,000/- for non-rural areas. These overdrafts will qualify as achievement of the target for lending to Micro Enterprises.

f) Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

22.2.9 To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the priority sector lending status up to three years after they grow out of the MSME category concerned.

22.2.10 Office of the Development Commissioner (MSME), Ministry of Micro, Small and Medium Enterprises, Government of India regarding categorization of specific activities under Manufacturing or Service under the provisions of MSMED Act-2006 , has clarified that the following categories have been considered under Manufacturing or Service Sector :

A. Manufacturing Activities:

i. Medical Equipment and Ayurvedic Product
ii. Separation of iron scrap from slag pots
iii. Power generation by conventional processes

B. Service Activities:

i. Dealers /Sellers of fertilizers, pesticides, seeds and other inputs.
ii. Dealers/ Sellers of inputs for the allied activities such as cattle feed, poultry feed etc
iii. Dealers in Drip Irrigation/ agricultural machinery
iv. Clinical /Pathological Laboratories and Scanning , MRI Tests
v. Hospitals
vi. Restaurants with Bar
vii. Canteens
viii. Hotels
ix. Motel Industry
x. Consultancy Services including Management Services.
xi. Composite Broker Services in Risk and insurance Management.
xii. Third Party Administration (TPA) Services for medical insurance Claims of Policy Holders.
xiii. Training-cum-incubator Centre.
xiv. Educational Institutions.
xv. Training Institutes.
xvi. Fair price shops.
xvii. Consumer cooperative stores.
xviii. Private Retail Trade
xix. Practice of Law, i.e. legal services
xx. Trading in medical instruments (brand new).
xxi. Placement and Management Consultancy Services.
xxii. Advertising agency and Training centres.

xxiii. Development of Software and providing software services
xxiv. Retreading of Tyres
xxv. Infrastructure and Real Estate Activities (Enterprise should indicate in brackets the specific activities, it dealt with, concerning infrastructure and Real Estate)
xxvi. Power (Electrical) Distribution Service
xxvii. Medical Transcription Service
xxviii. Production of T.V Serial and other T.V Programmes
xxix. Service Rating Agency (Rating and grading services across sectors based on set methodology and standards)

Section II

22.3 Certain types of funds deployment eligible as priority sector advances:

22.3.1.1 Investments

22.3.1.2 Securitised Assets

Investments made by banks in securitised assets, representing loans to various categories of priority sector, shall be eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets, provided the securitised assets are originated by banks and financial institutions and fulfill the Reserve Bank of India guidelines on securitization. This would mean that the bank's investments in the above categories of securitised assets shall be eligible for classification under the respective categories of priority sector only if the securitised advances were eligible to be classified as priority sector advances before their securitization.

22.3.1.3 Outright purchases of any loan asset eligible to be categorized under priority sector, shall be eligible for classification under the respective categories of priority sector (direct or indirect), provided the loans purchased are eligible to be categorized under priority sector; the loan assets are purchased (after due diligence and at fair value) from banks and financial institutions, without any recourse to the seller; and the eligible loan

assets are not disposed of, other than by way of repayment, within a period of six months from the date of purchase.

22.3.1.4 Investments by banks in Inter Bank Participation Certificates (IBPCs), on a risk sharing basis, shall be eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and are held for at least 180 days from the date of investment.

22.3.1.5 Priority Sector Lending Certificate Micro Enterprises: Investment by banks in PSLC Micro enterprises loans shall be eligible for considering for achievement towards the Sub target for lending to Micro Enterprises.

22.3.1.6 Scheme of Small Enterprises Financial Centers (SEFCs):

As per announcement made by the Governor in the Annual Policy Statement 2005- 06, a scheme for strategic alliance between branches of banks and SIDBI located in clusters, named as "Small Enterprises Financial Centres" has been formulated in consultation with the Ministry of SSI and Banking Division, Ministry of Finance, Government of India, SIDBI, IBA and select on May 20, 2005. List of MSME clusters covered by existing SIDBI branches is furnished in Annexure II. Our Bank branches shall extend finance to MSME units in these clusters.

Section III

22.4 RBI stipulated growth targets for Domestic Commercial Banks

22.4.1 The domestic commercial banks are expected to enlarge credit to priority sector and ensure that priority sector advances (which includes Micro, Small & Medium Enterprises (MSME) sector) constitute 40 % of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

22.4.2 In terms of recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve 20 % year-on-year growth in credit to Micro and Small Enterprises, 10 % annual growth in number of Micro Enterprise accounts and 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises.

22.4.3 Bank is required to achieve a sub-target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises by March 2017.

22.4.4 Bank loans above Rs.5 crore per borrower / unit to Micro and Small Enterprises and Rs.10 crore to medium enterprises engaged in providing or rendering of services and

defined in terms of investment in equipment under MSMED Act, 2006 shall not be reckoned in computing achievement under the overall above Priority Sector targets. However, bank loans above Rs.5 crore per borrower / unit to Micro and small Enterprises would be taken into account while assessing the performance of the banks with regard to their achievement of targets prescribed by the Prime Minister's Task Force on MSME for lending to MSE sector.

Section IV

22.5 COMMON GUIDELINES/INSTRUCTIONS FOR LENDING TO MSME SECTOR:

Sl. No.	Parameter	Banks' Policy
1.	**Loan Applications**	**Issue of Acknowledgement of Loan Applications** Branches should give acknowledgement for loan applications received under MSME. Towards this purpose, it may be ensured that all loan application forms have perforated portion for acknowledgement to be completed and issued by the receiving branch. Each branch may affix on the main application form as well as the corresponding portion for acknowledgement, a running serial number. While using the existing stock of application forms which do not have a perforated portion for acknowledgement separately given, care should be taken to ensure that the serial number given on the acknowledgement is also recorded on the main application. The loan applications should have a check list of documents required for the guidance of the prospective borrowers.
	Loan Applications	Time norms for disposal of loan applications pertaining to fresh credit limit or enhancement in existing credit are as under: • Loans up to Rs.5 lakh : Within 2 weeks • Loans above Rs.5 lakh to Rs.25 lakh : Within 3 Weeks • Above Rs.25 lakh : Within 6 weeks (Provided the loan applications are complete in all respect and accompanied by a 'check list' enclosed to the application form) **Register of Receipt/Sanction/Rejection of Applications:** a) A register shall be maintained at branch levels containing information on the date of receipt, sanction, disbursement, rejection with reasons, should be recorded. The register

		should be made available to facilitate verification by the Bank's officials including Zonal Heads during visit to the branch. b) Rejection of loan proposals received from Micro, Small & Medium Enterprises and from persons belonging to SC-STs under Priority Sector shall be done by the next higher authority. c) The reason for rejection shall be communicated to the borrower in line with the stipulation mentioned in the Fair Practices Code for Lenders. **Photographs of Borrowers:** While there is no objection to take photographs of the borrowers, for the purpose of identification, branches themselves should make arrangements for the photographs and also bear the cost of photographs of borrowers falling in the category of Weaker Sections. It should also be ensured that the procedure does not involve any delay in loan disbursement.
2.	**Nature/ Type of Credit Facilities**	1. The Bank may provide all types of funded and non- funded facilities to the borrower under this sector viz., Term Loan, Cash Credit, Letter of Credit, Bank Guarantee, etc. 2. A Composite Loan limit of Rs.1.00 Crore may be considered by bank to enable the Micro and Small Enterprises to avail of their working capital and Term loan requirement through Single Window.
3.	**Margin**	As per Bank's lending policy. Powers to relax minimum margin requirements do not vest with ZLCC and lower level functionaries. CLCC shall be vested with the powers to reduce the margin to the extent of 10% for fund based credit facilities, subject to the overall margin not falling below the requirements prescribed by RBI, wherever applicable. Beyond 10%, HLCC and higher level credit approval committees shall be vested with the power to relax further, subject to the resultant margin not falling below that prescribed by RBI, wherever applicable.
4.	**Security**	1. No collateral security shall be insisted for loans up to Rs.10.00 Lakh extended to units in MSE sector, including units financed

		under Prime Minister Employment Generation Programme (PMEGP) administered by KVIC. 2. To cover eligible accounts under CGTMSE / CEGSSC cover. 3. In case of loan accounts not covered under CGTMSE scheme, endeavour shall be made to obtain collaterals in the form of liquid securities or fixed assets, immovable properties, based on the credit risks perception of the borrower. However, availability of collateral security shall not be the mere criterion for arriving at credit decision. The other guidelines as per Bank's Lending Policy and subsequent amendments, if any, should be closely observed.
5.	**Risk Rating**	1. All the MSME accounts with limits Rs 25 lakh and above are to be rated as per rating models (In- House Model of Rating) prescribed under Bank's Credit Risk Management Policy. 2. Bank has entered into MOU with CRISIL, ONICRA, ICRA, CARE, Brickwork, Fitch (India) and SMERA, for rating of SME borrowers. 3. To promote more external rating which provides the broader comparability of rating at all levels, the Bank may allow incentive in rate of interest to the extent of 0.50% and 0.25% below the applicable rate in case of highest rated and high & average rated accounts respectively for rating done by outside rating Agencies. The interest rate after allowing concessions shall not fall below the base rate.
6.	**Pricing/ Rate of Interest**	1. The rate of interest to the borrower classified under Micro, Small and Medium Enterprises will be guided by bank's policy on interest rate issued from time to time. 2. Concessions on Rate of Interest: As per the scheme guidelines and as per policy of the bank issued from time to time. 3. Interest rate fixation in case of schematic lending like PMEGP / PMRY/ SGSRY/ other Government Sponsored Schemes etc. will be fixed as per the scheme and no concession will be further allowed to them.
7.	**Other Charges (Service / Inspection Charges).**	The charges will be levied in terms of guidelines of the Bank

8.	**Repayment / Moratorium**	1. Repayment schedule should be fixed taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc., and not in an "ad hoc" manner. 2 Moratorium period depending on requirement of the project will be considered. 3 Interest accrued during moratorium period may be capitalized and accordingly loan installment may be fixed.
9.	**Mode of Disbursement of Loan**	The disbursement of the loan will be made in phases depending on the progress on implementation of the project and the end use to be ensured.
10.	**Methodology for Calculation of Bank Finance**	**1. Working Capital :** i. Working capital credit limits to Micro and Small-Enterprises in individual cases up to Rs.5.00 Crore will be computed as per existing guidelines on the basis of minimum 20% of projected annual turnover (turnover method). However in case of borrower applying for working capital limit higher or lower than the working capital computed on the basis of turnover method shall be assessed as per actual requirement. ii. For assessment of the working capital requirement of Micro and Small Enterprises borrowers falling within the band of above Rs.5.00 Crore and below Rs.10.00Crore the traditional method of computing MPBF as per second method of lending will continue. If any of the borrowers falling in this band intends to shift to cash budget system, the same may be accepted. iii. For borrowers having working capital limit of Rs.10.00 Crore and above, Cash Budget System will be applicable. However, if a borrower is desirous to continue with the existing MPBF system the Bank may accept the request. If any of the borrowers falling in this band intends to shift to cash budget system, the same may be accepted. **2. Term Loan and Other Facilities:** i. The technical feasibility and economic/ financial/ commercial viability, managerial competence, environment viability and bankability of the proposal with reference to

		risk and legal aspect will be assessed. 3. **All the benchmark financial ratios, tenure etc. will be in line with the Bank's Domestic Lending Policy.**
		4. Variable FB & Non FB Working Capital and Standby Term Loan facility to Micro and Small Enterprises [MSEs]: **4a.** Contingency Working Capital Limit: Fixing a separate additional limit [Both Fund Based and Non Fund Based] to the extent of 20% of sanctioned limit [Fund based Working capital], at the time of sanction/renewal of working capital limits, specifically for meeting the temporary rise in working capital requirements arising mainly due to unforeseen/seasonal increase in demand for products produced by them. Such limits may be released primarily, where there is a sufficient evidence of increase in the demand for products produced by MSEs. **4b.** Standby Term Loan Limit:: Providing need based standby Term Loan facility at the time of regular sanction/review to the extent of 20% of the investment in Plant and Machinery [Net Block] for future unplanned CAPEX requirements to undertake expansion/modernization of existing units with an objective to extend credit speedily so that the capital asset creation is not delayed and commercial production can commence at the earliest. Further such standby Term Loan limit may also be considered for periodic capital expenditure. 4c. Review of regular Working capital limit: Wherever sanctioning authority is convinced, and duly recommended by the concerned branch, that changes in the demand pattern of MSE borrowers require mid-term review of working capital limits of accounts, they may do so based on an assessment of sales performance of MSEs since last review without waiting for audited financial statements. However, such mid-term reviews shall be revalidated during the subsequent regular review based on audited financial statements. 4d. Other terms and conditions: Standby Term loan limit may be considered at the time of regular sanction for future unplanned CAPEX requirements & to meet periodical capital expenditure and has to avail within next one year. Contingency working capital limit may be provided once in a

		financial year. Sanctioning authority may consider sanctioning either of the measures or both based on the underlying circumstances. The facility proposed in point no. 4.a and 4.b would be for MSE units in Manufacturing and Service sector which have been classified in standard category of accounts continuously during the last two years and should not have been restructured for the past two years. Total limit thus sanctioned including contingency limit should be within the delegated lending powers of concerned sanctioning authority. Sanction of limit would be done by competent authority at the time of initial sanction/renewal itself but release of such assessed and sanctioned limits for the next financial year would be available to the MSE units only after submission of satisfactory evidence of minimum 80% of estimated Turnover by way of VAT returns or Provisional financials certified by the Auditors as drawn from books of accounts of the unit. To restore the additional working capital limit to normal limit once the unit regains normalcy in terms of its functioning or six months from date of sanction whichever is earlier and subsequent additional limit would be considered only after liquidation of prior additional limit sanctioned. Due diligence may be carried out by the field level officials while sanctioning/releasing the additional/standby limits. All normal banking procedures including requirement of projected cash flow/collateral etc., as per the Board approved policies for securing additional/standby limits have to be followed. The process of approving the additional/standby limit will have to be completed within a period of 15 working days from the date of receipt of all the information from the borrower.
11.	**Financing under Cluster Based Approach**	1. The cluster based approach should be given thrust for financing as the cluster financing approach reduces the cost of transaction to the Entrepreneurs. 2. The Zonal Offices/ Branches will give due importance for financing of MSME sector through Specialized SME Financing Branches and the identified Thrust branches and Branches situated near to clusters.

12.	**Machinery to Look Into Complaints**	Each Zonal office will form a Committee headed by the Zonal Head at the Z.O. level to look into the complaints and their time bound redressal. The Zonal Head will be the "Nodal Officer" at Z.O. level for redressal of complaints. The Committee will verify periodically that the guidelines under Priority Sector in general and MSME sector in particular are compiled by the branches and complaints are redressed promptly. The names and addresses with telephone number of the Nodal Officer with whom complaints can be lodged should be displayed on the notice board of every branch.
13.	**Debt Restructuring**	1. Debt Restructuring: As applicable under the Bank's policy for Debt Restructuring. 2. The Bank's policy of one time settlement for MSME's as provided in the Recovery Management Policy will be applicable.
14.	**Other Aspects**	The other aspects of the Bank's lending policy/other policy guidelines including discretionary authority shall be applicable as per the changes made by RBI/Banks guidelines in the matter.

Section V

22.6 Specialized MSME branches

In order to render focused attention to MSMEs, our Bank has 177 Specialized MSME branches located in and around MSME clusters, throughout the country.

22.7 Cluster Approach

22.7.1 60 clusters have been identified by the Ministry of Micro, Small and Medium Enterprises, Government of India for focused development of Small Enterprises sector. All SLBC Convenor banks have been advised to incorporate in their Annual Credit Plans, the credit requirement in the clusters identified by the Ministry of Micro, Small and Medium Enterprises, Government of India

22.7.1.1 As per Ganguly Committee recommendations banks have been advised that a full service approach to cater to the diverse needs of the MSE sector may be achieved through extending banking services to recognized MSE clusters by adopting a 4-C approach namely, Customer focus, Cost control, Cross sell and Contain risk. A cluster based approach to lending may be more beneficial:

(a) In dealing with well-defined and recognized groups;

(b) Availability of appropriate information for risk assessment and

(c) Monitoring by the lending institutions.

22.7.1.2 Clusters may be identified based on factors such as trade record, competitiveness and growth prospects and / or other cluster specific data.

22.7.1.3 In terms of recommendations of the Prime Minister's Task Force on MSMEs, banks should open more MSE focused branch offices at different MSE clusters which can also act as Counseling Centres for MSEs. Each lead bank of a district may adopt at least one MSE cluster.

22.8 Credit Linked Capital Subsidy Scheme (CLCSS)

Government of India, Ministry of Micro, Small and Medium Enterprises has conveyed their approval for continuation of the Credit Linked Capital Subsidy Scheme (CLSS) for Technology Up-gradation of Micro and Small Enterprises for the FY 2015-16 subject to the following terms and conditions:

i. Ceiling on the loan under the scheme is Rs. 1 Crore.
ii. The rate of subsidy is 15% for all units of micro and small enterprises up to loan ceiling at Sr. No. (i) above.
iii. Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.
iv. Apart from SIDBI and NABARD our Bank has been nominated as implementing agencies of the scheme from the FY 2014-15.

22.9 Banking Codes and Standard Board of India (BCSBI)

22.9.1 Bank has adopted the Banking Codes and Standard Board of India (BCSBI) Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to-day operations and in times of financial difficulty.

22.9.2 The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions / directions issued by the RBI from time to time.

22.9.3 Objectives of the BCSBI Code

The Code has been developed to

a. Give a positive thrust to the MSE sector by providing easy access to efficient banking services.
b. Promote good and fair banking practices by setting minimum standards in dealing with MSE.
c. Increase transparency so that a better understanding of what can reasonably expected of the services.
d. Improve understanding of business through effective communication.
e. Encourage market forces, through competition, to achieve higher operating standards.
f. Promote a fair and cordial relationship between MSE and banks and also ensure timely and quick response to banking needs.
g. Foster confidence in the banking system.

The complete text of the Code is available at the BCSBI's website (www.bcsbi.org.in) and also Bank's website www.corpbank.co.in. Guidelines are supplied to all branches.

22.10 Prime Minister's Task Force on Micro, Small and Medium Enterprises

A High Level Task Force was constituted by the Government of India (Chairman: Shri T K A Nair) to consider various issues raised by Micro, Small and Medium Enterprises (MSMEs). The Task Force recommended several measures having a bearing on the functioning of MSMEs, viz., credit, marketing, labour, exit policy, infrastructure / technology / skill development and taxation. The comprehensive recommendations cover measures that need immediate action as well as medium term institutional measures along with legal and regulatory structures and recommendations for North-Eastern States and Jammu & Kashmir.

22.11 GRIEVANCES:

Sl No.	Proposal falling within the sanctioning powers of	Grievance Redressal Authority
1	Branch	Zonal Head of the concerned Zone
2	Zonal Office	Functionary at CO who is at least one rank higher than the rank of the Zonal Head concerned.
3	Circle Office	Functionary at HO who is at least one rank higher than the rank of the CO concerned.
4	Functionaries at HO up to the level of Executive Director	Functionary at HO who is at least one rank higher than the concerned sanctioning authority
5	Managing Director	Management Committee of the Board of Directors
6	Management Committee of the Board of Directors	Board of Directors

22.11.1 All grievances shall be referred to the Customer Services Division at the respective Zonal Offices in the case of branch sanctions and Customer Services Division-HO in case of Zonal Office and Head Office sanctions.

22.12 CALCULATION OF INVESTMENT FOR PLANT AND MACHINERY:

22.12.1 The list of Plant and Machinery to be excluded or included is provided in **Appendix '1'**.

22.12.2 In case the Branch is unable to assess the original investment criteria, a certificate with regard to investment in plant/machinery/equipment etc. shall be obtained from a Chartered Accountant.

Section VI

Framework for engaging of Due Diligence Agencies (DDA) for Small and Medium Enterprises [SME] loan proposals

1. Background:

1.1. The Branches should establish a relationship with a customer only after knowing the customer's true identity which is the basic concept of Know Your Customer [KYC] guidelines. KYC is a tool to safeguard the interest of the Bank from fraudulent, unscrupulous and unwanted elements.

1.2. Know Your Customer (KYC) is the primary responsibility of the Branch. Due diligence of the borrower/guarantor/properties offered as security/unit being financed is carried out by the Due Diligence Agency by visit to site/residence, neighborhood checks, ascertaining the clients standard of living and residential status (ownership/rented etc.), business status, verification of address, income, financials etc.

1.3. Services of external Due Diligence Agencies (DDAs) are engaged for conducting due diligence of SME loan proposals with credit limit of above Rs.25 lakh. For SME loan proposals below Rs.25 lakhs, due diligence is being conducted by Branches.

2. Guidelines:

2.1. Number of DDAs:

Zones at Metros and State capitals to have maximum of 3 DDAs each. Other Zones to have maximum of 2 DDAs each. Work to be allotted to DDAs on rotation basis. If required zones may submit the proposal to Circle Office for additional empanelment of DDAs based on geographical spread of the branches.

2.2. Approval Authority for empanelment of Due Diligence Agency:

The power to empanel DDAs is vested with the Circle General Manager at Circle Office. On obtaining the approval from the Circle General Manager, the Zonal Head has to enter into Credit Consultancy Service Agreement (CCSA) with the DDA. Likewise, with the prior approval from the Circle General Manager, the agreement may be renewed by the Zonal Head.

2.3. Fees payable to Due Diligence Agency:

Loan amount Maximum DDA fee

Loan Amount	Maximum DDA Fee
Rs.25 lakh up to Rs.200 lakh:	Rs.3500/ + Service Tax
Above Rs 200 lakh upto Rs 500 lakh:	Rs.4500/ + Service Tax
Above Rs.500 lakh	Rs. 5000/-+ Service Tax

The Circle General Manager can negotiate for a lower fee on a case to case basis, within the maximum amounts specified above.

DDA shall submit the bill along with the list of proposals for which due diligence has been conducted during the month to Zonal Office for approval. On receipt of approval from the zonal office, the branches shall pay the DDA fee by debit to the borrower account based on the irrevocable letter of authority cum undertaking obtained from the borrower along with

application. DDA shall not collect the fees directly from the borrower. In case, the proposal is rejected after Due Diligence, the Due Diligence fee shall be borne by the Bank.

With the introduction of the above fee structure, uniformity is established in the fees payable to the DDA for the services rendered by them. The Circle General Manager can negotiate for a lower fee on a case to case basis, within the maximum amounts specified above.

3. Uniformity in the tenure of agreement:

On approval for empanelment by Circle General Manager, the Zonal Head enters in to a Credit Consultancy Service Agreement (CCSA) with Due Diligence Agency for a period of three years and submit the copy of the agreement to Circle Office and Head Office for records. Zonal Offices will conduct half yearly review of the external DDAs to ascertain their operational efficiency and submit report to the respective Circle Office and Head Office. The Zonal Office has to maintain the MIS on fees paid to each DDA and submit the data along with Half Yearly review report to Circle Office and Head Office. Circle Office should submit to Head Office their observations & comments on the reports submitted by the Zonal Office.

4. Conducting Due Diligence Exercise:

For new customers, due diligence exercise is required for all loan proposals with total exposure of above Rs. 25 lakh at the time of entry.

For existing customers with total outstanding exposure of above Rs. 1 crore, Fresh due diligence exercise is required at the time of enhancement, if the enhanced amount is above 25% of the total outstanding exposure.

Due Diligence report should be signed by the promoter of the company / partner of the partnership firm / Proprietor of the proprietorship firm.

Zonal Office should hold the proof of PAN numbers of promoters/partners/ proprietorship/Company and Corporate Identification Number (Company CIN Number) and Director Identification Number (DIN) of company appointed as DDA.

It shall be ensured that all the new empanelment and renewals will be done in conformity with the revised guidelines.

Statutory/Regulatory guidelines, if any, issued from time to time to be followed.

CALCULATION OF INVESTMENT FOR PLANT AND MACHINERY

1) S.O. 1722(E) – In exercise of the powers conferred by sub-section (1) of 2006) herein referred to as the said Act, the Central Government specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in case of enterprises mentioned in Section 7(1)(a) of the said Act, namely:

i. Equipments such as tools, jigs, dies, moulds and spare parts for maintenance and cost of consumable stores.
ii. Installation of plant and machinery.
iii. Research and development (R&D) equipment and pollution control equipment.
iv. Power generation sets, extra transformer, etc. installed by the enterprise as per the regulations of the State Electricity Board.
v. Bank charges and services charges paid to the National Small Industries Corporation or the State Small Industries Corporation.
vi. Procurement or installation of cables, wiring, bus bars, electrical control panels (not those mounted on individual machines), oil circuit breakers/miniature circuit breakers etc. which are necessarily to be used for providing electrical power to the plant and machinery/safety measures.
vii. Gas producer plant.
viii. Transportation charges (excluding of taxes e.g. Sales Tax, Excise etc.) for indigenous machinery from the place of manufacturing to the site of the factory.
ix. Charges paid for technical know-how for erection of plant and machinery.
x. Such storage tanks which store raw-material, finished goods only and are not linked with the manufacturing process.
xi. Firefighting equipment.

2) In calculating the value of plant and machinery **for the purpose of calculating investment limit**, the original price thereof, irrespective of whether the plant and machinery are new or second hand shall be taken into account.

In the case of imported machinery, the following shall be included in calculating the **value namely:-**

i. Import duty (Excluding miscellaneous expenses as transportation from the port to the site of the factory, demurrage pad at the port).
ii. The shipping charges.
iii. Customs clearance charges.
iv. Sales Tax or Value Added Tax.

Appendix II

List of MSME Clusters covered by Existing SIDBI Branches

Sr. No.	Branch Offices	No. of MSME Clusters	Product
1	Hyderabad	5	Ceiling Fan, Electronic Goods, Pharmaceuticals- Bulk Drugs, Hand Pump sets & Foundry
2	Patna	1	Brass and German Utensils
3	Delhi	19	Stainless Steel Utensils & Cutlery, Chemicals, Electrical Engineering Equipment, Electronic Goods, Food Products, Leather Products, Mechanical Engineering Equipment, Packaging Material, Paper Products, Plastic Products, Wire Drawing, Metal Fabrication, Furniture, Electro Plating, Auto Components, Hosiery, Readymade Garments, Sanitary Fittings
4	Ahmedabad	17	Pharmaceuticals, Dyes & Intermediates, Moulded Plastic Products, Readymade Garments, Textile Machinery Parts, Diamond Processing, Machine Tools, Castings & Forging, Steel Utensils, Wood Product & Furniture, Paper Products, Leather Footwear, Washing Powder & Soap, Marble Slabs, Power Driven Pumps, Electronic Goods, Auto Parts
5	Surat	4	Diamond Processing, Powerloom, Wood Product & Furniture, Textile Machinery
6	Baroda	3	Pharmaceutical- Bulk drugs, Plastic processing & Wood product & furniture
7	Goa	1	Pharmaceutical
8	Faridabad	3	Auto components, Engineering Cluster, Stone Crushing
9	Gurgaon	5	Auto Components, Electronic Goods, Electrical Engineering Equipment, Readymade Garments, Mechanical Engineering Equipment
10	Parwanoo(Baddi)	1	Engineering Equipment
11	Jammu	3	Steel Re-rolling, Oil mills, Rice Mills
12	Jamshedpur	1	Engineering & Fabrication
13	Bangalore	6	Powerloom, Electronic goods, Readymade garments, Light engineering, Leather products
14	Kochi / Ernakulum	3	Rubber products, Powerlooms & Sea Food processing
15	Aurangabad	2	Auto components & Pharmaceuticals- Bulk drugs

16	Mumbai	11	Electronic Goods , Pharmaceutical-Basic drugs, Toys (plastic), Readymade garments, Hosiery, Machine Tools, Engineering equipment, Chemicals, Packaging material, Hand tools, Plastic products
17	Nagpur	6	Powerlooms, Engineering & Fabrication, Steel furniture, Readymade garments, Handtools, Food processing
18	Pune	6	Auto components, Electronic goods, Food products, Readymade Garments, Pharmaceuticals -Bulk Drugs, Fibre glass
19	Thane	2	Pharmaceuticals -Bulk Drugs & Sea food
20	Bhopal	1	Engineering equipment
21	Indore	4	Pharmaceuticals- Bulk drugs, Readymade garments, food processing, Auto components
22	Ludhiana	9	Auto Components, Bicycle Parts, Hosiery, Sewing M/C Components, Industrial Fastners, Handtools, Machine tools, Forging, Electroplating
23	Jaipur	7	Gems & Jewellery, Ball Bearing, Electrical Engineering Equipment, Food Products, Garments, Lime, Mechanical Engineering Equipment
24	Chennai	3	Auto components, Leather products, Electroplating
25	Coimbatore	6	Diesel Engines, Agricultural Implements, Machine Tools, Castings & Forging, Powerloom, Wet Grinding Machines
26	Tirupur	1	Hosiery
27	Noida/ Ghaziabad	10	Electronic goods, Toys, Chemicals, Electrical engineering equipment, Garments, Mechanical engineering equipment, Packaging material, Plastic products, Chemicals
28	Kanpur	3	Saddlery, Cotton hosiery, Leather products
29	Varanasi	4	Sheet work (Globe Lamp), Powerloom, Agriculture implements, Electric fan
30	Dehradun	1	Miniature Vacuum bulb
31	Nasik (shortly to be opened)	1	Steel furniture
Total		**149**	

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23 EXIT GUIDELINES

23.1 Guidelines For Problem Credit Management

In spite of putting in place a well laid down systems & procedure for credit initiation, appraisal, sanction/ approval and monitoring, quite a large number of accounts are drifting to NPA category exerting pressure on the bank's earnings and strain on profitability. Such accounts also draw a lot of time and energy of the field level functionaries for their monitoring/ recovery of dues which otherwise could have been made use of for business development that contributes to the profitability/ bottom line of the Bank.

In this backdrop, the Exit Scheme guidelines have been formulated.

23.2 Identification Of Accounts For Treatment Under Exit Policy:

23.2.1 Problem credit has to be identified by making an in depth study of bank account as well as account holder. Both aspects are to be given equal weightage. A good account maintained by a person with malafied intention is not acceptable to the Bank. Similarly a consistently irregular account, in which the borrower is not co- operating/not willing to show any positive turn around shall also to be marked for exit category. Hence, identification has to be done by relying more on the basis of good/ bad intentions of the borrower. Other aspect such as health of the account etc. follows next to the above.

23.2.2 Following are certain illustrative occasions, which will enable the authority to take a decision for marking an account for Exit:

i. The unit is likely to suffer from any changed govt. policy adversely and is expected to become non-viable.
ii. Large scale financial irregularities, no transparency in dealings, concealment of facts, providing mis-leading information to the Bank.
iii. The borrower has withheld any sensitive information that affects the financial health of the entity such as claims by govt. department towards the dues payable, cases booked against the company by DRI authorities/ such other authorities for breach of rule of the land/ irregular Forex transactions, imposition of substantial fine/ penalties etc., serious labour problems in one or more units necessitating shut down of the unit for prolonged period of 6 months or more.

iv. Doubtful Integrity, Illicit activity, secrete dealings, faulty business relations/institutional relationship [i.e., he should not be member of an institution banned by the Govt. etc.], involvement in criminal/ forgery/ anti-national activities etc.

23.3 Treatment Of Accounts Marked For Exit:

23.3.1 No fresh credit limits shall be considered for the accounts marked for exit. However, existing limits could be reviewed/ renewed in the normal course until the borrower clears the liabilities with the Bank in full. In case of need, additional limits could be considered only if the borrower offers additional securities of value not less than the amount of the loan requested with appropriate margins.

23.3.2 None of the authorities will exercise emergency powers for permitting temporary/ ad-hoc credit facilities in such accounts.

23.3.3 Once a borrowal account is marked for exit, all concessions granted in rate of interest and service charges (except in respect of facilities granted against fixed deposits and in respect of export credit limits) will stand withdrawn.

23.4 Action Points:

23.4.1 The borrower should be politely but firmly indicated that the Bank would not be able to meet the additional credit requirements on account of policy/ internal guidelines and it is better to look for some other bank/ institution to meet their further funding requirements as also the present exposure with our Bank.

23.4.2 In case any bank seeks report on borrower's dealings, the same shall be furnished as per extant guidelines without commenting/ indicating our decision to exit from the exposure

23.4.3 The account shall be closely monitored. The receipt of information/ statements/ data from the borrower shall be scrupulously followed up.

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24 RESTRICTIONS ON LENDING ACTIVITY

In conformity with the prevailing RBI guidelines RBI/2015-16/95 DBR.No.Dir.BC.10 /13.03.00/2015-16 July 1, 2015 Master Circular- Loans and Advances – Statutory and Other Restrictions, it shall be ensured that the following stipulations with regard to lending activities are adhered to:

24.1 No loans/ advances shall be granted against the security of Bank's own shares
24.2 No loans/ advances shall be granted against gold/ silver bullions.
24.3 No loans/ advances shall be granted to companies for buy-back of their own securities.
24.4 No loans / advances shall be granted against Certificate of Deposits.
24.5 No loans/ advances shall be granted against the security of partly paid shares
24.6 No loans/advances shall be granted:

a. To partnership firms/ sole proprietor concern against the primary security of shares/ debentures,
b. For financing badla transactions,
c. Against FDRs/ other term deposits of other banks.

24.7 Accommodation Bills shall not be purchased/ negotiated/ discounted.
24.8 Letter of Credit shall be opened only for genuine commercial/ trade transactions.
24.9 The Bank shall not hold shares in any company whether as a pledgee/ mortgagee or absolute owner, of an amount exceeding 30% of the paid up share capital of the company or 30% Bank's paid share capital & of the reserves, whichever is less.
24.10 The Bank shall not hold shares whether as pledgee, mortgagee or absolute owner, in any company in the management of which any Managing Director or Manager of the Bank in any manner concerned or interested.
24.11 No loans/ advances shall be granted for setting up new units consuming /producing Ozone Depleting Substances [ODS].
24.12 RBI's Policy guidelines on Selective Credit Control, from time to time shall be strictly adhered to.

24.13 <u>Restrictions on granting of loans and advances to Bank's Directors:</u>

24.13.1 Restrictions imposed by RBI on granting of loans and advances and issue of guarantees on behalf of its Directors or other bank's Directors including Scheduled Co-operative Banks or their relatives, any firm/company in which any of other banks/our bank's directors is interested as partner/director, manager, employee or guarantor shall be strictly adhered to.

24.13.2 Bank shall be prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its

directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a Government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

24.13.3 There are **certain exemptions** in this regard. In terms of the explanation to the Section, 'loans or advances' shall not include any transaction which the Reserve Bank may specify by general or special order as not being a loan or advance for the purpose of this Section. While doing so the RBI shall, keep in view the nature of the transaction, the period within which, and the manner and circumstances in which, any amount due on account of the transaction is likely to be realised, the interest of the depositors and other relevant considerations.

24.13.4 If any question arises whether any transaction is a loan or advance for the purpose of this Section, it shall be referred to RBI, whose decision thereon shall be final.

24.13.5 For the above purpose, the term 'loans and advances' shall not include the following:

i. loans or advances against Government securities, life insurance policies or fixed deposit;
ii. loans or advances to the Agricultural Finance Corporation Ltd;
iii. such loans or advances as can be made by a banking company to any of its directors (who immediately prior to becoming a director, was an employee of the banking company) in his capacity as an employee of that banking company and on the same terms and conditions as would have been applicable to him as an employee of that banking company, if he had not become a director of the banking company. The banking company includes every bank to which the provisions of Section 20 of the Banking Regulation Act, 1949 apply;
iv. such loans or advances as are granted by the banking company to its Chairman and Chief Executive Officer, who was not an employee of the banking company immediately prior to his appointment as Chairman/ Managing Director/CEO, for the purpose of purchasing a car, personal computer, furniture or constructing/ acquiring a house for his personal use and festival advance, with the prior approval of the RBI and on such terms and conditions as may be stipulated by it;
v. such loans or advances as are granted by a banking company to its whole-time

director for the purpose of purchasing furniture, car, Personal Computer or constructing/acquiring house for personal use, festival advance with the prior approval of RBI and on such terms & conditions as may be stipulated by it;

vi. call loans made by banking companies to one another;

vii. facilities like bills purchased/discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance/co-acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.;

viii. line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd. (NSCCL) / Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement; and

ix. a credit limit granted under credit card facility provided by a bank to its directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.

Note: For obtaining the prior approval of the Reserve Bank as stipulated in clauses (iv) and (v) on pre-page, the bank should make an application to the Department of Banking Operations and Development, Central Office, Mumbai.

24.13.6 Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is reckoned as 'loans and advances' for the purpose of Section 20 of the Banking Regulation Act, 1949.

24.13.7 As regards giving guarantees and opening of L/Cs on behalf of the bank's directors, it is pertinent to note that in the event of the principal debtor committing default in discharging his liability and the bank being called upon to honour its obligations under the guarantee or L/C, the relationship between the bank and the director could become one of the creditor and debtor. Further, it is possible for the directors to evade the provisions of Section 20 by borrowing from a third party against the guarantee given by the bank. Such transactions may defeat the very purpose of restrictions imposed under Section 20, if the bank does not take appropriate steps to ensure that the liabilities there under do not devolve on them.

24.13.8 In view of the above, while extending non-fund based facilities such as guarantees, L/Cs, acceptance on behalf of directors and the companies/firms in which the directors are interested; it should be ensured that:

a. adequate and effective arrangements have been made to the satisfaction of the bank that the commitments would be met by the openers of L/Cs, or acceptors, or guarantors out of their own resources,
b. the bank will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee, and
c. No liability would devolve on the bank on account of LCs/ acceptances.

24.13.9 In case, such contingencies arise as at (b) & (c) above, the bank will be deemed to be a party to the violation of the provisions of Section 20 of the Banking Regulation Act, 1949.

24.13.10 Restrictions on Power to Remit Debts

Section 20A of the Banking Regulation Act, 1949 stipulates that notwithstanding anything to the contrary contained in Section 293 of the Companies Act, 1956, a banking company shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by -

a. Any of its directors, or
b. Any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
c. Any individual, if any of its directors is his partner or guarantor.

Any remission made in contravention of the provisions stated above shall be void and have no effect.

24.13.11 Restrictions imposed by RBI on Granting of Loans and Advances to Senior Officers of the Bank and their Relatives shall be strictly adhered to.

24.14 Granting loans and advances to relatives of Directors

24.14.1 Without prior approval of the Board or without the knowledge of the Board, no loans and advances shall be granted to relatives of the bank's Chairman/Managing Director or other Directors, Directors (including Chairman/Managing Director) of other banks and their relatives, Directors of Scheduled Co-operative Banks and their relatives, Directors of Subsidiaries/Trustees of Mutual Funds/Venture Capital Funds set up by the financing banks or other banks, as per details given below:

24.14.2 Lending to directors and their relatives on reciprocal basis

The banks shall, therefore, follow the guidelines indicated below in regard to grant of loans and advances and award of contracts to the relatives of their directors and directors of other banks and their relatives

Unless sanctioned by the Board of Directors/Management Committee, banks should not grant loans and advances aggregating Rupees twenty five lakhs and above to -

a. directors (including the Chairman/Managing Director) of other banks *;
b. any firm in which any of the directors of other banks * is interested as a partner or guarantor; and
c. any company in which any of the directors of other banks * holds substantial interest or is interested as a director or as a guarantor.

24.14.3 The restrictions as contained in Section 20 of the Banking Regulation Act, 1949 would apply to grant of loans and advances to spouse and minor / dependent children of the Directors of bank. However, bank may grant loan or advance to or on behalf of spouses of their Directors in cases where the spouse has his / her own independent source of income arising out of his / her employment or profession and the facility so granted is based on standard procedures and norms for assessing the creditworthiness of the borrower. Such facility should be extended on commercial terms. All credit proposals for Rupees twenty five lakhs and above should be sanctioned by the bank's Board of Directors / Management Committee of the Board. The proposals for less than Rupees twenty five lakhs may be sanctioned by the appropriate authority in banks in terms of the powers delegated to them.

24.14.4 Unless sanctioned by the Board of Directors/Management Committee, bank shall also not grant loans and advances aggregating Rupees twenty five lakhs and above to-

a. any relative other than spouse and minor / dependent children of their own Chairmen/Managing Directors or other Directors;

b. any relative other than spouse and minor / dependent children of the Chairman/Managing Director or other directors of other banks *;

c. any firm in which any of the relatives other than spouse and minor / dependent children as mentioned in (a) & (b) above is interested as a partner or guarantor; and

d. any company in which any of the relatives other than spouse and minor / dependent children as mentioned in (a) & (b) above hold substantial interest or is interested as a director or as a guarantor.

* including directors of Scheduled Co-operative Banks, directors of subsidiaries/trustees of mutual funds/venture capital funds.

24.14.5 The proposals for credit facilities of an amount less than Rupees twenty five lakh to these borrowers may be sanctioned by the appropriate authority in the financing bank under powers vested in such authority, but the matter should be reported to the Board.

24.14.6 The Chairman/Managing Director or other director who is directly or indirectly concerned or interested in any proposal should disclose the nature of his/her interest to the Board when any such proposal is discussed. He/she should not be present in the meeting unless his/her presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

24.14.7 The above norms relating to grant of loans and advances will equally apply to awarding of contracts.

24.14.8 The scope of the term **'relative'** will be as under:

- Spouse
- Father
- Mother (including step-mother)
- Son (including step-son)
- Son's Wife
- Daughter (including step-daughter)
- Daughter's Husband
- Brother (including step-brother)
- Brother's wife
- Sister (including step-sister)
- Sister's husband
- Brother (including step-brother) of the spouse
- Sister (including step-sister) of the spouse

24.14.9 The term 'loans and advances' will not include loans or advances against –

- Government securities
- Life insurance policies

- Fixed or other deposits
- Stocks and shares
- Temporary overdrafts for small amounts, i.e. upto Rupees twenty five thousand –
- Casual purchase of cheques up to Rupees five thousand at a time
- Housing loans, car advances, etc. granted to an employee of the bank under any scheme applicable generally to employees.

24.14.10 The term 'substantial interest' shall have the same meaning as assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

24.14.11 Banks should evolve, inter alia, the following procedure for ascertaining the interest of a director of a financing bank or of another bank, or his relatives, in credit proposals/award of contracts placed before the Board/Committee or other appropriate authority of the financing banks:

24.14.11.1 Every borrower should furnish a declaration to the bank to the effect that –

a. (where the borrower is an individual) he is not a director or specified near relation of a director of a banking company;
b. (where the borrower is a partnership firm) none of the partners is a director or specified near relation of a director of a banking company; and
c. (where the borrower is a joint stock company) none of its directors, is a director or specified near relation of a director of a banking company.

24.14.11.2 The declaration should also give details of the relationship of the borrower to the director of the bank.

24.14.12 The above guidelines shall also be followed while granting loans/ advances or awarding contracts to directors of scheduled co-operative banks or their relatives.

24.14.13 These guidelines shall also be followed by the bank when granting loans and advances and awarding of contracts to directors of subsidiaries/trustees of mutual funds/venture capital funds set up by them as also other banks.

24.14.14 These guidelines shall be duly brought to the notice of all directors and also placed before the bank's Board of Directors.

24.15 Restrictions on Grant of Loans & Advances to Officers and Relatives of Senior Officers of the Bank:

24.15.1 The statutory regulations and/or the rules and conditions of service applicable to officers or employees of public sector banks indicate, to a certain extent, the precautions to be observed while sanctioning credit facilities to such officers and employees and their relatives. In addition, the following guidelines should be followed by all the banks with reference to the extension of credit facilities to officers and the relatives of senior officers:

24.15.1.1 Loans & advances to officers of the bank:

No officer or any Committee comprising, inter alia, an officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to his/her relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to senior officers of the financing bank should be reported to the Board.

24.15.1.2 Loans and advances and award of contracts to relatives of senior officers of the bank

Proposals for credit facilities to the relatives of senior officers of the bank sanctioned by the appropriate authority should be reported to the Board. Further, when a credit facility is sanctioned by an authority, other than the Board to -

a) any firm in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a partner or guarantor; or

b) any company in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a director or as a guarantor,

such transaction should also be reported to the Board.

24.15.1.3 The above norms relating to grant of credit facility will equally apply to the awarding of contracts.

24.15.1.4 **Application of the Guidelines in case of Consortium Arrangements**

In the case of consortium arrangements, the above norms relating to grant of credit facilities to relatives of senior officers of the bank will apply to the relatives of senior officers of all the participating banks.

24.15.1.5 Scope of certain expressions:

I. The scope of the term **'relative'** is the same as mentioned at paragraph 24.14.8.

II. The term **'Senior Officer'** will refer to –

a) any officer in senior management level in Grade IV and above in a nationalised bank, and

b) any officer in equivalent scale

- in the State Bank of India and associate banks, and
- in any banking company incorporated in India.

III. The term '**credit facility'** will not include loans or advances against –

a) Government securities

b) Life Insurance policies Fixed or other deposits

c) Temporary overdrafts for small amount i.e. upto Rupees twenty five thousand, and

d) Casual purchase of cheques up to Rupees five thousand at a time.

e) Credit facility will also not include loans and advances such as housing loans, car advances, consumption loans, etc. granted to an officer of the bank under any scheme applicable generally to officers.

f) The term 'substantial interest' shall have the same meaning assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

24.15.1.6 In this context, banks may, inter alia,

I. evolve a procedure to ascertain the interest of the relatives of a senior officer of the bank in any credit proposal/award of contract placed before the Board Committee or other appropriate authority of the financing bank;

II. obtain a declaration from every borrower to the effect that -

a) if he is an individual, that he is not a specified, near relation to any senior officer of the bank,

b) if it is a partnership or HUF firm, that none of the partners, or none of the members of the HUF, is a near, specified relation of any senior officer of the bank, and

c) if it is a joint stock company, that none of its directors, is a relative of any senior officer of the bank.

III. Ensure that the declaration gives details of the relationship, if any, of the

borrower to any senior officer of the financing bank.

IV. Make a condition for the grant of any credit facility that if the declaration made by a borrower with reference to the above is found to be false, then the bank will be entitled to revoke and/or recall the credit facility.

V. Consider in consultation with their legal advisers, amendments, if any, required to any applicable regulations or rules, inter alia, dealing with the service conditions of officers of the bank to give effect to these guidelines.

24.16 RBI guidelines on full/ part remission by the Bank debt due by [1] any of its directors/ [2] firm/company in which directors are interested, [3] any individual, whose debt is guaranteed by any directors, shall be strictly adhered to.

24.17 Rediscounting of bills should be restricted only to usance bills held by other banks.

24.18 Letter of Credit and Purchase / Discount / negotiate bills under LCs shall be considered only in respect genuine commercial trade transactions of the borrower constituents, who have been sanctioned regular credit facilities by the Bank.

24.19 RBI guidelines on setting up of Money Market Mutual Fund shall be strictly adhered to.

24.20 The bank shall not raise resources through agents/ intermediaries to meet the credit needs of the existing / prospective borrowers or grant loans to the intermediaries based on the consideration of deposit mobilization.

24.21 Any other statutory/ other restrictions of RBI on loans and advances shall be strictly complied with.

24.22 BGs/ equivalent commitments on behalf of corporate entities shall not be extended in respect of non-convertible debentures, corporate bonds or any debt instrument issued by it.

24.23 RBI guidelines on Bank's finance to NBFC shall be strictly adhered to:

As per RBI guidelines, the following activities undertaken by NBFCs are not eligible for bank credit:

24.23.1 Bills discounted/rediscounted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from the sale of –

(a) commercial vehicles (including light commercial vehicles), and

(b) two-wheeler and three-wheeler vehicles, subject to the following conditions:

- the bills should have been drawn by the manufacturers on dealers only
- the bills should represent genuine sale transactions as may be ascertained from the chassis/ engine numbers and
- Before rediscounting the bills, banks should satisfy themselves about the bona fides and track record of NBFCs which have discounted the bills.

24.23.2 Investments of NBFCs both the current and long term nature, in any company/ entity by way of shares, debentures, etc. However, Stock Broking Companies may be provided need-based credit against shares and debentures held by them as stock-in- trade.

24.23.3 Unsecured loans/ inter-corporate deposits by NBFCs to/ in any company.

24.23.4 All types of loans / advances by NBFCs to their subsidiaries, group companies/ entities.

24.23.5 Finance to NBFCs for further lending to individuals for subscribing to Initial Public Offerings [IPOs].

24.24 Finance for construction of buildings meant purely for Government/Semi Government Offices, including Municipal and Panchayat Offices shall not be granted. However, loans for activities, which will be refinanced by institutions like NABARD may be granted. However, loans for activities, which will be refinanced by institutions like NABARD may be granted. In respect of projects undertaken by corporate bodies, Bank shall satisfy them that the project is run on commercial lines and that bank finance is not in lieu of or to substitute budgetary resources envisaged for the project. The loan could, however, supplement budgetary resources if such supplementing was contemplated in the project design.

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25 GUIDELINES ON GRANTING RUPEE LOANS TO NRIs/ PERSONS OF INDIAN ORIGIN

In line with globalisation and liberation measures, RBI has permitted banks to extend finance to NRIs against acceptable securities, by framing a Board mandated Policy. In this backdrop, it is proposed to incorporate in the Bank's Group Credit Policy, the guidelines on Granting of Rupee Loans to NRIs, as under:

25.1 Eligibility:

NRIs/PIOs are eligible for loan under retail lending schemes, if NRI/PIO is eligible for loan as per extant guidelines of respective scheme. NRI/PIO borrower who does not have any Banking relationship with the Bank and approaching for retail loan for the first time is also eligible for loan subject to his conforming to the respective scheme guidelines**.**

25.2 Purpose:

Bank shall grant Rupee Loan to NRIs for all technically feasible and economically viable activities and/ or other personal purposes such as educational, housing and social ceremonies, by ensuring that the proceeds of the rupee loan are not utilised for any of the following activities:

a. The business of chit fund, or
b. Nidhi Company, or
c. Agricultural or plantation activities or in real estate business, or construction of farm houses, or
d. Trading in Transferable Development Rights [TDRs], or
e. Investment in capital market including margin trading and derivatives

25.2.1 A declaration to this effect shall have to be obtained from the NRI borrower at the time of availing the loan stating that the loan amount shall not be utilized in any of the above mentioned restrictive activities.

25.3 Sanction of loans to NRIs is subject to compliance all extant RBI guidelines.

25.4 The rate of interest, tenor, method of assessment shall be as applicable for domestic borrower for similar nature and type of advance.

25.5 Margin to be debited to NRE/ FCNR/ NRO accounts of the non-resident borrowers or out of inward remittances by the borrowers.

25.6 Repayment in the case of commercial loans shall be out of the income generated out of cash flows and in the case of personal loans, the repayment shall be made out of inward remittance from abroad/ by debit to the NRE/ NRO account. However, in exceptional cases and on justifiable grounds, CACB may permit for inclusion of inward

remittances out of the salary of such NRE/PIO to the income generated out of cash flows.

25.7 All the norms stipulated to resident borrower shall be made applicable.

25.8 Branches can sanction only housing loans and loans against deposits at the branch level, within their delegated lending powers.

25.9 Housing loans beyond the delegated lending powers of the branch and all other retail loans shall be sanctioned only by the Retail Loan Centres or Zonal Office (ZLCC) or Circle Office (CLCC) or Head Office (HLCC/CAC) within their delegated lending powers based on the loan amount.

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26 GUIDELINES FOR SUBSCRIPTION / INVESTMENT IN EQUITY SHARES IN PRE INITIAL PUBLIC OFFER (IPO) / PRIVATE PLACEMENT / QUALIFIED INSTITUTIONS PLACEMENT (QIP)

26.1 Type of Clientele

The Bank may subscribe / invest in equity shares in Pre IPO and Private Placement route of Corporates, Public Sector Undertaking, Banks and Financial Institutions with the approval of the Investment Committee. A private placement is an issue of shares or of convertible securities by a company to a select group of persons under section 81 of the Companies Act, 1956 which is neither a right issue nor a public issue. This is a faster and cost efficient way for a company to raise equity capital. A listed company can also issue equity shares to Qualified Institutional Bidders (QIBs)

26.2 Purpose of the Issue

Pre IPO / Private Placement Equity are generally issued to finance new project/s or for expansion or diversification of existing project/s. However, issuance of shares by a company for financing/acquisition of shares or for providing loans to any company belonging to the same group is not permitted.

26.3 Tenor – Lock in Period

The lock in period for Pre IPO and Private Placement of Equity Shares should not exceed for 12 months.

26.4 Compliance of Minimum Norms

26.4.1 PRE IPO

I. The process should be incompliance to SEBI Guidelines, Rules, if any.
II. The company should have complied with all the provision of Companies Act read with Rules, if any.
III. Tangible net worth of the company should not be less than Rs.10.00 Crore.
IV. The company should have obtained in principle approval for listing its shares from NSE/ BSE.
V. Shares offered below its par value should not be subscribed.

26.4.2 PRIVATE PLACEMENT

I. The company should have complied with all the provision of Companies Act read with Rules if any.

II. Tangible net worth of the company should not be less than Rs. 10.00 Crore.
III. Shares offered below its par value should not be subscribed.

26.4.3 QUALIFIED INSTITUTIONS PLACEMENT

I. SEBI Guidelines to be compiled with.
II. The company should have complied with all the provisions of Companies Act read with Rules if any.
III. The Company should have obtained Stock Exchange Approval for getting its shares listed on exchanges.
IV. The Bank should not come within the definition of 'Person related to promoters' as per Chapter XIIIA SEBI DIP Guidelines.
V. The allotment of shares/specified securities to the Bank is restricted to 50% of the issue size.
VI. Shares allotted to Bank can only be sold on a recognized Stock Exchange within one year from date of allotment.
VII. The Company whose equity shares are listed on a Stock Exchange having nationwide trading terminal can issue or place securities under QIP.

26.5 <u>Statutory Limit of Shareholding</u>

The quantum of investment in any company is subject to section 19(2) of Banking Regulation Act. In terms of the said section, no bank should hold shares in any company – whether as pledgee, mortgagee or absolute owners-an amount exceeding 30% of the paid up share capital of that company or 30% of its own paid up capital and free reserve, whichever is less.

26.6 <u>Prudential Exposure limits - As per RBI guidelines.</u>

26.7 <u>Regulatory limits for capital market exposure</u>

Aggregate exposure to capital markets in all forms both fund based and non-fund based should not exceed 40 per cent of net worth as on March 31 of the previous year. Within this overall ceiling, the Bank's direct investment in equity shares, convertible bonds / debentures, units of equity oriented mutual funds and all exposure to Venture Capital Funds (VCFs) [both registered and unregistered] should not exceeds 20% of net worth as on March 31, of the previous year.

26.8 Regulatory limits for cross holding of capital among Banks/ financial institutions:

Bank's / FI's investment in the following instruments, which are issued by other Banks / FI's are eligible for capital status for the investee Bank/ FI's, should not exceed 10 % of the investing Bank's capital funds (Tier 1 plus Tier II)

I. Equity Shares
II. Preference Shares eligible for capital status
III. Subordinate debt instruments
IV. Hybrid debt capital instruments and
V. Any other instrument in the nature of capital.

26.9 Study of industry outlook / fundamentals

Before investing in Pre IPO and Private Placement Equity, the Bank shall study the industry fundamentals and prospects as well as financial strength of the company, its track record and future potential. The movement of the shares prices during the preceding one-year should be analysed, if shares are already listed and traded in the stock exchange, to decide whether the current price is on the higher side. Based on such analysis and also market enquiries through brokers, a note should be prepared, indicating the floor/cap prices for buying the shares. The Sanctioning authority may, based on day-to-day variation in the market prices and change of perception, review the floor/cap rates. Detailed analysis must be again made if there is a substantial change in the industry outlook or in the fundamentals of the company.

26.10 For delegation of powers in respect of investment in Pre IPO and Private Placement Equity, Investment Policy of the bank shall be referred.

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27 GUIDELINES ON REVERSE MORTGAGE

27.1 Introduction:

The banks to implement the Scheme of Reverse Mortgage, a social security scheme, to catalyse the flow of credit to senior citizen owning a house but having inadequate income to meet their needs and no/ unwilling family support. The loan shall also be for meeting the unexpected lump sum expenditure, like repair of house, hospitalization/ educational needs of the members of the family, social ceremonies including donation/ gifts etc. Accordingly, the Bank shall formulate Reverse Mortgage Scheme, with or without strategic alliance with other bank/ institutions [like LIC, NHB etc]. The National Housing Bank [NHB] shall be the nodal agency to frame the guidelines for Reverse Mortgage scheme.

27.2 Salient Features of the Scheme are as under:

27.2.1 The extent of debt to be assessed depending upon the age of the borrower, value of the property to be mortgaged, the rate of interest and the tenor of the loan.

27.2.2 These limits shall be re-assessed once in five years duly taking into account all the above aspects in the light of the then prevailing market scenario.

27.2.3 Periodic payment [including lump sum payments] shall be made to the borrower, i.e. payment stream is "Reversed" as compared to conventional mortgage.

27.2.4 The loan is not required to be serviced, i.e. payment of installment/ interest as long as the borrower is alive and in occupation of the property.

27.2.5 The repayment of the loan shall be on the death of the borrower and the spouse [usually a co-obligant] or on permanent movement through sale of property.

27.2.6 The surplus if any, after adjusting the principal amount of the loan and accumulated interest, shall go to the estate of the deceased.

27.2.7 Pre-payment option shall be available to the borrower, at any point of time without pre-payment penalty.

27.2.8 The maximum period of the loan shall be 15 years.

27.2.9 Security for the loan shall be the equitable mortgage of the property owned by the party.

27.2.10 The Policy shall be modified to give effect to the changes in the extant guidelines/ directives/ instructions that may be advised by the Reserve Bank of India, Govt. Of India from time to time.

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28 GUIDELINES ON PARTICIPATION IN POOLED MUNICIPAL DEBT OBLIGATION (PMDO) FACILITY

28.1 Preamble:

This guidelines is enunciated to participate in structured debt obligation facilities to Municipal Corporations, Local Bodies/Authorities etc. such as Pooled Municipal Debt Obligation facility, sponsored by development financial institutions/public sector banks and evolve suitable risk framework for safeguarding the interests of the Bank in this regard.

28.2 Introduction:

28.2.1 The Government of India, having recognised the urban sector as a key driver of the economy of the country and in the light of the rapid pace of urbanisation, has undertaken various initiatives and announced programs like the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the Urban Infrastructure Development Scheme for Small & Medium Towns (UIDSSMT), tax free Municipal Bonds, the Pooled Finance Development Fund etc. to bring urban infrastructure sector into enhanced focus and to attract private sector investments. These Govt. programmes are aimed at creating economically productive, efficient, equitable and responsive cities providing incentive as well as support for undertaking reforms at State and Cities level.

28.2.2 In the above background, a need was therefore felt to have innovative ways of funding the urban infrastructure taken up by the municipal corporations, Urban Local bodies etc. It is in this context several NBFCs, Development financial institutions, Public Sector Banks have taken the initiative and evolved a new way of funding this vital sector of the economy and Pooled Municipal Debt Obligation Facility (PMDO) is one such innovation. The sponsors such as ILFS and other Banks have requested other Banks to participate in such programs.

28.2.3 This guidelines is for participation in such programmes and for formulation of risk framework in the Bank.

28.3 Guidelines:

The brief highlights of the policy prescriptions are as under:

28.3.1 The Bank shall participate in structured debt obligation such as Pooled Municipal Debt Obligation facility, sponsored by the development financial institutions, Public Sector Banks, Reputed Private Sector Banks, NBFCs etc.

28.3.2 The ultimate beneficiaries of such programmes shall be Municipal Corporations, Urban Local Bodies, Local Authorities, etc. for developing Urban Infrastructure projects across cities in India on an integrated basis. In other words, the pooled funds shall be utilised by way of term lending to Municipal Corporations, Local Bodies, and Local Authorities etc.

28.3.3 The purpose of such term lending shall be towards the following sectors:

i. Water Supply & Sewage,
ii. Solid Waste Management,
iii. Roads & Urban Transport, Area Development,
iv. Environmental Projects,
v. Healthcare & Education,
vi. Governance Improvement Projects,
vii. Funding of common Infrastructure for SMEs

28.3.4 The maximum amount of participation shall not exceed Rs. 100.00 Crore in any one such pooled debt. The aggregate exposure under Pooled Municipal Debt Obligation Facility shall not exceed Rs. 500.00 Crore at any point of time.

28.3.5 The Bank shall participate in secured lending programmes, which generates enough assets / income, to secure / repay the loans. Bank shall not participate in unsecured lending programs. The assets and interest created out of Bank finance shall be secured to the participating Banks.

28.3.6 Borrower shall open a Trust & Retention Account with the sponsor / any of the participating banks, who in turn allocate the share to each of the participating banks towards equated quarterly installments (EQI). The Borrower shall deposit all its receivables, Grant, Octroi, Property Taxes, Other Taxes and any other income to the TRA. The surplus amount in the TRA after meeting the repayment obligation shall be transferred to a designated sub-account of the Borrower, to be utilised by the Borrower as per its requirements.

28.3.7 The tenor of such loans shall not normally exceed 15 years from the last disbursement under each project.

28.3.8 On achieving the financial closure, a common loan agreement shall be executed by the participating banks detailing the terms of the PMDO facility. The individual lenders commitment to the PMDO facility would be captured in the agreement. Subsequent documentation for each such project within the PMDO facility would be executed by the Security Trustee with the respective borrowers. The documentation shall be done under due legal advice.

28.3.9 The ROI shall be market-determined rate as agreed by the participating banks and payable quarterly in arrears with right to reset once every three years. The Bank shall also be entitled for Management / Commitment Fee/Pre-payment Penalty as agreed by the participating banks.

28.3.10 The Bank shall participate in Credit Committee meetings as and when it is inducted as one of the member.

28.3.11 The Bank shall receive financial statement of the SPVs (in case the Borrower is SPV) within 90 days from the end of the financial year. In case the Borrower is an Urban Local Body, budget statements of such entities would be provided upon its approval by the Council.

28.3.12 The Bank shall have the right to securitise the assets at a future date and an undertaking from the PMDO and the borrower shall be obtained to this effect.

28.3.13 The guidelines shall be modified to give effect to the changes in the extant guidelines/directives/ instructions that may be advised by the Reserve Bank of India / Government of India from time to time.

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29 GUIDELINES ON STRUCTURED MEZZANINE CREDIT FACILITY

29.1 Preamble:

This guidelines is enunciated to participate in structured loan facilities to Corporates such as "Structured Mezzanine Credit", sponsored by development financial institutions / public / private sector banks and to evolve suitable risk framework for safeguarding the interests of the Bank in this regard.

29.2 Introduction:

29.2.1 Infrastructure sector is characterized by long gestation periods and large capex requirements. Non-recourse funding therefore becomes a pre-dominant product in this market. India is in the midst of a major infrastructure investment boom and there exists a huge appetite for well-structured debt products and mezzanine debt products, which support specific project activities (pre-development funding or take out funding for implementation period) or have a linkage to returns profile (mezzanine products) or enhance the credit for senior lenders (liquidity support, subordinated debt).

29.2.2 Traditionally, the funding of capacity creation in India has been through Development Financial Institutions and more recently through banks and public issues. There has been an increase in credit off take and corporate loans have witnessed high growth.

29.2.3 Traditionally Corporate borrowers have been financed on the basis of strength or weakness of balance sheet, with the credit quality of the borrower being the single most important factor. But of late the borrowings are being closely linked to the value of the asset or the revenue earning capability of the assets – by means of structured finance. With this background, a need was felt for innovative ways of funding to the corporates and Structured Mezzanine Credit Facility (SMCF) is one such innovation.

29.2.4 The structured Mezzanine Credit Facility (SMCF) is being established primarily to provide mezzanine funding to Indian Companies to enable them to scale up their size of operations by exploiting opportunities in the current phase of growth in the Indian economy. These opportunities span across multiple sectors as well as local and international horizons.

29.2.5 The sponsors, who have developed Structured Mezzanine Credit Facility, are requesting other banks to participate in such programs developed by them. This policy is for participation in such programmes and for formulation of risk framework in the Bank.

29.3 Guidelines:

The brief highlights of the policy prescriptions are as under:

29.3.1 The Bank shall participate in structured loan facility such as Mezzanine Credit facilities to the Corporates, sponsored by the NBFCs/ Development Financial institutions, Public Sector Banks, Reputed Private Sector Banks etc.

29.3.2 The ultimate beneficiaries of such programmes shall be Corporates. The facility would address the financial needs of Indian Corporates by developing domestic financial solutions based on improvisation of projects of international standards and infrastructure finance products.

29.3.3 These products shall cover a wide gamut of debt instruments which would address requirements of Indian Corporates / infrastructure space across multiple situations i.e. mergers & acquisitions, capital restructurings, purchase of non-core assets, monetisation of assets, stressed assets, construction period finance, start up, ramp up and bridge funding.

29.3.4 The instruments used by the facility would be flexible and adopt some of the best structures available internationally. The range of instruments would cover optionally Convertibles, sub-ordinate debt, guarantees, Risk Participating Agreements, Pay-in-kind instrument, collaterised debt obligations, viability gap instruments and other forms of mezzanine debt.

29.3.5 The purpose of such facility is to fund structured mezzanine instruments, which address these opportunities in infrastructure funding, acquisition funding, capital & financial restructuring space and other forms of M & A to achieve higher income/ yields to the participating Banks.

29.3.6 The maximum amount of participation shall not exceed Rs. 100.00 Crore in any one such facility. The aggregate exposure under Structured Mezzanine Credit Facility shall not exceed Rs. 500.00 Crore at any point of time.

29.3.7 The Bank shall participate in secured lending programmes, which generates enough assets / income to secure / repay the loans. Bank shall not participate in unsecured

lending programs. The assets and interest created out of Bank finance shall be secured to the participating Banks.

29.3.8 Borrower shall open a Trust & Retention Account with the sponsor / any of the participating banks, who in turn allocate the share to each of the participating banks towards payment of equated quarterly/monthly installments. The Borrower shall deposit all its receivables, Grant, toll and any other income to the TRA. The surplus amount in the TRA after meeting the repayment obligation shall be transferred to a designated sub-account of the Borrower, to be utilised by the Borrower as per its requirements.

29.3.9 The tenor of such loans shall not normally exceed 10 years from the last disbursement under each project

29.3.10 On achieving the financial closure, a common loan agreement shall be executed by the participating banks detailing the terms of the PMDO facility. The individual lenders commitment to the PMDO facility would be captured in the agreement. Subsequent documentation for each such project within the PMDO facility would be executed by the Security Trustee with the respective borrowers. The documentation shall be done under due legal advice.

29.3.11 The ROI shall be market-determined rate as agreed by the participating banks and payable quarterly in arrears with right to reset once every three years. The Bank shall also be entitled for Management / Commitment Fee/Pre-payment Penalty as agreed by the participating banks.

29.3.12 The Bank shall participate in Credit Committee meetings as and when it is inducted as one of the member.

29.3.13 The Bank shall receive financial statement of the SPVs (in case the Borrower is SPV) within 90 days from the end of the financial year.

29.3.14 The Bank shall have the right to securitise the assets at a future date and an undertaking from the borrower shall be obtained to this effect.

29.3.15 The policy shall be modified to give effect to the changes in the extant guidelines/directives/ instructions that may be advised by the Reserve Bank of India / Government of India from time to time.

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30 GUIDELINES ON SECURITISATION

30.1 Objective:

For raising resources:

30.1.1 To raise resources for the Bank (through mortgage / asset backed securitization) at a reasonable cost.

30.1.2 For better asset liability management as long tenure assets can be disposed-off, IN CASE OF NEED, to reduce the maturity mismatches.

30.1.3 To manage the capital funds efficiently without affecting the growth of the Bank. To rotate assets and to continue to book business even while capital availability is scarce.

30.1.4 To access to new source of funding and diversify the existing funding sources

30.1.5 To maximize the returns by churning assets fast

30.1.6 For better managing the credit portfolio. By hiving of assets in sectors of high concentration, the Bank would be in a position to continue to book additional business in these sectors and hence maintain market share, client relationship etc.

For Deploying Surplus Funds

Avenue for bulk deployment of surplus funds either by subscribing to the PTCs or by purchase of assets through bi-lateral assignment of debt with reasonable rate of return.

30.2 Review of the Portfolio:

30.2.1 The “securitisation of Assets Portfolio” either built up through investment in PTCs or bi-lateral assignment of debt shall be reviewed at yearly intervals. The performance of the pool of assets purchased / assigned directly in favour of the Bank shall be reviewed periodically and if there is any short fall in collections, the same shall be made good through credit / liquidity enhancements provided by the originator.

30.2.2 While undertaking the review of securitisation of assets portfolio, the Bank shall make a study of the actual performance of the each of the pool of assets purchased / assigned in favour of the Bank and directly in relation to the performance of the industry /

sector / segment, future prospects, possible threats/ anticipated problems etc. of the underlying assets.

30.2.3 During the review of the securitisation of assets portfolio, if the short fall in collections cannot be made good through credit/liquidity, the Bank's further exposure to the pool of assets originated by the said originator shall be avoided.

30.3 Compliance:

30.3.1 All the operating units / functional divisions are expected to comply with the policy guidelines laid down in this document. In case of any doubt about the applicability of any aspect of these policies to any situation, clarification / approval shall first be sought from CPPS / Credit Division prior to committing the Bank.

30.4 Regulatory Compliance:

All the securitised transaction shall be in conformity with the:

30.4.1 Securitisation & Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

30.4.2 Guidance Note on Securitisation issued by the Institute of Chartered Accountants of India.

30.4.3 Guidelines on Securitisation of Standard Assets issued by RBI vide its circular no. DBOD. No. BP. BC. 60/21.04.048/2005-06 dated 1st February 2006 & DBOD. No. BP. BC. 103/21.04.177/2011-12 dated 07th May 2012.

The regulatory norms for capital adequacy, valuation, profit/loss on sale of assets, income recognition and provisioning for originators and service providers like credit enhancers, liquidity support providers as well as investors as also the accounting treatment for securitisation transactions and disclosure norms as enunciated by RBI shall be followed strictly.

SECTION A

30.5 Requirement to be met by the Bank as a originating Bank:

Assets eligible for Securitisation:

30.5.1 In a single securitisation transaction, the underlying assets shall represent the debt obligations of a homogeneous pool of obligors. Subject to this condition, all on- balance sheet standard assets1, except the following, shall be eligible for securitisation by the originators:

i. Revolving credit facilities [e.g., cash credit accounts, credit card receivables etc.]
ii. Assets purchased from other entities.
iii. Securitisation exposures [e.g., Mortgage-backed / asset –backed securities]
iv. Loans with bullet repayment of both principal and interest[2].

[1] In these guidelines the term loans / assets have been used to refer to loans, advances and bonds which are in the nature of advances as defined in Para 2.1 [vii] of Master Circular – Prudential Norms for Classification, Valuation and operation of Investment Portfolio by banks dated July 1, 2011.

[2] Loans with tenor up to 24 months extended to individuals for agricultural activities [as defined by Rural Planning and Credit Department of the Reserve Bank of India, in the Master Circular – Lending to Priority Sector] where both interest and principal are due only on maturity and trade receivables with tenor up to 12 months discounted / purchased by banks from their borrowers will be eligible for securitisation. However, only those loans / receivables will be eligible for securitisation where a borrower [in case of agricultural loans] / a drawee of the bill [in case of trade receivables] has fully repaid the entire amount of last two loans / receivables [one loan, in case of agricultural loans with maturity extending beyond one year] within 90 days of the due date.

30.6 Minimum Holding Period [MHP]

30.6.1 Bank shall securitise loans only after these have been held by them for a minimum period in their books. The criteria governing determination of MHP for assets listed below reflect the need to ensure that:

- The project implementation risk is not passed on to the investors, and
- A minimum recovery performance is demonstrated prior to securitisation to ensure better underwriting standards.

30.6.2 Banks shall securitise loans only after a MHP counted from the date of full disbursement of loans for an activity / purpose; acquisition of asset [i.e., car, residential houses etc.,] by the borrower or the date of completion of a project, as the case may be. MHP would be defined with reference to the number of installments to be paid prior to securitisation. MHP applicable to various loans depending upon the tenor and repayment frequency is given in the following table:

Minimum Holding Period

	Minimum Number of installments to be paid before securitisation			
	Repayment frequency-weekly	**Repayment frequency-Fortnightly**	**Repayment frequency-Monthly**	**Repayment frequency-Quarterly**
Loans with original maturity upto 2 years	Twelve	Six	Three	Two
Loans with original maturity of more than 2 years and up to 5 years	Eighteen	Nine	Six	Three
Loans with original maturity of more than 5 years	-	-	Twelve	Four

30.6.3 The MHP shall be applicable to individual loans in the pool of securitised loans. MHP shall not be applicable in para No. 30.5.1

30.7 Minimum Retention Requirement [MRR]

30.7.1 The MRR is primarily designed to ensure that the Bank has a continuing stake in the performance of the securitised assets so as to ensure that they carry out proper due diligence of the loans to be securitised. In case of long term loans, the MRR may also include vertical tranche of securitised paper in addition to the equity / subordinate tranche, to ensure that the Bank have stake in the performance of securitised assets for the entire life of the securitisation process. The Bank shall adhere to the MRR detailed in the Table below while securitizing the loan:

Type of Loan	MRR	Description of MRR	
Loans with original maturity of 24 months or less	5% of the book value of the loans being securitised	(i) Where securitisation involves neither credit tranching nor any first loss credit enhancement by originators.	Investment in the securities issued by the Special Purpose Vehicle (SPV) equal to 5% of the book value of the loans being securitized.
		(ii) Where securitization involves no credit tranching, but involves originators providing first loss credit enhancements e.g. off-balance sheet supports, cash collaterals, over collateralisation etc.	The originator would be providing the required credit enhancement If the first loss credit enhancement required is less than 5%, then the balance should be in the securities issued by the SPV.
		(iii) Where securitization involves credit tranching but no first loss credit enhancement from originator	5% in equity tranche. If equity tranche is less than 5%, then balance pari-passu in remaining tranches.
		(iv) Where securitization involves credit tranching and first loss credit enhancements by originator (off-balance sheet supports, cash collaterals, overcollateralization etc.)	If the first loss credit enhancement is less than 5%, then balance in equity tranche. If first loss credit enhancement plus equity tranche is less than 5%, then remaining pari-passu in other tranches
Loans with original maturity of more than 24 months	10% of the book value of the loans being securitised	(i) Where securitization involves neither credit tranching nor any first loss credit enhancement	Investment in the securities issued by the SPV equal to 10% of the book value of the loans being securitised

		(ii) Where securitization involves no credit tranching, but involves first loss credit enhancements from originators e.g. off-balance sheet supports, cash collaterals, overcollateralization etc.	The originator would be providing required credit enhancement. If this is less than 10%, the balance in the securities issued by the SPV
		(iii) Where securitization involves credit tranching but no first loss credit enhancement from originator	5% in equity tranche or less if the equity tranche is less than 5%. The balance (10% - investment in equity tranche) pari-passu in other tranches issued by the SPV
		(iv) Where securitization involves credit tranching as well as the first loss credit enhancements by originators (off-balance sheet supports, cash collaterals, overcollateralization etc.)	i) If the first loss credit enhancement is more than5% but less than 10%, then balance pari-passu in securities including equity tranche issued by the APV. ii) If the first loss credit enhancement is less than 5%, then in equity tranche so that first loss plus equity tranche is equal to 5%. Balance pari-passu in other tranches (excluding equity tranche) issued by the SPV so that the total retention is 10%
Bullet repayment loans / receivables.	10% of the book value of the loans being	(i) Where securitization involves neither credit tranching nor any first loss credit enhancement	Investment in the securities issued by the SPV equal to 10% of the book value of the loans

	securitised	by originators	being securitised
		(ii) Where securitization involves no credit tranching, but involves originators providing first loss credit enhancements e.g. off-balance sheet supports, cash collaterals, over collateralization etc.	The originator would be providing the required credit enhancement. If the first loss credit enhancement required is less than 10%, then the balance should be in the securities issued by the SPV
		(iii) Where securitization involves credit tranching but no first loss credit enhancement from originator	10% in equity tranche. If equity tranche is less than 10%, then balance pari-passu in remaining tranches.
		(iv) Where securitization involves credit tranching and first loss credit enhancements by originator (off-balance sheet supports, cash collaterals, over collateralization etc.)	If the first loss credit enhancement is less than 10%, then balance in equity tranche. If balance is greater than equity tranche, then remaining pari-passu in other tranches.

30.7.2 MRR shall be maintained by the entity which securitizes the loan and does not include other entities of consolidated group to which the bank belongs.

30.7.3 The MRR shall represent principal cash flows. Therefore, Bank's investment in the interest only strip representing the excess interest spread / Future Margin Income, whether or not subordinated shall not be counted under MRR.

30.7.4 The level of commitment by the originator i.e., MRR shall not be reduced either through hedging of credit risk or selling the retained interest. The MRR as a percentage of unamortized principal shall be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through absorption of loss. The form of MRR shall not change during the life of securitisation.

30.7.5 For complying with MRR under these guidelines, Bank shall ensure that proper documentation in accordance with the law is made.

30.8 Limit on Total Retained Exposure:

The total exposure of the Bank to the loans securitised in the following forms shall not exceed 20% of the total securitised instrument issued:

- Investments in equity / subordinate / senior tranches of securities issued by the SPV including through underwriting commitments.
- Credit enhancements including cash and other forms of collaterals including over collateralization, but excluding the credit enhancing interest only strip
- Liquidity support.

30.8.1 In case Bank exceeds the above limit, the excess amount shall be risk weighted at 1111%.

30.8.2 Credit exposure on account of interest swap / currency swap entered into with the SPV shall be excluded from this limit as this would not be control of the Bank.

30.8.3 The 20% limit on exposure shall not be deemed to have been breached if it is exceeded due to amortization of securitisation instruments issued.

30.9 Booking of Profit Upfront

30.9.1 The amount of profit received in cash shall be held under an accounting head styled as "Cash Profit on Loan Transfer Transactions Pending Recognition" maintained on individual transaction basis. The amortization of cash profit arising out of securitization transaction shall be done at the end of every financial year and calculated as under:

Profit to be amortized = Max {L, [(X*(Y/Z)], [(X/n)]}

X = amount of unamortized cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year

Y = amount of principal amortised during the year

Z = amount of unamortized principal at the beginning of the year

L = Loss[3] (marked to market losses incurred on the portfolio + specific provisions, if any, made against the exposures to the particular securitization transaction + direct write-off) excluding loss incurred on credit enhancing interest only strip[4]

n = residual maturity of the securitization transaction

[3] The losses, including marked-to-market losses, incurred by banks, specific provisions, if any, and direct write-offs to be made on the MRR and any other exposures to the securitization transaction (other than credit enhancing interest only strip) should be charged to Profit and Loss account. However, the amortization formula would ensure that these debits to Profit and Loss account are offset to the extent there is balance in *"Cash Profit on Loan Transfer transactions Pending Recognition Account."* Banks should also hold capital against securitization exposures in terms of extant guidelines of RBI without taking into account balance in "*Cash Profit on Loan Transfer Transactions Pending Recognition Account".*

[4] For accounting of losses in respect of credit enhancing interest only strip, please see para 1.5.3.

30.9.2 The above method of amortization of profit shall be applied to outstanding securitization transactions as well. However, the method shall be applied only with respect to the outstanding amortizable profit and un-amortized principal outstanding as on 07th May 2012 [i.e., the date of issue of circular by RBI in this regard]

30.9.3 At times, the Bank shall retain contractual right to receive some of the interest amount due on the transferred assets. This interest receivable by the Bank represents a liability of the SPV and its present value is capitalized by the Bank as an Interest only Strip (I/O Strip), which is an on-balance sheet asset. Normally, a bank would recognize an unrealized gain in its Profit and Loss account on capitalization of future interest receivable by way of I/O Strip. However, as per RBI guidelines, banks shall not recognize the unrealized gains in Profit and Loss account; instead they shall hold the unrealized profit under an accounting head styled as "Unrealised Gain on Loan Transfer Transactions." The balance in this account shall be treated as a provision against potential losses incurred on the I/O Strip due to its serving as credit enhancement for the securitization transaction5. The profit shall be recognized in Profit and Loss Account only when Interest Only Strip is redeemed in cash. As Bank would not be booking gain on sale represented by I/O Strip upfront, it need not be deducted from Tier I capital. This method of accounting of Interest Only Strip shall be applied to outstanding securitization transactions as well.

[5] *The I/O Strips may be amortizing or non-amortizing. In the case of amortizing I/O strips, a bank would periodically receive in cash, only the amount which is left after absorbing losses, if any, supported by the I/O strip. On receipt, this amount may be credited to Profit and Loss account and the amount equivalent to the amortization due may be written-off against the "Unrealised Gain on Loan Transfer Transactions" A/c bringing down the book value of the I/O strip in the bank's books. In the case of a non - amortizing I/O Strip, as and when the bank receives intimation of*

charging-off of losses by the SPV against the I/O strip, it may write-off equivalent amount against "Unrealised Gain on Loan Transfer Transactions" A/c and bring down the book value of the I/O strip in the bank's books. The amount received in final redemption value of the I/O Strip received in cash may be taken to Profit and Loss account.

30.10 Disclosures by the Bank

30.10.1 Disclosures to be made in Servicer/Investor/Trustee Report

The Bank shall disclose to investors the weighted average holding period of the assets securitized and the level of their MRR in the securitization. The Bank shall ensure that prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitization exposure as well as such information that is necessary to conduct comprehensive and well-informed stress tests on the cash flows and collateral values supporting the underlying exposures. The disclosure by an originator of its fulfillment of the MHP and MRR shall be made available publicly and should be appropriately documented; for instance, a reference to the retention commitment in the prospectus for securities issued under that securitization programme would be considered appropriate. The disclosure shall be made at origination of the transaction and shall be confirmed thereafter at a minimum half yearly (end-September and March), and at any point where the requirement is breached. The above periodical disclosures shall be made separately for each securitization transaction, throughout its life, in the servicer report, investor report, trustee report, or any similar document published. The aforesaid disclosures shall be made in the format given in **Appendix 1.**

30.10.2 Disclosures to be made by the Originator in Notes to Annual Accounts

The Notes to Annual Accounts of the Bank shall indicate the outstanding amount of securitized assets as per books of the SPVs sponsored by the bank and total amount of exposures retained by the bank as on the date of balance sheet to comply with the MRR. These figures shall be based on the information duly certified by the SPV's auditors obtained by the Bank from the SPV. These disclosures should be made in the format given in **Appendix 2.**

30.11 Loan Origination Standards

The Bank shall apply the same sound and well-defined criteria for credit underwriting to exposures to be securitized as they apply to exposures to be held on their book. To this end, the same processes for approving and, where relevant, amending, renewing and monitoring of credits shall be applied by the originators.

30.12 Treatment of Securitized Assets not Meeting the Requirements stipulated above

All instructions contained in this paragraph shall be applicable only to the new transactions unless explicitly stated otherwise. If a Bank fails to meet the requirement laid down in the paragraphs 30.5.1 to 30.11 above, it will have to maintain capital for the securitized assets as if these were not securitized. This capital would be in addition to the capital which the bank is required to maintain on its other existing exposures to the securitization transaction.

30.13 Requirements to be met by Bank other than originator having securitization exposures

30.13.1 Standards for Due Diligence

30.13.1.1 Bank shall invest in or assume exposure to a securitization position only if the originator (other banks/FIs/NBFCs) has explicitly disclosed to the credit institution that it has adhered to MHP and MRR stipulated in these guidelines and shall adhere to MRR guidelines on an ongoing basis.

30.13.1.2 Before investing, and as appropriate thereafter, Bank shall be able to demonstrate for each of their individual securitization positions, that they have a comprehensive and thorough understanding of risk profile of their proposed / existing investments in securitized positions. Banks shall also have to demonstrate that for making such an assessment they have implemented formal policies and procedures appropriate to banking book and trading book for analyzing and recording the following:

a) Information disclosed by the originators regarding the MRR in the securitization, on at least half yearly basis;

b) the risk characteristics of the individual securitization position including all the structural features of the securitization that can materially impact the performance of the investing bank's securitization position (*i.e., the seniority of the tranche, thickness of the subordinate tranches, its sensitivity to pre-payment risk and credit enhancement resets, structure of repayment water-falls, waterfall related triggers, the position of the tranche in sequential repayment of tranches (time- tranching), liquidity enhancements, availability of credit enhancements in the case of liquidity facilities, deal-specific definition of default, etc.);*

c) the risk characteristics of the exposures underlying the securitization position *(i.e., the credit quality, extent of diversification and homogeneity of the pool of loans, sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicality of the economic activities in which the underlying borrowers are engaged, etc.);*

d) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier securitizations, and fairness in selecting exposures for securitization;

e) loss experience in earlier securitizations of the originators in the relevant exposure classes underlying the securitization position, incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;

f) The statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the securitized exposures and, where applicable, on the quality of the collateral supporting the securitized exposures; and

g) where applicable, the methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator to ensure the independence of the valuer.

30.13.1.3 When the securitized instruments are subsequently purchased in the secondary market by a Bank, it shall, at that point of time, ensure that the originator has explicitly disclosed that it will retain a position that meets the MRR.

30.13.2 Stress Testing

Banks shall regularly perform their own stress tests appropriate to their securitization positions. For this purpose, various factors which shall be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn, rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures, fall in rating of the credit enhancers resulting in fall in market value of securities (Asset Backed Securities / Mortgage Backed Securities) and drying of liquidity of the securities resulting in higher prudent valuation adjustments. The results of stress test shall be taken into account in Pillar II exercise under Basel II framework and additional capital be held to support any higher risk, if required.

30.13.3 Credit Monitoring

Bank shall monitor on an ongoing basis and in a timely manner, performance information on the exposures underlying their securitization positions and take appropriate action, if any, required. Action may include modification to exposure ceilings to certain type of asset class underlying securitization transaction, modification to ceilings applicable to originators etc. For this purpose, banks shall establish formal procedures appropriate to their banking book and trading book and commensurate with the risk profile of their exposures in securitized positions as stipulated in para 30.13.1.2. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with bandwidths that facilitate adequate sensitivity analysis. Banks shall *inter alia* make use of the disclosures made by the originators in the form given in **Appendix 1** to monitor the securitization exposures.

30.13.4 Treatment of Exposures not Meeting the Requirements Stipulated above

The Bank shall assign a risk weight of 1111% to the securitization exposures where the requirements in the paragraphs 3.1 to 3.3 above are not met. While Bank shall make serious efforts to comply with the guidelines contained in paragraphs 30.13.1 to 30.13.3, the higher risk weight of 1111% shall be applicable with effect from October 01, 2012.

SECTION B

Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities

1. Requirements to be met by the Bank as a originator

1.1 Assets Eligible for Transfer[9]

1.1.1. Under these guidelines, Bank shall transfer a single standard asset[10] or a part of such asset or a portfolio of such assets to financial entities through an assignment deed with the **exception** of the following:

(i) Revolving credit facilities (e.g. Cash Credit accounts, Credit Card receivables etc.) (ii) Assets purchased from other entities.
(iii) Assets with bullet repayment of both principal and interest.[11]

1.1.2 However, these guidelines do not apply to:

(i) Transfer of loan accounts of borrowers by a bank to other bank/FIs/NBFCs and vice versa, at the request/instance of borrower;
(ii) Inter-bank participations;
(iii) Trading in bonds;
(iv) Sale of entire portfolio of assets consequent upon a decision to exit the line of business completely. Such a decision shall have to be approved by Board of Directors of the bank;
(v) Consortium and syndication arrangements and arrangement under Corporate Debt Restructuring mechanism;
(vi) Any other arrangement/transactions, specifically exempted by the Reserve Bank of India

[9] In these guidelines, transfer would mean transfer of assets through direct sale, assignment and any other form of transfer of assets. The generic term used for transfers would be sale and purchase.

[10] In these guidelines, the term loans/assets have been used to refer to loans, advances or bonds which are in the nature of an advances as defined in para 2.1 (vii) of Master Circular – Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by banks dated July 1, 2011

[11] Loans with tenor up to 24 months extended to individuals for agricultural activities (as defined by Rural Planning and Credit Department of the Reserve Bank of India, in the Master Circular – Lending to Priority Sector) where both interest and principal are due only on maturity and trade receivables with tenor up to 12 months discounted/purchased by banks from their borrowers will be eligible for direct transfer through assignment. However, only those loans/receivables will be eligible for such transfer where a borrower (in case of agricultural loans) /a drawee of the bill (in case of trade receivables) has fully repaid the entire amount of last two loans / receivables (one loan, in case of agricultural loans with maturity extending beyond one year) within 90 days of the due date.

1.2 Minimum Holding Period (MHP)

1.2.1 Bank shall securitise loans only after these have been held by them for a minimum period in their books. The criteria governing determination of MHP for assets listed below reflect the need to ensure that:

- The project implementation risk is not passed on to the investors, and
- A minimum recovery performance is demonstrated prior to securitisation to ensure better underwriting standards.

1.2.2 Bank shall securitise loans only after a MHP counted from the date of full disbursement of loans for an activity / purpose; acquisition of asset [i.e., car, residential houses etc.,] by the borrower or the date of completion of a project, as the case may be. MHP would be defined with reference to the number of instalments to be paid prior to securitisation. MHP applicable to various loans depending upon the tenor and repayment frequency is given in the following table:

Minimum Holding Period

	Minimum Number of instalments to be paid before securitisation			
	Repayment frequency-weekly	**Repayment frequency-Fortnightly**	**Repayment frequency-Monthly**	**Repayment frequency-Quarterly**
Loans with original maturity upto 2 years	Twelve	Six	Three	Two
Loans with original maturity of more than 2	Eighteen	Nine	Six	Three
years and up to 5 years				
Loans with original maturity of more than 5 years	-	-	Twelve	Four

1.2.3 The MHP shall be applicable to individual loans in the pool of securitised loans. MHP shall not be applicable in foot note No 2 in para No. 2.1

1.3 Minimum Retention Requirement (MRR)

1.3.1.The Bank shall adhere to the MRR detailed in the Table below while transferring assets to other financial entities:

Type of Asset	MRR
Assets with original maturity of above 24 months or less	Retention of right to receive 5% o the cash flows from the assets transferred on pari-passu basis
i) Assets with original maturity of above 24 months; and ii) Loans referred to in foot note 11 para 1.1 of Section B.	Retention of right to receive 10% of the cash flows from the assets transferred on pari-passu basis

1.3.2 In the case of partial sale of assets, if the portion retained by the seller is more than the MRR required as per para 1.3.1 above, then out of the portion retained by the seller, the portion equivalent to 5% of the portion sold or 10% of the portion sold, as the case may be, would be treated as MRR. However, all exposures retained by the selling bank including MRR should rank pari-passu with the sold portion of the asset.

1.3.3 Bank shall not offer credit enhancements in any form and liquidity facilities in the case of loan transfers through direct assignment of cash flows, as the investors who should have the necessary expertise to appraise and assume the exposure after carrying out the required due diligence. Banks shall also not retain any exposures through investment in the Interest Only Strip representing the Excess Interest Spread/ Future Margin Income from the loans transferred. However, the Bank will have to satisfy the MRR requirements stipulated in para 1.3.1 above. Banks' retention of partial interest in the loans transferred to comply with the MRR indicated in para 1.3.1 shall be supported by a legally valid documentation. At a minimum, a legal opinion regarding the following shall also be kept on record by the originator:

(a) legal validity of amount of interest retained by the originator;
(b) such arrangement not interfering with assignee's rights and rewards associated with the loans to the extent transferred to it; and
(c) the originator not retaining any risk and rewards associated with the loans to the extent transferred to the assignee.

1.3.4 MRR shall have to be maintained by the entity which sells the loans. In other words, it cannot be maintained by other entities which are treated as 'originator'.

1.3.5 The level of commitment by originators i.e. MRR shall not be reduced either through hedging of credit risk or selling the retained interest. The MRR as a percentage of unamortized principal shall be maintained on an ongoing basis except for reduction of retained exposure due to proportionate repayment or through the absorption of losses. The form of MRR shall not change during the life of transaction.

1.3.6 For complying with the MRR under these guidelines, banks should ensure that proper documentation in accordance with law is made.

1.4 <u>Booking of Profit Upfront</u>

1.4.1 The amount of profit in cash on direct sale of loans may be held under an accounting head styled as "*Cash Profit on Loan Transfer Transactions Pending Recognition"* maintained on individual transaction basis and amortised over the life of the transaction. The amortization of cash profit arising out of loan assignment transaction will be done at the end of every financial year and calculated as under:

Profit to be amortised = Max {L, [(X*(Y/Z)], [(X/n)]}

X = amount of unamortized cash profit lying in the account 'Cash Profit on Loan Transfer Transactions Pending Recognition' at the beginning of the year

Y = amount of principal amortised during the year

Z = amount of unamortized principal at the beginning of the year

L = Loss (specific provisions to be made on retained exposures for credit losses plus direct write-off plus any other losses, if any) [12] incurred on the portfolio

N = residual maturity of the securitization transaction

1.4.2 **Accounting, Asset Classification and provisioning norms for MRR**

The asset classification and provisioning rules in respect of the exposure representing the MRR would be as under:

a) The Bank shall maintain a consolidated account of the amount representing MRR if the loans transferred are retail loans. In such a case, the consolidated amount receivable in amortization of the MRR and its periodicity shall be clearly established and the overdue status of the MRR shall be determined with reference to repayment of such amount. Alternatively, the Bank may continue to maintain borrower-wise accounts for the proportionate amounts retained in respect of those accounts. In such a case, the overdue status of the individual loan accounts shall be determined with reference to repayment received in each account.

b) In the case of transfer of a pool of loans other than retail loans, the Bank shall maintain borrower-wise accounts for the proportionate amounts retained in respect of each loan. In such a case, the overdue status of the individual loan accounts shall be determined with reference to repayment received in each account.

c) If the Bank acts as a servicing agent of the assignee bank for the loans transferred, it would know the overdue status of loans transferred which shall form the basis of classification of the entire MRR / individual loans representing MRR as NPA in the books of the Bank, depending upon the method of accounting followed as explained in para (a) and (b) above.

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[12] The specific provisions to be made as well as direct write-offs and other losses, if any, on the retained exposures should be charged to Profit and Loss account. In addition, banks should hold capital against the exposure retained as part of MRR as required in terms of extant guidelines of RBI without taking into account balance in "*Cash Profit on Loan Transfer Transactions Pending Recognition"* account. Banks will also be required to separately maintain 'standard asset' provisions on MRR as per existing instructions which should not be charged to the "*Cash Profit on Loan Transfer Transactions Pending Recognition"* A/c.

1.1 Disclosures by the Bank

Same as in Para 2.6 of Section A.

1.2 Loan Origination Standards

Same as in Para 2.7 of Section A.

1.4.3 Treatment of Assets sold not Meeting the Requirements stipulated above

All the guidelines contained in the above paragraphs except in Para 1.4.2 will be applicable only to the new transactions undertaken on or after 07.05.2012. Instructions in Para 1.4.2 will be applicable to both existing and new transactions[13]. If Bank fails to meet the requirement laid down in paragraphs 1.1 to 1.6 above, it will have to maintain capital for the assets sold as if these were still on the books of the Bank.

[13] For existing transactions para 1.4.2 would apply to credit enhancements or any other type of retained exposures.

2. <u>Requirements to be met for Purchase of loans:</u>

2.1 Restrictions on Purchase of loans

Banks shall purchase loans from other banks/FIs/NBFCs in India only if the seller has explicitly disclosed that it will adhere to the MRR indicated in Para 1.3 on an ongoing basis. In addition, for domestic transactions, Bank shall also ensure that the originating institution has strictly adhered to the MHP criteria prescribed in the guidelines in respect of loans purchased by them.

2.2 Standards for Due Diligence

2.2.1 The Bank shall adhere to the following guidelines:

a) Bank shall obtain the certificate from the originating bank regarding the conduct of due diligence in respect of Securitised assets at the time of sanction of each loan and ensure satisfactory. Further, the originating bank shall also confirm the holding of such reports and make available to the Bank whenever required.
b) The Bank while purchasing shall conduct the due diligence with the same rigour as would have been applied while sanctioning new loans by the bank and same shall not be outsourced.
c) If Bank desires to outsource certain activities like collection of information and documents etc., then this shall be subject to the extant Reserve Bank of India (RBI) guidelines on outsourcing of non-core activities by banks, which would *inter alia* imply that Bank would continue to retain full responsibility in regard to selection of loans for purchase and compliance with Know Your Customer requirements.

2.2.2 Before purchasing individual loans or portfolio of loans, and as appropriate thereafter, Bank shall able to demonstrate that they have a comprehensive and thorough understanding of and have implemented formal policies and procedures commensurate with the risk profile of the loans purchased analyzing an a recording:

a) Information disclosed by the originators regarding the MRR, on an ongoing basis;

b) the risk characteristics of the exposures constituting the portfolio purchased (i.e. the credit quality, extent of diversification and homogeneity of the pool of loans, sensitivity of the repayment behavior of individual borrowers to factors other than their sources of income, volatility of the market values of the collaterals supporting the loans, cyclicality of the economic activities in which the underlying borrowers are engaged, etc.);

c) the reputation of the originators in terms of observance of credit appraisal and credit monitoring standards, adherence to MRR and MHP standards in earlier transfer of portfolios and fairness in selecting exposures for transfer;

d) loss experience in earlier transfer of loans / portfolios by the originators in the relevant exposure classes underlying and incidence of any frauds committed by the underlying borrowers, truthfulness of the representations and warranties made by the originator;

e) the statements and disclosures made by the originators, or their agents or advisors, about their due diligence on the assigned exposures and, where applicable, on the quality of the collateral supporting the loans transferred; and

f) where applicable, the methodologies and concepts on which the valuation of loans transferred is based and the policies adopted by the originator to ensure the independence of the valuer.

2.3 Stress Testing

Banks shall regularly perform stress tests appropriate to the portfolios of loans purchased by them. For this purpose, various factors which may be considered include, but are not limited to, rise in default rates in the underlying portfolios in a situation of economic downturn and rise in pre-payment rates due to fall in rate of interest or rise in income levels of the borrowers leading to early redemption of exposures. The results of stress test shall be taken into account in Pillar II exercise under Basel II framework and additional capital be held to support any higher risk, if required.

2.4 Credit monitoring

2.4.1 The Bank shall monitor on an ongoing basis and in timely manner performance information on the loans purchased and take appropriate action required, if any. Action may include modification to exposure ceilings to certain type of asset classes, modification to ceilings applicable to originators etc. For this purpose, Bank shall establish formal procedures appropriate and commensurate with the risk profile of the purchased loans. Such procedures shall be as rigorous as that followed by the Bank for portfolios of similar loans directly originated by it. In particular, such procedures must facilitate timely detection of signs of weaknesses in individual accounts and identification of non-performing borrowers as per RBI guidelines as soon as loans are 90 days past due. The information collected shall include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of creditworthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis. Such information, if not collected directly by the Bank and obtained from the servicing agent, shall be certified by the authorized officials of the servicing agent. Bank may *inter alia* make use of the disclosures made by the originators in the form given in **Appendix 1** to monitor the exposures.

2.4.2 Depending upon the size of the portfolio, credit monitoring procedures may include verification of the information submitted by the Bank concurrent and internal auditors. The servicing agreement shall be provided for such verifications by the auditors of the Bank. All relevant information and audit reports shall be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the Bank.

2.5 True Sale Criteria[14]

2.5.1 The **'sale'** (*this term would hereinafter include direct sale, assignment and any other form of transfer of asset, but does not include loan participation through Inter-Bank Participation Certificates, bills rediscounted, outright transfer of loan accounts to other financial entities at the instance of the borrower and sale of bonds other than those in the nature of advance)* shall result in immediate legal separation of the **'selling bank'**[15] *(this term hereinafter would include direct selling bank, assigning bank and the bank transferring assets through any other mode),* from the assets[16] which are sold. The assets shall stand completely isolated from the selling bank, after its transfer to the Bank, i.e., put beyond the selling bank's as well as its creditors' reach, even in the event of bankruptcy of the selling / assigning / transferring bank.

2.5.2 The selling bank shall effectively transfer all risks / rewards and rights/ obligations pertaining to the asset and shall not hold any beneficial interest in the asset after its sale except those specifically permitted under these guidelines. The Bank shall have the unfettered right to pledge, sell, transfer or exchange or otherwise dispose of the assets free of any restraining condition. The selling bank shall not have any economic interest in the assets after its sale and the buyer shall have no recourse to the selling bank for any expenses or losses except those specifically permitted under these guidelines.

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[14] For true sale criteria for securitization transaction, please refer to Annex 7 of our Master Circular-New Capital Adequacy Framework dated July 01,2011.

[15] In this para, the term 'selling bank' will include other financial entities selling loans to banks.

[16] In case of sale of a part of an asset, true sale criteria will apply to the part of the asset sold.

2.5.3 There shall be no obligation on the selling bank to re-purchase of fund the repayment of the asset or any part of it or substitute assets held by the buyer or provide additional assets to the buyer at any time except those arising out of breach of warranties or representations made at the time of sale. The selling bank should be able to demonstrate that a notice to this effect has been given to the buyer and that the buyer has acknowledged the absence of such obligation.

2.5.4 The selling bank shall be able to demonstrate that it has taken all reasonable precautions to ensure that it is not obliged, nor will feel impelled, to support any losses suffered by the buyer.

2.5.5 The sale shall be only on cash basis and the consideration shall be received not later than at the time of transfer of assets. The sale consideration should be market-based and arrived at in a transparent manner on an arm's length basis.

2.5.6 If the seller of loans acts as the servicing agent for the loans, it would not detract from the 'true sale' nature of the transaction, provided such service obligations do not entail any residual credit risk on the sold assets or any additional liability for them beyond the contractual performance obligations in respect of such services.

2.5.7 An opinion from the selling bank's Legal Counsel shall be kept on record signifying that: (i) all rights, titles, interests and benefits in the assets have been transferred to the buyer; (ii) selling bank is not liable to the buyer in any way with regard to these assets other than the servicing obligations as indicated in para 2.5.6 above; and (iii) creditors of the selling bank do not have any right in any way with regard to these assets even in case of bankruptcy of the selling bank.

2.5.8 Any re-schedulement, restructuring or re-negotiation of the terms of the underlying agreement/s effected after the transfer of assets to the buyer, shall be binding on the Bank and not on the selling bank except to the extent of MRR.

2.5.9 The transfer of assets from selling bank must not contravene the terms and conditions of any underlying agreement governing the assets and all necessary consents from obligors (including from third parties, where necessary) should have been obtained.

2.5.10 In case the selling bank also provides servicing of assets after the sale under a separate servicing agreement for fee, and the payments/repayments from the borrowers are routed through it, it shall be under no obligation to remit funds to the buyer unless and until these are received from the borrowers.

2.5 **Representations and Warranties**

An originator that sells assets to other financial entities may make representations and warranties concerning those assets. Where the following conditions are met, the seller will not be required to hold capital against such representations and warranties.

(a) Any representation or warranty is provided only by way of a formal written agreement.

(b) The seller undertakes appropriate due diligence before providing or accepting any representation or warranty.

(c) The representation or warranty refers to an existing state of facts that is capable of being verified by the seller at the time that assets are sold.

(d) The representation or warranty is not open-ended and, in particular, does not relate to the future creditworthiness of the loans/underlying borrowers.

(e) The exercise of a representation or warranty, requiring an originator to replace asset (or any parts of them) sold, on grounds covered in the representation or warranty, must be:

- undertaken within 120 days of the transfer of assets; and
- conducted on the same terms and conditions as the original sale.

(f) A seller is required to pay damages for breach of representation or warranty can do so provided the agreement to pay damages meets the following conditions:

- the onus of proof for breach of representation or warranty remains at all times with the party so alleging:

- the party alleging the breach serves a written Notice of Claim on the seller, specifying the basis for the claim; and
- damages are limited to losses directly incurred as a result of the breach.

(g) A seller shall notify RBI (Department of Banking Supervision) of all instances where it has agreed to replace assets sold to another financial entity or pay damages arising out of any representation or warranty.

2.6 Re-purchase of Assets

In order to limit the extent of effective control of transferred assets by the seller in the case of direct assignment transactions, Bank shall not have any re-purchase agreement including through "clean-up calls" on the transferred assets.

2.7 Applicability of Capital Adequacy and other Prudential Norms

2.7.1 The capital adequacy treatment for direct purchase of corporate loans will be as per rules applicable to corporate loans directly originated by the banks. Similarly, the capital adequacy treatment for direct purchase of retail loans, will be as per the rules applicable to retail portfolios directly originated by banks except in cases where the individual accounts have been classified as NPA, in which case usual capital adequacy norms as applicable to retail NPAs will apply. No benefit in terms of reduced risk weights shall be made available to purchased retail loans portfolios based on rating because this is not envisaged under the Basel II Standardized approach for credit risk[17]. However, Bank may, if so desire, have the pools of loans rated before purchasing so as to have a third party view of the credit quality of the pool in addition to their own due diligence. However, such rating shall not be substitute for the due diligence that the purchasing bank is required to perform.

[17]Investment in tranches of securitized loans, will attract capital adequacy and other prudential norms as applicable to securitization transactions.

2.7.2 In purchase of pools of both retail and non-retail loans, income recognition, asset classification, provisioning and exposure norms for the Bank shall be applicable based on individual obligors and not based on portfolio. Bank shall not apply the asset classification, income recognition and provisioning norms at portfolio level, as such treatment is likely to weaken the credit supervision due to its inability to detect and address weaknesses in individual accounts in a timely manner.

2.7.3 If the Bank is not maintaining the individual obligor-wise accounts for the portfolio of loans purchased, it shall have an alternative mechanism to ensure application of prudential norms on individual obligor basis, especially the classification of the amounts corresponding to the obligors which need to be treated as NPAs as per existing prudential norms. One such mechanism shall be to seek monthly statements containing account-wise details from the servicing agent to facilitate classification of the portfolio into different asset classification categories. Such details should be certified by the authorized officials of the servicing agent. Bank's concurrent auditors, internal auditors and statutory auditors shall also conduct checks of these portfolios with reference to the basic records maintained by the servicing agent. The servicing agreement shall provide for such verifications by the auditors of the purchasing bank. All relevant information and audit reports should be available for verification by the Inspecting Officials of RBI during the Annual Financial Inspections of the purchasing banks.

2.7.4 The purchased loans shall carry at an acquisition cost unless it is more than the face value, in which case the premium paid shall be amortised based on straight line method of effective interest rate method, as considered appropriate by the Bank. The outstanding/unamortized premium need not be deducted from capital. The discount/ premium on the purchased loans can be accounted for on portfolio basis or allocated to individual exposures proportionately.

2.8 **Treatment of Exposures not Meeting the Requirements Stipulated Above**

The Bank shall assign a risk weight of 1111% to the assignment exposures where the requirements in paragraphs 2.1 to 2.8 above are not met. While Bank shall make serious efforts to comply with the guidelines contained in paragraphs 2.1 to 2.4, the higher risk weight of 1111% for non-compliance of these paragraphs will be applicable with effect from October 01, 2012.

Section C

1. SECURITISATION ACTIVITIES/EXPOSURES NOT PERMITTED

Bank shall not undertake the securitization activities or assume securitization exposures as mentioned below:

1.1 Re-securitisation of Assets

A re-securitisation exposure is a securitization exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitization exposure. In addition, an exposure to one or more re-securitisation exposures is a re-securitisation exposure. This definition of re-securitised exposure will capture collateralized debt obligations (CDOs) of asset backed securities, including, for example, a CDO backed by residential mortgage-backed securities (RMBS).

1.2 Synthetic Securitisations

A synthetic securitization is a structure with at least two different stratified risk positions or tranches that reflect different degrees of credit risk where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g. credit-linked notes) or unfunded (e.g. credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors' potential risk is dependent upon the performance of the underlying pool.

1.3 Securitisation with Revolving Structures (with or without early amortization features)

These involve exposures where the borrower is permitted to vary the drawn amount and repayments within an agreed limit under a line of credit (e.g. credit card receivables and cash credit facilities). Typically, revolving structures will have non-amortising assets such as credit card receivables, trade receivables, dealer floor-plan loans and some leases that would support non-amortising structures, unless these are designed to include early amortization features. Early amortization means repayment of securities before their normal contractual maturity. At the time of early amortization there are three potential amortization mechanics: (i) Controlled amortization; (ii) Rapid or non-controlled amortization; and (iii) Controlled followed by a subsequent (after the completion of the controlled period) non-controlled amortization phase.

2. the appropriateness and suitability of transactions prohibited in the above guidelines would be revisited in due course.

Exposure Norms:

As Bank is making a foray in to the securitisation market, the exposure ceilings are proposed as under:

Areas	Exposure Ceilings	
	Per Occasion	Overall
Bilateral Assignment of Debt (Acquisition of loan assets on direct assignment basis) - If the underlying pool of assets are reckoned as priority sector loans - If the underlying pool of assets are not reckoned as priority sector loans	Rs 1500 Crore Rs 500 Crore	Rs 5000 Crore Rs 2000 Crore
Subscription through PTCs	Rs. 50 Crore	Rs. 200 Crore

Areas	Exposure Ceilings	
	Per Client	Overall per Bank
Inter Bank Participation Certificate (IBPCs)(Per Bank Exposure)	Rs. 200 Crore	Rs. 1500 Crore

Delegation of Powers:

Powers for acquiring assets through bilateral assignment of debts / subscription of PTCs / IBPCs shall be exercised as under:

Mode	Powers
Acquisition of Assets through bilateral assignment of debt	As the amount invested will be reckoned as **Advances**, powers as applicable for other advances (as per scheme of delegation of powers duly approved by the Board) shall be made applicable
Securitised Transaction through PTCs	As the amount invested will be reckoned as **Investments**, powers as spelt out by the Board for investments in PTCs shall be made applicable
Investment in IBPCs of other banks	As approved by the Board for this purpose

Appendix I

Format for Disclosure Requirements in offer documents, servicer report, investor report, etc.[18]

Name/ Identification No. of Securitisation transaction[19]:

Sl. No	Nature of disclosure	Details	Amount / percentage/ years
1	Maturity characteristics of the underlying assets (on the date of disclosure)	(i) Weighted average maturity of the underlying assets (in years)	
		(ii)Maturity-wise distribution of underlying assets:	
		a)Percentage of assets maturing within one year	
		b)Percentage of assets maturing within one to three years	
		c) Percentage of assets maturing within three to five years	
		d) Percentage of assets maturing after five years.	
2	Minimum Holding Period (MHP) of securitized assets	(i) MHP required as per RBI guidelines (years/months)	
		(ii) a) Weighted average holding period of securitized assets at the time of securitization (years/months) b) Minimum and maximum holding period of the securitized assets	
3	Minimum Retention Requirement (MRR) on the date of disclosure	(i) MRR as per RBI guidelines as a percentage of book value of assets securitized and outstanding on the date of disclosure	
		(ii) Actual retention as a percentage of book value of assets securitized and outstanding on the date of disclosure	

[18]This appendix will also be applicable to direct transfer of loans. For that purpose the world's 'securitised assets'/asset securitised' may be interpreted to mean 'loans directly transferred/assigned.' Banks should disclose/report the information in respect of securitization and direct transfers separately.

[19]These disclosures should be made separately for each securitisation transaction throughout the life of the transaction.

Sl. No	Nature of disclosure	Details	Amount / percentage/ years
		(iii) Types of retained exposure constituting MRR in percentage of book value of assets securitized (percentage of book value of assets securitized)[20]	
		a) Credit Enhancement (i.e. whether investment in equity/subordinate tranches, first/second loss guarantees, cash collateral, overcollateralization	
		b) Investment in senior tranches	
		c) Liquidity support	
		d) Any other (pl specify)	
		iv) Breaches, if any, and reasons therefore	
4	Credit quality of the underlying loans	(i) Distribution of overdue loans	
		a) Percentage of loans overdue upto 30 days	
		b) Percentage of loans between 31-60 days	
		c) Percentage of loans overdue more than 90 days	
		d) Percentage of loans overdue more than 90 days	
		(ii) Details of tangible security available for the portfolio of underlying loans (vehicles, mortgages, etc.)	
		a) Security 1 (to be named)(% loans covered)	
		b) Security 2……….	
		c) Security 'n'	
		(iii) extent of security cover available for the underlying	

		loans	
		a) Percentage of loans fully secured included in the pool (5)	
		b) Percentage of partly secured loans included in the pool (%)	

[20] this item is not relevant for direct transfer of loans, as there will be no credit enhancement, liquidity support and tranching.

	Nature of disclosure		Details	Amount / percentage/ years
5	Other characteristics of the loan pool	(i)	Industry-wise breakup of the loans in case of mixed pools (%)	
			Industry 1	
			Industry 2	
			Industry 3....	
			Industry n	
		(ii)	Geographical distribution of loan pools (state-wise) (%)	
			State 1	
			State 2	
			State 3	
			State 4	

Appendix 2

Disclosures to be made in Notes to Accounts by Banks

Sl. No.	**Particulars**	**No. / Amount In Rs. Crore**
1.	No. of SPVs sponsored by the bank for securitization transactions[21]	
2.	Total amount of securities assets as per books of the SPVs sponsored by the Bank	
3.	Total amount of exposures retained by the bank to comply with MRR as on the date of balance sheet	
	a. Off- Balance Sheet Exposures • First Loss • Others	
	b. Off- Balance Sheet Exposures • First Loss • Others	
4.	Amount of exposures to securitization transactions other than MRR.	
	a. Off- Balance Sheet Exposures **i.** Exposures to own securitisations • First Loss • Others **ii.** Exposure to third party securitisations • First Loss • Others	
	b. On Balance sheet exposures i. Exposures to own securitisations • First Loss • Others ii. Exposure to third party securitisations • First Loss • Others	

[21] Only the SPVs relating to outstanding securitization transactions may be reported here

31 CHANNEL FINANCE

[For financing dealers of Reputed Original Equipment Manufacturers]

31.1 With the intense competition among banks for credit deployment in diversified segments such as mid corporates, trade and SMEs, some banks have developed special loan products to leverage the relationship between the corporates and their dealers to deploy credit with short cycles. In this type of finance, taking advantage of the relationship between the dealers and the manufacturers, banks offer credit on terms which is affordable to the dealers, who are the channel participants. Banks select the channel participants in consultation with the manufacturers. Financing Channel Participants will broad base bank's exposure to several constituents and minimise the risk. This loan product has gained popularity as it serves the purpose of both the O.E. Manufacturers as well as dealers. While O.E. Manufacturers are benefited by getting funds in time for recycling and can concentrate on their core manufacturing activities without bothering about the realisation of their receivables, dealers are benefited by getting continuous supply of goods at cheaper terms, as upfront payment through channel financing entitles them for cash discount etc.

31.2 *Salient features of the Product "Channel Financing":*

Considering the potential available in this area of lending, a new product by name "Corp Channel Finance" (CHANL) has been formulated for introduction in the Bank. A chart on salient features of the Scheme and its operation is furnished in Annexure-I.

The salient features of the scheme are as follows:

31.2.1 Channel financing is an innovative product to extend working capital finance to dealers having business relationships with large original equipment manufacturers in India.

31.2.2 The facility will be extended by way of a bill-discounting limit. Three variants of the scheme are:

a. Clean Bill Discounting
b. Supply Bill Discounting
c. Hundi Discounting

31.2.3 Eligibility criteria for selection of O.E. Manufacturers / Dealers have been clearly spelt out. The scheme covers Reputed Original Equipment Manufacturers with satisfactory track record.

31.2.4 Quicker disbursement of loan to the dealers

31.2.5 Simple documentation by way of assignment over the payments such as security deposits, commission etc, from the manufacturers to the dealers and execution of the composite loan application/ agreement form in favour of the Bank. [On approval of the Scheme, same shall be drafted in consultation with the Legal Department].

31.2.6 No third party guarantee is required. However personal guarantee of the proprietor/ partners / directors of the dealer shall be taken.

31.2.7 The rate of interest offered shall be based on the gradation of the participants.

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32 GUIDELINES ON PURCHASING/ DISCOUNTING OF BILLS

32.1 Bills purchase/ discounting facilities which are self-liquidating in nature are to be allowed to the customers as a part of their working capital requirements.

32.2 The bills Purchase/discounting facility shall be decided on the basis of the holding of receivables projected by the customer. Normally, the usance period should not exceed 90 days in the case of domestic bills. However ZLCC/CLCC/ HLCC/ CAC may extend inland bills discounting limits in respect of bills having tenor upto 180 days.

32.3 Accommodation Bills should not be discounted. The underlying trade transactions should be clearly identified, and a proper record thereof should be maintained for the bills discounted.

32.4 Purchase/ discounting / negotiation of bills under LCs shall be done only in respect of genuine commercial and trade transactions of the borrower constituents who have been sanctioned with regular credit facilities by the Bank. **Therefore, fund based [including bills financing] or non-fund based facilities like opening of LCs providing guarantees and acceptances shall not to be extended to non-constituent borrower or/ and non-constituent member of a consortium/ multiple Banking arrangement.** However, in case where negotiation of bills drawn under LC is restricted to our Bank, and the beneficiary of the LC is not our Bank's constituent, such LC shall be negotiated, subject to the condition that the proceeds will be remitted to the regular Banker of the beneficiary.

32.5 Bills drawn under Prime Bank LCs may be negotiated, on `with recourse' or `without recourse' basis. However, Bank shall not purchase/ discount of other bills [the bills drawn otherwise than under LC] on `without recourse' basis.

32.6 Bills rediscounting shall be restricted to usance bills held by other banks. Bills earlier discounted by NBFCs except in respect of bills arising from sale of light commercial vehicles and two/ three wheelers are not to be re-discounted.

32.7 In order to promote payment discipline which would to a certain extent encourage acceptance of bills, all corporates and other constituent borrowers having turnover above Rs.10 Crore should disclose `ageing schedule' of their overdue receivables in their monthly statement of book-debts submitted by them.

32.8 No Repo transactions using bills discounted/ re-discounted as collateral shall be entered into by the Bank.

32.9 Advance against supply bills will be allowed only in respect of genuine transactions with the government departments/ semi-government departments/ public sector undertakings and that too in cases where proper irrevocable power of attorney is registered in favour of the Bank. The Supply Bills will invariably be accompanied by Inspection Note/ Delivery Note or Receipted Challan which should be not older than two weeks and the same must show unqualified acceptance of goods by the drawee concerned.

32.10 Normally, Bills arising out of purchase/ sale of goods shall only be purchased/ discounted. In exceptional cases, ZLCC/CLCC/HLCC/CAC may sanction facility for purchase/ discount of bills emanating from service transactions. However, while discounting such bills, it should be ensured that actual services are rendered and accommodation bills are not discounted.

32.11 Only bills covering purchase of raw material/ inventory for production purpose and sale of goods should be discounted. Bills covering payments of electricity charges, customs duty, hire purchase/ lease rental installments, sale of securities and other types of financial accommodation should not be discounted.

32.12 <u>Delegation of Powers</u>

32.12.1 The delegatees shall purchase/ discount bills only of the customers who are having regular working capital limits. In other words, no bill shall be purchased/ discounted for customers who are not enjoying regular working capital limits and having only current account. However, such facilities may be extended upon the sanction of regular credit limits after due appraisal/ assessment.

32.12.2 The delegatees shall negotiate bills drawn under LC if negotiation is restricted to our Bank even though the beneficiary of the LC is not a constituent of our Bank.

32.12.3 The delegatees shall purchase/ discount bills of the customers within their delegated powers as laid down in Scheme of Delegation of Lending Powers

32.12.4 HLCC/ CAC shall exercise its lending powers for purchase/ discounting of bills drawn on the associates/ sister concern of the borrower and that too on being satisfied that there is an underlying genuine trade transaction.

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33 PRUDENTIAL NORMS ON CREATION AND UTILISATION OF FLOATING PROVISIONS

33.1 Floating Provision may be created with the approval of the Board, which can be used only for contingency under extra ordinary circumstances, for making specific provisions in impaired accounts, with the approval of Board and prior permission of RBI.

33.2 The extra ordinary circumstances refer to losses which do not arise in the normal course of Business and are exceptional and non-recurring in nature.

33.3 These extra-ordinary circumstances are of three categories, viz., General, Market and Credit.

- Under General category, there can be situations where the Bank is put to loss, unexpectedly, due to events such as civil unrest or collapse of currency in a country, natural calamities and pandemics.
- Market category would include events such as general melt down in the market, which affects the entire financial system.
- Among the Credit category, only exceptional credit losses would be considered.

33.4 Floating provision shall be held for advances and investments separately.

33.5 The Floating Provision shall not be used for making specific provisions as per the extant prudential guidelines in respect of non-performing assets or for making regulatory provisions for standard assets.

33.6 Floating provision shall not be reversed by credit to profit and loss account. These provisions shall be utilized for making specific provisions in extra-ordinary circumstances as mentioned above.

33.7 However, these provisions shall be netted off from gross NPAs to arrive at disclosure of Net NPAs. The aggregate quantum of such floating provisions shall not exceed 1.25% of the total risk weighted assets.

33.8 A comprehensive disclosure on floating provisions shall be made in the Notes on Accounts to the Balance Sheet.

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34 GUIDELINES ON FINANCING CREDIT CARD RECEIVABLES

34.1 Guidelines enunciated to finance credit card receivables. Credit Card Receivable Financing is an innovative system of funding, designed for all segments of borrowers. It is a finance option available for merchant establishments that use credit card Point of Sales (POS) machines for their daily business transactions. With this product, a merchant with a POS machine can avail of either a **Business Loan or an Overdraft Facility** on the basis of **the yearly sales** that takes place on his credit card POS machine.

34.2 **Facility:** A unique new facility against Credit Card Receivables may be granted for loans upto Rs.100 Crore as a Business Loan or have the flexibility to have some portion of the facility as an overdraft.

34.3 Pre-requisite conditions for sanction of finance against credit card receivables:

The constituents:

i. shall be the Sole Proprietorship / Partnership firm/ Limited Liability Partnership firms/ Trusts/ Private Limited Company / Public Limited Company subject to the entry level exposure ceilings prescribed under the group credit policy. Loans under this facility shall not be granted in the name of individuals;

ii. shall have a minimum credit card sales of Rs.25 lakhs per annum;

iii. shall provide 24 months credit-card statement duly certified by POS Machine suppliers/their bankers;

iv. shall declare net Profit for the last two years;

v. shall be in existence for at least 3 years;

vi. the premises from where the business is being carried out shall be either owned by the firm or under long term lease and such business property shall normally be taken as collateral security by way of EMG. In exceptional and deserving cases considering the value and strength of the account, reputation of the borrower and net worth, Executive Director MD & CEO may waive the stipulation of creation of EMG;

vii. shall install POS machines of our Bank only;

viii. Credit card receivables shall not form part of the security for the working capital limits availed by the firm from other banks and a confirmation/ NOC to this effect shall be obtained.

34.4 The quantum of loan shall be restricted to Rs.100 Crore or five times of their annual credit card sales discounted at the proposed rate of interest with a minimum margin of 10%.

34.5 The proceeds of the loan shall be utilized for business purpose only and the purpose shall be ascertained before entertaining the proposals. The branch shall ensure end use of funds.

34.6 The credit card collections shall be escrowed and monthly EMIs shall be deducted promptly on the due date. The excess collections made over and above the EMIs shall be allowed to be withdrawn by the borrower. The possibilities of having DSRA for servicing 3 monthly EMI be explored.

34.7 HLCC/ CAC shall have the power to deviate from any of the above terms.

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35 REVIVAL AND REHABILITATION OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

35.1 **Eligibility**: The provisions made in this framework shall be applicable to MSMEs having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangements (MBA).

35.2 Identification **of incipient stress**:

35.2.1 Identification by banks or creditors – Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below:

SMA Sub-categories Basis for classification

Sub Categories	Definition
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient Stress (Please see Annex - I)
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

On the basis of the above early warning signals, the branch maintaining the account should consider forwarding the stressed accounts with aggregate loan limits above Rs.10 lakh to the Committee as referred in para 3.3 within five working days for a suitable corrective action plan (CAP). Forwarding the account to the Committee for CAP will be mandatory in cases of accounts reported as SMA-2.

35.2.2 As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch manager/ OR such other official designated by the Branch Manager (hereinafter referred to as 'designated official'). Other terms and conditions, such as time limits, procedures to be followed, etc., as applicable to the cases referred to the Committee as referred in para 3.3, should be followed by the branch manager / designated official. However, the cases, where the branch manager / designated official has decided the option of recovery under CAP instead of rectification or restructuring as mentioned in para 5.3 (a) or (b), should be referred to the Committee at Zonal office for their concurrence. The branch manager / designated official should also examine the accounts reported as SMA-0 and SMA-1, if it is deemed necessary. All decision with respect to revival framework should be minutised and made available for verification.

35.2.3 Identification by the Borrower Enterprise - Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year, by making an application to the branch or directly to the Committee as referred in para 3.3, wherever applicable.. When such a request is received by lender, the account with aggregate loan limits above Rs.10 lakh should be referred to the Committee. The Committee should convene its meeting at the earliest but not later than five working days from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit up to Rs.10 lakh are to be dealt with by the branch manager / designated official for a suitable CAP.

35.3 Committees for Stressed Micro, Small and Medium Enterprises:

In order to enable faster resolution of stress in an MSME account, bank shall form Committees for Stressed Micro, Small and Medium Enterprises as per the following arrangements:

35.3.1 A Committee shall be constituted at each Zonal/Circle office level in the form of Standing Committee for resolving the reported stress of MSME accounts of the branches falling under their jurisdiction.

35.3.2 For MSME borrowers having credit facilities under a consortium of banks or multiple banking arrangement (MBA), the consortium leader, or the bank having the largest exposure to the borrower under MBA, as the case may be, shall refer the case to its Committee, if the account is reported as stressed either by the borrower or any of the lenders under this Framework. This Committee will also coordinate between the different lenders.

35.3.3 The Composition of the Committee at Zonal /Circle Offices:

(a) The Zonal/Circle Head shall be the Chairperson of the Committee;
(b) Officer-in-charge of credit department/CCPC at the zonal /Circle office, shall be the member and convener of the Committee;
(c) One independent external expert with expertise in Micro, Small and Medium Enterprises related matters to be nominated by Zonal office/Circle Office.
(d) One representative from the concerned State Government. Endeavour should be made to bring representative from the respective State Government in the Committee. In case State Government does not nominate any member, then the convening bank

should proceed to include an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above.

(e) When handling accounts under consortium or MBA, senior representatives of all banks / lenders having exposure to the borrower.

35.3.4 As narrated above in point No. 3.3, The Zonal/Circle Head shall be chairperson and Officer in charge of credit department/CCPC shall be the member & convener of the committee. With regard to nomination of other members, the manner of filling vacancies and the procedure to the be followed in the discharge of the committee, following norms shall be strictly adhered to; Independent external expert to be nominated by ZO/CO, may be a Zonal Head/CCPC in charge of nearby Zonal Office [for CO sanctions] or Branch head in the rank of Chief Manager [for ZO sanctions] and above other than the one who referred the case to the committee. In case State Government does not nominate any member, then the ZO/CO may include independent expert in the committee, namely a retired executive of another bank of the rank of AGM and above. The remuneration payable to such retired executive of the bank may be fixed on consolidated basis at Rs. 1000/- [Rupees One thousand only] per sitting. The expenditure may be debited to the miscellaneous expenses under General charges.

The term of such nominee in the committee may be fixed at one year. Zonal/Circle Head shall issue a letter of nomination to the concerned person. The meeting of committee shall be convened on any convenient day so as to dispose the application under Revival framework as per the time norms stipulated.The notice of such meeting should be conveyed to the members well in advance along with agenda note.Minutes of the meeting shall be minutised and made available for verification.

Decisions of the Committee will be by simple majority, the Chairperson shall have the casting vote, in case of a tie. In case of accounts under consortium / MBA, lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement.

35.3.5 All eligible stressed MSMEs shall have access to the Committee for resolving the stress in these accounts in accordance with regulations prescribed in this Framework.

35.3.6 Provided that where the Committee decides that recovery is to be made as part of the CAP, the manner and method of recovery shall be in accordance with the existing policy approved by the board, subject to any regulations prescribed by the Reserve Bank of India and extant statutory requirements.

35.4 Application to the Committee for a Corrective Action Plan

On identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, branch shall forward the cases having aggregate loan limits above Rs.10 lakh to the Committee at zonal office for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs.10 lakh can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders. RBI has advised The Indian Banks' Association (IBA) to prescribe suitable application formats for aggregate loan limits above Rs.10 lakh, for this purpose. Same is taken up with IBA and on receipt of communication same will be sent to all the branches.

35.4.1 Along with application enterprises should include the following:

(a) Latest audited accounts of the Enterprise including its Net worth;

(b) Details of all liabilities of the enterprise, including the liabilities owed to the State or Central Government and unsecured creditors, if any;

(c) Nature of stress faced by the Enterprise; and

(d) Suggested remedial actions

RBI has also advised The Indian Banks' Association (IBA) to prescribe suitable formats for aggregate loan limits up to Rs.10 lakh also. Upon receipt of the same communication will be sent to all the branches.

35.4.2 Where an application is filed by a bank / lender and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within five working days and require the enterprise to:

(a) respond to the application or make a representation before the Committee; and

(b) disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any, within fifteen working days of receipt of such notice;

Provided that if the enterprise does not respond within the above period, the Committee may proceed ex-parte.

35.4.3 On receipt of information relating to the liabilities of the enterprise, the Committee may send notice to such statutory creditors as disclosed by the enterprise as it may deem fit, informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within fifteen working days of receipt of such notice. It is mentioned here that these information are required for determining the total liability of the Enterprise in order to arrive at a suitable CAP and not for payments of the same by the lenders.

35.4.4 Within 30 days of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan as given in subsequent paragraphs and notify the enterprise about such a decision, within five working days from the date of such decision.

35.4.5 If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study (also refer para 5.1) and finalise the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within 20 working days (for accounts having aggregate exposure up to Rs.10 crore) and within 30 working days (for accounts having aggregate exposure above Rs.10 crore and up to Rs.25 crore) and notify the enterprise about such terms, within five working days.

35.4.6 Upon finalisation of the terms of the corrective action plan, the implementation of that plan shall be completed by the bank within 30 days (if the CAP is Rectification) and within 90 days (if the CAP is restructuring). In case recovery is considered as CAP, the recovery measures should be initiated at the earliest.

35.4.7 Where an application has been admitted by the Committee in respect of an MSME, the enterprise shall continue to perform contracts essential to its survival but the Committee may impose such restrictions, as it may deem fit, for future revival of the enterprise.

35.4.8 The Committee shall make suitable provisions for payment of tax or any other statutory dues in the corrective action plan and the enterprise shall take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval of such payment plan.

35.5 Corrective Action Plan by the Committee

35.5.1 The Committee may explore various options to resolve the stress in the account. The Committee shall not endeavour to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. While Techno-Economic viability of each account is to be decided by the concerned lender/s before considering restructuring as CAPs, for accounts with aggregate exposure of Rs.10 crore and above, the Committee should conduct a detailed Techno-Economic Viability study before finalising the CAP.

35.5.2 During the period of operation of CAP, the enterprise shall be allowed to avail both secured and unsecured credit for its business operations as envisaged under the terms of CAP.

35.5.3 The options under CAP by the Committee may include:

(a) **Rectification**:– Obtaining a commitment, specifying actions and timelines, from the borrower to regularise the account so that the account comes out of Special Mention Account status or does not slip into the Non-Performing Asset category and the commitment should be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. The rectification process should primarily be borrower driven. However, the Committee may also consider providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. It should however be ensured that this need based additional finance is intended only for meeting, in exceptional cases, unavoidable increased working capital requirement. In all cases of additional finance for working capital, any diversion of funds will render the account as NPA. Further, such additional finance should ordinarily be an ad-hoc facility to be repaid or regularised within a maximum period of six months. Additional finance for any other purpose, as also any roll-over of existing facilities, or funding not in compliance with the above conditions, will tantamount to restructuring. Further, repeated rectification with funding, within the space of one year, will be treated as a restructuring and no additional finance should be sanctioned under CAP, in cases where the account has been reported as fraud by any lender.

(b) **Restructuring**:– Consider the possibility of restructuring the account, if it is prima facie viable and the borrower is not a wilful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc. Commitment from promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the Committee. Any deviation from the commitment by the borrowers affecting the security or recoverability of the loan may be treated as a valid factor for initiating recovery process. The lenders in the Committee may sign an Inter-Creditor Agreement and also require the borrower to sign the Debtor-Creditor Agreement which would provide the legal basis for any restructuring process. RBI has advised The IBA to prepare formats for this purpose on the lines of formats used by the Corporate Debt Restructuring mechanism for Inter-Creditor Agreement and Debtor-Creditor Agreement. Further, a stand-still clause (as defined in extant guidelines on Restructuring of Advances) may be stipulated in the Debtor-Creditor Agreement to enable a smooth process of restructuring. The stand-still clause does not mean that the borrower is precluded from making payments to the lenders. The Inter-Creditor Agreement may also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(c) **Recovery**:– Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The Committee may decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimizing the efforts and results.

35.6 The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of the Inter-Creditor Agreement. If the Committee decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws or Acts shall be applicable.

35.7 Time-lines

Detailed time-lines are given for carrying out various activities under the Framework. If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package. However, they should not wait beyond this period and proceed with CAP.

35.8 Additional Finance

35.8.1 If the Committee decides that the enterprise requires financial resources to restructure or revive, it may draw up a plan for provision of such finance. Any additional finance should be matched by contribution by the promoters in appropriate proportion, and this should not be less than the proportion at the time of original sanction of loans. Additional funding provided under restructuring / rectification as part of the CAP will have priority in repayment over repayment of existing debts. Therefore, instalments of the additional funding which fall due for repayment will have priority over the repayment obligations of the existing debt.

35.8.2 If the existing promoters are not in a position to bring in additional funds the Committee may allow the enterprise to raise secured or unsecured loans.

35.8.3 Provided further, that the Committee may, with the consent of all creditors recognized, provide such loans higher priority than any existing debt.

35.9 If the Committee decides on options of either 'Rectification' or 'Restructuring', but the account fails to perform as per the agreed terms under these options, the Committee shall initiate recovery under option 5.3(c).

35.10 Restructuring by the Committee

35.10.1 Eligibility

(a) Restructuring cases shall be taken up by the Committee only in respect of assets reported as Standard, Special Mention Account or Sub-Standard by one or more lenders of the Committee.

(b) However, the Committee may consider restructuring of the debt, where the account is doubtful with one or two lender/s but it is Standard or Sub-Standard in the books of majority of other lenders (by value).

(c) Wilful defaulters shall not be eligible for restructuring. However, the Committee may review the reasons for classification of the borrower as a wilful defaulter and satisfy itself that the borrower is in a position to rectify the wilful default. The decision to restructure such cases shall have the approval of the Board of concerned bank within the Committee who has classified the borrower as wilful defaulter.

(d) Cases of Frauds and Malfeasance remain ineligible for restructuring. However, in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters / management, banks and the Committee may take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters / management. Further, such accounts may also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines already communicated to branches in terms of RBI circular DBR.BP.BC.No.41/21.04.048/2015-16 dated September 24, 2015 on "Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)".

(e) Existing guidelines on restructuring of assets shall be followed for such accounts.

35.10.2 Viability

(a) The viability of the account shall be determined by the Committee based on acceptable viability benchmarks determined by them.

(b) The parameters may, inter-alia, include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity or Current Ratio, etc.

35.10.3 Conditions relating to Restructuring under the Framework

Under this Framework, the restructuring package shall stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios after a period of 6 months may be achieved.

(b) The Committee shall periodically review the account for achievement / non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.

(c) Any restructuring under this Framework shall be completed within the specified time periods.

(d) The Committee shall optimally utilize the specified time periods so that the aggregate time limit is not breached under any mode of restructuring.

(e) If the Committee takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilize the saved time for other activities provided the aggregate time limit is not breached.

(f) The general principle of restructuring shall be that the stakeholders bear the first loss of the enterprise rather than the lenders. In the case of a company, the Committee may consider the following options, when a loan is restructured:

(i) Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
(ii) Promoters infusing more equity into their companies;

(iii) Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of enterprise to enable a change in management control, if lenders favour it.

(g) In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets may be stipulated as a condition for restructuring the account, if under the Techno-Economic Viability study, the account is likely to become viable on hiving off of non-core activities and other assets.

(h) For restructuring of dues in respect of listed companies, lenders may be, ab-initio, compensated for their loss or sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront, subject to the extant regulations and statutory requirements.

(i) If the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall.

(j) In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the Committee may consider various options, such as:

(i) prior agreement in the Inter-Creditor Agreement among the above classes of lenders regarding repayments;

(ii) a structured agreement stipulating priority of secured creditors;

(iii) appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

(k) The Committee shall, on request by the enterprise or any creditor recognised under paragraph 4.3, provide information relating to the proceeding as requested by the enterprise or such creditor.

35.10.4 Prudential Norms on Asset Classification and Provisioning

The extant asset classification and provisioning norms will be applicable for restructuring of accounts under this Framework.

35.11 Review

(a) In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of ten working days from the date of receipt of the decision of the Committee.

(b) The request for review shall be on the following grounds:

(i) a mistake or error apparent on the face of the record; or

(ii) discovery of new and relevant fact or information which could not be produced before the Committee earlier despite the exercise of due diligence by the enterprise.

(c) A review application shall be decided by the Committee within a period of thirty days from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan, it may do so.

SMA-0 - Signs of Stress

Illustrative list of signs of stress for categorising an account as SMA-0:

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.

2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose; or drop in internal risk rating by 2 or more notches in a single review.

3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.

4. Devolvement of Deferred Payment Guarantee (DPG) instalments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.

5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.

6. Increase in frequency of overdrafts in current accounts.
7. The borrower reporting stress in the business and financials.
8. Promoter(s) pledging/selling their shares in the borrower company due to financial stress.

36 RESTRUCTURING OF BORROWAL ACCOUNTS

36.1 INTRODUCTION

36.1.1 Occasions do arise when the borrowers are unable to meet the stipulated repayment schedule due to various business reasons. Many a times, even the interest charged in the accounts may not get recovered. In respect of new projects under implementation (even in expansion projects), a delay in completion of the project can result in inability of the borrowers in meeting their repayment schedules. Under all the above circumstances, the accounts go out of order in the normal course and pro-active measures are to be initiated to appropriately restructure the accounts. Therefore, there is a need to ensure that restructuring proposals are submitted by branches to appropriate authorities for sanction well in time so as to implement corrective measures without any delay.

36.1.2 Restructuring of advances on account of natural calamities will come under the purview of separate set of guidelines issued by the Rural Planning and Credit Department (RPCD) of the RBI

36.2 Prudential guidelines on restructuring of advances by banks:

RBI has issued fresh guidelines on restructuring of advances by banks vide their circular issued in the year 2008. The same is incorporated in its master circular on 'Prudential Guidelines on Income Recognition, Asset Classification and provisioning pertaining to advances'.

36.3 Eligibility criteria for restructuring of advances

36.3.1 Bank may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories.

36.3.2 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the bank in deserving cases subject to customer agreeing to the terms and conditions.

36.3.3 No account will be taken up for restructuring by the bank unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. The viability should be determined by the bank based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters may include the Return on Capital Employed, Debt Service Coverage Ratio, Gap

between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. The accounts not considered viable should not be restructured and bank should accelerate the recovery measures in respect of such accounts. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by bank would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns / action.

36.3.4 While the borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring, bank may review the reasons for classification of the borrowers as willful defaulters specially in old cases where the manner of classification of a borrower as a willful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the willful default. The restructuring of such cases may be done with Board's approval, while for such accounts the restructuring under the CDR Mechanism may be carried out with the approval of the Core Group only.

Cases of Frauds and Malfeasance remain ineligible for restructuring. However, in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters / management, banks and the Committee may take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters / management. Further, such accounts may also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines already communicated to branches in terms of RBI circular DBR.BP.BC.No.41/21.04.048/2015-16 dated September 24, 2015 on “Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)”.

36.3.5 BIFR cases are not eligible for restructuring without their express approval. CDR Core Group in the case of advances restructured under CDR Mechanism / the lead bank in the case of SME Debt Restructuring Mechanism and the individual banks in other cases, may consider the proposals for restructuring in such cases, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

Henceforth, the following General Conditions would be applicable in all cases of restructuring in addition to General Conditions already mentioned

i. All restructuring packages will be required to be implemented in a time bound manner. All restructuring packages under CDR/JLF/Consortium/MBA arrangement should be implemented within 90 days from the date of approval. Other restructuring

packages should be implemented within 120 days from the date of receipt of application by the bank.

ii. Promoters must bring additional funds in all cases of restructuring. Additional funds brought by promoters should be a minimum of 2 percent of banks' sacrifice or 2 per cent of the restructured debt, whichever is higher. The promoters' contribution should invariably be brought upfront while extending the restructuring benefits to the borrowers. Promoter's contribution need not necessarily be brought in cash and can be brought in the form of conversion of unsecured loan from the promoters into equity;

iii. Banks should determine a reasonable time period during which the account is likely to become viable, based on the cash flow and the Techno Economic Viability (TEV) study;

iv. Banks should be satisfied that the post restructuring repayment period is reasonable, and commensurate with the estimated cash flows and required DSCR in the account as per their own Board approved policy.

v. Each bank should clearly document its own due diligence done in assessing the TEV and the viability of the assumptions underlying

36.4 Incentive for quick implementation of the restructuring package

During the pendency of the application for restructuring of the advances with the bank, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application for restructure is under consideration. However, the incentive for quick implementation of the restructuring package in non CDR cases would be available if the approved package is implemented by the Bank within 120 days from the date of receipt of application from the earlier 90 days and there is no change in the time period as regards to CDR mechanism. In other words, time line for implementation would be 120 days for both CDR & Non CDR cases.

36.5 Asset classification benefits

36.5.1 An existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

36.5.2 However, these benefits will be available subject to compliance with the following conditions:

36.5.2.1 The dues to the bank are fully secured as defined. The condition of being fully secured by tangible security will not be applicable in the following cases:

i. SSI borrowers, where the outstanding is upto Rs.25 lakh.

ii. Infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing bank(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.

36.5.2.2 The unit becomes viable in 8 years, if it is engaged in infrastructure activities, and in 5 years in the case of other units.

36.5.2.3 The **repayment period** of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances. In case of restructured home loans, the maximum repayment period shall be as approved by the Board from time to time.

36.5.2.4 Promoter's sacrifice and additional funds brought by them should be a minimum of 20 per cent of banks' sacrifice or 2 per cent of the restructured debt, whichever is higher. The term 'bank's sacrifice' means the amount of erosion in the fair value of the advance, to be computed as per the methodology enumerated in the circulars issued by the Credit Division from time to time.

36.5.2.5 The promoter's sacrifice and additional funds required to be brought in by the promoters should generally be brought in upfront. However, if bank is convinced that the promoters face genuine difficulty in bringing their share of the sacrifice immediately and need some extension of time to fulfil their commitments, the promoters could be allowed to bring in 50% of their sacrifice, i.e. 50% of 20% of banks' sacrifice or 2% of the restructured debt, whichever is higher, upfront and the balance within a period of one year.

36.5.2.6 Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry. Corporate guarantee shall not be accepted as a substitute for promoter’s personal guarantee.

36.5.2.7 The restructuring under consideration is not a repeated restructuring. When a bank restructures an account a second (or more) time(s), the account will be considered as a repeatedly restructured account.

However, if the second restructuring takes place after the period upto which the concessions were extended under the term of the restructuring, that account shall not be reckoned as a repeatedly restructured account.

In case of rollover of short term loans where proper pre-sanction assessment has been made, and the roll-over is allowed based on the actual requirement of the borrower and no concession has been provided due to credit weakness of the borrower, then these might not be considered as restructured accounts. However, if such accounts are rolled-over more than 2 times, then third rollover onwards the account would have to be treated as a restructured account.

36.5.3 During the specified period, the asset classification of the sub-standard/doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period. These accounts would be eligible for upgradation to standard category after observation of satisfactory performance during the specified period.

36.5.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

36.5.4.1 The term **'Specified Period'** as per RBI guidelines shall be a period of one year from the commencement of first payment of interest or principal whichever is later, on the credit facility with the longest period of moratorium under the terms of restructuring package.

36.5.4.2 The term **'Satisfactory Performance'** as per RBI guidelines shall be satisfactory performance during the specified period means adherence to the following conditions during that period.

i. **Non-Agricultural Cash Credit Accounts**
In the case of non-agricultural cash credit accounts, the account should not be out of order any time during the specified period, for duration of more than 90 days / 180 days as applicable to Tier I and Tier II UCBs respectively. In addition, there should not be any overdues at the end of the specified period.

ii. **Non-Agricultural Term Loan Accounts**
In the case of non-agricultural term loan accounts, no payment should remain overdue for a period of more than 90 days. In addition there should not be any overdues at the end of the specified period.

iii. **All Agricultural Accounts**
In the case of agricultural accounts, at the end of the specified period the account should be regular.

36.5.5 Provisions on Restructured Standard Accounts:

36.5.5.1 Provision on Restructured Standard Accounts shall be 5.00% in respect of all new restructured accounts with effect from 01.06.2013.

36.5.5.2 Provision on Restructured Standard Accounts shall be in a phased manner for the existing restructured accounts. Provision on existing restructured advances shall be 2.75% by 01.06.2013 and it shall go upto 3.50% by 31.03.2014 & 4.25% by 31.03.2015 & 5.00% by 31.03.2016.

36.5.6 The Bank shall decide on the issue regarding convertibility (into equity) option as a part of restructuring exercise whereby the bank shall have the right to convert a portion of the restructured amount into equity, keeping in view the statutory requirement under section 19 of the Banking Regulation Act, 1949 and relevant SEBI regulations.

36.5.6.1 Conversion of debt into preference shares shall be done only as a last resort and such conversion of debt into equity/ preference shares shall, in any case, be restricted to a cap (say 10 percent of the restructured debt). Further any conversion of debt into equity shall be done only in case of listed companies.

36.5.6.2 The detailed guidelines on conversion of debt into preference shares, the master circular on Income Recognition and Asset Classification Norms by RBI, may be referred.

36.5.7 All restructuring packages must incorporate **'Right to Recompense'** clause and in any case minimum 75 percent of the recompense amount should be recovered by the bank and in cases where some facility under restructuring has been extended below base rate, 100% of the recompense amount should be recovered.

36.6 In line with the recommendation of the Working Group (Chairman: Shri B. Mahapatra) to review the existing prudential guidelines on restructuring of advances by banks/ Financial Institutions, the extant incentive for quick implementation of restructuring package and asset classification benefits (Para No. 36.6 & 36.5 above) available on restructuring will however be withdrawn for all restructurings effective from April 1, 2015 with the exception of provisions related to changes in DCCO (Date of Commencement of Commercial Operations) in respect of infrastructure as well as non-infrastructure project loans (Refer Para 36.8 and 36.9). It implies that **with effect from April 1, 2015**, a standard account on restructuring (for reasons other than change in DCCO) would be immediately classified as sub-standard on restructuring as also the non-performing assets, upon restructuring would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per the extant asset classification norms of the RBI with reference to the pre-restructuring repayment schedule.

36.7 Project Loans for Infrastructure Sector:

36.7.1 A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of Para 36.8.3 to 36.8.5 below.

36.7.2 A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of Para 36.8.3 to 36.8.5 below.

36.7.3 If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original date of commencement of commercial operations (DCCO), in accordance with the provisions of Part B of this Master Circular, it can be retained as a standard asset if the fresh DCCO is fixed within the following limits, and further provided the account continues to be serviced as per the restructured terms.

(a) Infrastructure Projects involving court cases
Up to another 2 years (beyond the existing extended period of 2 years, as prescribed in Para 36.8.2, i.e. total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

(b) Infrastructure Projects delayed for other reasons beyond the control of promoters
Up to another 1 year (beyond the existing extended period of 2 years, as prescribed in Para (36.8.2), i.e. total extension of 3 years), in other than court cases.

36.7.4 It is re-iterated that the dispensation in Para 36.8.3 is subject to adherence to the provisions regarding restructuring of accounts as contained in the Master Circular of RBI which would inter alia require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be:

a. In cases where there is moratorium for payment of interest, banks should not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.

b. Banks should maintain following provisions on such accounts as long as these are classified as standard assets in addition to provision for diminution in fair value:

Particulars	Provisioning Requirement
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond two years and upto four years or three years from the original DCCO, as the case may be, depending upon the reasons for such delay	Project loans restructured with effect from June 1, 2013: 5.00 per cent – From the date of such restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later. Stock of project loans classified as restructured as on June 1, 2013: * 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14) * 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15) * 5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16) The above provisions will be applicable from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.

36.7.5 For the purpose of these guidelines, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of two years from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respect, they will attract standard asset provision of 0.40 per cent.

36.7.6 In case of infrastructure projects under implementation, where Appointed Date (as defined in the concession agreement) is shifted due to the inability of the Concession Authority to comply with the requisite conditions, change in date of commencement of commercial operations (DCCO) need not be treated as 'restructuring', subject to following conditions:

a) The project is an infrastructure project under public private partnership model awarded by a public authority;
b) The loan disbursement is yet to begin;
c) The revised date of commencement of commercial operations is documented by way of a supplementary agreement between the borrower and lender and;
d) Project viability has been reassessed and sanction from appropriate authority has been obtained at the time of supplementary agreement.

36.8 <u>Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)</u>

36.8.1 A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of Para (36.9.3) to (36.9.5) below.

36.8.2 A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within one year from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of Para (36.9.3) to (36.9.5) below.

36.8.3 In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of one year from the date of completion as determined at the time of financial closure, banks can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts in accordance with the provisions contained in this Master Circular, provided the fresh DCCO does not extend beyond a period of two years from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of one year from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be:

d. In cases where there is moratorium for payment of interest, banks should not book income on accrual basis beyond one year from the original DCCO, considering the high risk involved in such restructured accounts.

e. Banks should maintain following provisions on such accounts as long as these are classified as standard assets apart from provision for diminution in fair value due to extention of DCCO:

Particulars	Provisioning Requirement
If the revised DCCO is within two years from the original DCCO prescribed at the time of financial closure	0.40 per cent
If the DCCO is extended beyond one years and upto two years from the original DCCO prescribed at the time of financial closure.	Project loans restructured with effect from June 1, 2013: 5.00 per cent – From the date of restructuring for two years. Stock of project loans classified as restructured as on June 1, 2013: * 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14) * 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15) * 5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16) The above provisions will be applicable from the date of restructuring for 2 years.

36.8.4 For the purpose of these guidelines, mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO. In such cases the consequential shift in repayment period by equal or shorter duration (including the start date and end date of revised repayment schedule) than the extension of DCCO would also not be considered as restructuring provided all other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respect, they will attract standard asset provision of 0.4 per cent.

36.9 <u>Other Issues:</u>

36.9.1 Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if:

a) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.

b) The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.

c) The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO.

d) On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

36.9.2 Project Loans for Commercial Real Estate

It has been represented that commercial real estate (CRE) projects also face problems of delays in achieving the DCCO for extraneous reasons. Therefore, it has been decided that for CRE projects mere extension of DCCO would not be considered as restructuring, if the revised DCCO falls within the period of one year from the original DCCO and there is no change in other terms and conditions except possible shift of the repayment schedule and servicing of the loan by equal or shorter duration compared to the period by which DCCO has been extended. Such CRE project loans will be treated as standard assets in all respects for this purpose without attracting the higher provisioning applicable for restructured standard assets. However, as stated in paragraph no. 36.4, 36.5 and 36.6 above, the asset classification benefit would not be available to CRE projects if they are restructured.

36.9.3 In all the above cases of restructuring where regulatory forbearance has been extended, the Board shall satisfy itself about the viability of the project and the restructuring plan.

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37 FIXED RATE LOAN GUIDELINES

Subsequent to the RBI permitting banks to offer Fixed Rate Loans (FRLs) in its Monetary Policy for the year 1999-2000 subject to conformity to Asset- Liability Management guidelines, the Bank had introduced the Fixed Rate Loan Policy incorporating the following terms and conditions:

37.1 Fixed Rate shall be offered only in the case of term loans with the maximum tenor of 10 years.

37.2 The maximum ceiling for the quantum of loan per borrower shall be decided by the sanctioning authority. However, prudential individual exposure ceilings continue to be applicable as per extant guidelines.

37.3 The term loan proposals involving Fixed Rate of Interest shall be considered only by the HLCC/ CAC.

37.4 The Fixed Rate loan shall be considered only for borrowers conforming to the top 4 borrower gradations, i.e. CB1 to CB4.

37.4.1 In case of down gradation of the internal/ external rating of the borrower, review of interest rate shall be carried out.

37.5 Reset clause shall generally be up to 1 year. However, in justifiable and deserving cases the reset clause in Sole Banking Arrangements may be for a maximum period of 2 years or till Commercial Operational Date [COD] whichever is earlier. In Consortium and Multiple Banking Arrangements the reset clause may be in line with the leader/ member banks.

37.6 In case the borrower wants to move from fixed rate to floating rate, a conversion/ switch over charge of 0.50% of the outstanding balance shall be charged.

37.7 The total outstanding liability under Fixed Rate loans above one year shall be restricted to 12% of Net Bank Credit as at the end of each previous year. The unsecured advances shall not exceed 3% of the NBC.

37.8 The fixed rate loans shall be utilized to increase/ build-up of quality assets and considered only when demanded by the borrower client and on a selective basis.

37.9 The overall ceiling for Fixed Rate Loans is capped at 12% of the NBC subject to a quarterly review by CPPS, Credit Division at HO. The details of fixed rate loans sanctioned shall be furnished to ALCO by the sanctioning division at periodic intervals.

37.10 Fixed Rate shall not be less than the Base Rate at the time of lending as well as at the time of reset.

37.10.1 Sanctioning Division shall ensure that reset is done before the due date and suitable changes are made in the CORE system confirmation of which shall be dealt in quarterly review report.

37.11 The guidelines for fixed rate loans shall also be applicable for the Inter Bank Participation Certificates (IBPCs) except for point no. (38.4) & (38.6).

37.11.1 However, these guidelines shall not be applicable to Corp Schemes.

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38 FAIR PRACTICES CODE FOR LENDING

38.1 PREAMBLE:

In the backdrop of present economic scenario, competitive environment, financial sector reforms and the need for transparency in the field of lending by banks/financial institutions and as per guidelines issued by Reserve Bank of India, Corporation Bank (hereinafter called `The Bank') hereby adopts this Fair Practices Code containing general principles of fair practices to be followed by the Bank.

This Fair Practices Code consists of general guidelines on fair practices on lending including processing of loan applications, appraisal of loan proposals, disbursement of loan, post-disbursement supervision and other general terms and conditions to be followed by the Bank.

38.2 FAIR PRACTICES:

Following is the Code of Fair Practices of the Bank:

38.2.1 Processing of loan applications:

38.2.1.1 The Bank shall provide comprehensive information including information about fees and charges and amount of such fees refundable in case of non-acceptance of application as per the details, more fully described in the guidelines issued in this regard from time to time, to all categories of loans irrespective of amount of the loan sought by the borrower.

38.2.1.2 The Bank shall provide details of prepayment options, if any/applicable, and any other matters which affect the interest of the borrower as per the guidelines issued in this regard from time to time.

38.2.1.3 The Bank would ordinarily provide to the borrowers a due acknowledgment for receipt of loan application/s. The above said acknowledgment shall also mention the time-frame within which loan application/s up to Rs.2 lakhs will be disposed of by the Bank.

38.2.1.4 The Bank shall verify the loan applications within a reasonable period of time as per the time-frame mentioned in the guidelines issued from time to time and shall intimate the borrower immediately thereafter for the additional details/ documents, if any, required for processing the proposal.

38.2.1.5 Wherever possible the Bank shall convey in writing the main reason(s) which, in the opinion of the Bank, after due consideration, has/have led to rejection of the loan application within a stipulated time, as mentioned in the guidelines issued in this regard from time.

38.2.2 Loan appraisal:

38.2.2.1 The Bank shall ensure that there is a proper assessment of credit applications made by the borrower.
38.2.2.2 The Bank shall convey to the borrower the credit limit/credit facilities sanctioned along with the terms and conditions thereof.
38.2.2.3 On a demand being made, the Bank shall provide a copy of the loan agreement to the borrower.
38.2.2.4 Disbursement of loan and changes in terms and conditions.
38.2.2.5 The Bank shall ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction.
38.2.2.6 The Bank shall give notice of any change in terms and conditions including interest rates, service charges, etc. to the borrower and ensure that changes in interest rates and charges are made prospectively. Whenever the changes made are not borrower specific and apply to any/all categories of borrowers, notice of change shall construed to be made if the communication of the same is made in any of the following media;

I. Display in the notice Board of the Bank in the branch where the borrower's account is maintained, or
II. Newspaper publicity, or
III. In the Bank's web site, or
IV. Over telephone in the cases where Tele Banking facility is extended, or
V. Direct communication by courier/post

38.2.3 Post-disbursement Supervision:

38.2.3.1 Post-disbursement supervision by the Bank, particularly in respect of loans up to Rs.2 lakhs, shall be constructive with a view to taking care of any 'lenders related' genuine difficulty that the borrower may face.
38.2.3.2 Before taking a decision to recall/accelerate payment or performance under the agreement or seeking additional securities, the Bank shall give notice to the borrower, as specified in loan agreement, within a reasonable period even if no such condition exists in the loan agreement.
38.2.3.3 The Bank shall release all securities on receiving payment of loan or in realisation of loan subject to any legitimate right or lien for any other claim the Bank may have against the borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the documents under which the Bank is entitled to retain the securities till the

relevant claim is settled /paid.

38.2.4 General:

38.2.4.1 The Bank shall refrain from interference in the affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of the Bank).

38.2.4.2 The Bank shall not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude the Bank from participating in credit linked schemes framed for weaker sections of the society.

38.2.4.3 In the matter of recovery of loans, the Bank shall not resort to undue harassment that is, persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc.

38.2.4.4 In case of receipt of request for transfer of borrowal account, either from the borrower or from a Bank/financial institution which proposes to take over the account, the consent or otherwise, i.e., objection of the Bank, if any, shall be conveyed within 21 days from the date of receipt of such request.

38.2.4.5 The documents/securities charged to the Bank shall be returned within 15 working days of the closure of the relative borrowal account. If the security has been charged to multiple loan accounts as a continuing security, the same shall be returned to the borrower within 15 working days of the closure of all the accounts. If any delay occurred on the part of the Bank in returning the security as above, the borrower shall be entitled for compensation to the tune of Rs. 10 per day subject to a maximum of Rs. 5000.

38.2.5 Grievance Redressal

38.2.5.1 All grievances pertaining to the areas covered in this Code shall be referred to the Customer Services Division at the respective Zonal Offices in the case of Branch sanctions and Customer Services Division, H.O., in the case of Zonal Office and Head Office sanctions, for redressal.

38.2.6 Time Norms for disposal of credit proposals

A. Priority sector Advances:

Sl.No.	Particulars	Time norms
1.	**Agriculture**	
a.	Kisan Credit Cards [irrespective of the amount]	15 days

Sl.No.	Particulars	Time norms
b.	All other Agricultural loans	
	Loans upto Rs.25,000	Within a fortnight
	Loans above Rs. 25,000	Within 4 weeks
2.	**Small Scale Industries**	
	Loans upto Rs.25,000	Within 2 weeks
	Loans above Rs. 25,000	Within 4 weeks
3.	**Other Priority Sectors**	
	Loans upto Rs.25,000	Within a fortnight
	Loans above Rs. 25,000	Within 4 weeks

B. Other social lending schemes:

Sl. No.	Name of the Scheme	Time norms
1.	National Rural Livelihood Mission [NRLC]	Not later than 1 month.
2.	National Urban Livelihood Mission [NULM]	Loans upto Rs. 25,000 - within a fortnight. Loans above Rs.25,000- within 4 weeks.
3.	Prime Minister's Employment Generation Programme [PMEGP]	Loans upto Rs. 25,000 - within a fortnight. Loans above Rs.25,000- within 4 weeks.
4.	Scheme for Liberation and Rehabilitation of Scavengers [SLRS]	Loans upto Rs. 25,000 - within a fortnight. Loans above Rs.25,000- within 4 weeks.

Note: The time norms stipulated above is from the date of receipt of the required data in full.

A. Non Priority Sector Advances and Credit Cards:

The Bank shall give a provisional acknowledgment for receipt of all loan applications. The Bank's branch concerned shall verify the loan applications within a period not exceeding two weeks. If additional details / documents are required, the said branch shall intimate the same to the borrowers immediately within this period. Where full details/ documents are available, the branch of the Bank concerned shall submit the proposal with its recommendations to the higher authorities within 7 days wherever they are within the said higher authority's sanctioning powers.

In respect of proposals which are in the sanctioning powers of higher authorities other than those at the branch concerned, if any additional details / documents are required by such authorities, the same shall be intimated to the applicant / borrower through the said branch within 3 weeks from the date of receipt of the proposal at the respective office to enable the branch to in turn convey the same to the applicant / borrower.

If all the requirements in respect of details / documents are complied with by the borrowers, the Bank shall acknowledge the proposals concerned and shall adhere to the following time frame for disposal of the proposal from the date of acknowledgment.

Credit Proposals falling under the sanctioning powers of Delegatees upto the rank of MD & CEO:

Sl.No.	Particulars	Time norms
1.	**Non Consortium Advances, other than exports :**	
a.	Sanction of fresh/enhanced credit limits	Within 45 days
b.	Renewal of existing credit limits	Within 30 days
2.	**Consortium advances, * other than exports**	
a.	Sanction of fresh/enhanced limit	Within 60 days
b.	Renewal of existing credit limit	Within 45 days
	*In respect of consortium accounts, the time limit stipulated shall be from the date of receipt of the appraisal note from the leader Bank. Where our Bank is the leader of a consortium, the time indicated above shall be exclusive of the time taken to finalise the appraisal note at the consortium.	
3.	**Export Accounts:**	
a.	Sanction of Fresh/enhanced credit limits	Within 45 days
b.	Renewal of existing credit limits	Within 30 days
c.	Adhoc limits	Within 15 days

Proposals falling under the sanctioning powers of Management Committee:

In respect of proposals which are within the sanctioning powers of the Management Committee of the Board, the Bank shall ensure submission of the appraisal proposals to the said Committee within the above said time limit. Once the Management Committee of the Bank gives its decision thereon, the same shall be conveyed to the applicant/ borrower within 15 days thereof.

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39 GUIDELINES ON LOAN SYNDICATION CELL AND UNDERWRITING OF DEBTS

39.1 Syndication Cell

Bank may carry out syndication business and establish syndication cell at potential centres. The Syndication Cell shall make preliminary assessment of the requirement of the corporate clients and structure the borrowing programme. The cell shall also assist and participate in the borrowing programs of the corporate clients including the existing customers of the bank. Further, it also endeavors to be a one-stop shop to cater to the varied financing requirement of discerning corporates

39.2 General Guidelines on Loan Syndication

39.2.1 The Syndication cell shall carry out the credit appraisal of all types of Business venture including infrastructure projects from the PSUs / reputed Corporates either solely or jointly with other agencies as co-syndicator. The Syndication cell may accept green field projects also and technical viability shall be got done through empanelled agencies.

39.2.2 Syndication cell shall ensure due diligence of the corporates who approach for syndication facility and ensure satisfactory report. In case of project loans, Syndication cell may seek TEV [Techno Economic Viability] Report duly prepared by Bank's in-house team/ empanelled agencies/ reputed Govt. Agencies/ experts [TEV Consultants]. While appraising the proposals, the comment on technical feasibility, economic viability, financial feasibility, commercial viability, management competency, environment concerns and Bankability of projects with special reference to risk analysis, asset-liability mismatch and sensitivity analysis shall be critically analyzed.

39.2.3 The borrowers whose accounts are classified as NPA / restructured shall not be considered for syndication. Further, if the borrower / Directors / Promoters Name appear in the RBIs willful defaulters list such proposals shall not be considered. Syndication cell may arrange credit programme either on "BEST EFFORT BASIS" or on "UNDERWRITTING BASIS"

39.2.3.1 BEST EFFORT BASIS:

a. Eligibility:

The internal gradation of the borrower shall be within CB1 to CB4 as per latest audited financial statement and / or Bank loan rating through external rating agencies shall not be below B+. The proposals with gradation CB5 and below and Bank loan rating [external rating] below B+ may be considered on best effort basis with the prior approval from CLCC.

b. Quantum:

The facility requirement of the corporates shall be assessed as per the appraisal method prescribed in the Group Credit Policy of the Bank. The quantum of Banks exposure shall be within the prudential guidelines for single / group borrower, entry level exposure limit, Industry exposure limit.

39.2.3.2 UNDERWRITTING BASIS:

a. Eligibility:
Bank may consider proposals for underwriting [solely or jointly with other agencies as co-syndicator] from the PSUs / reputed Corporates. Further, the internal gradation of the borrower shall be within CB1 to CB4 as per latest audited financial statement and / or Bank loan rating through external rating agencies shall not be below BBB. The proposals with gradation CB5 and below and Bank loan rating [external rating] below BBB- shall not be considered for underwriting.

b. Quantum:
The maximum extent of underwriting the loan shall be within the limit assessed by the Bank to the proposed business activity as per appraisal method prescribed in the Group Credit Policy subject to the prudential exposure ceilings fixed for single / group borrower / various other exposure ceiling prescribed in the Group Credit Policy. In the case of prospective borrower the same shall not exceed the entry-level ceiling fixed by the Bank.

c. Nature:
Bank shall underwrite part or entire debt by indicating hold on position of the Bank. Hold on position of the Bank shall indicate the size and volume of loan / debt which the Bank indicates to keep in its book out of underwritten amount. Bank may disburse the entire underwritten amount before participating by other Bank /FIs and down sell the same subsequently to other banks.

Bank shall down sell the balance amount [Net of its hold position] within 6 months from the date of sanction of the underwritten deals. In case Bank is not able to down sell the required amount, the same shall be reported to the **HLCC/ Credit Approval Committee / Management Committee of the Board** along with the reasons for the delay in down sell.

In case, Bank decides to increase the hold on position out of underwritten amount, the same may be done on approval by the Sanctioning Authority who is empowered

to sanction the entire hold position of the Bank. However, Circle Level Credit Committee shall be empowered to down sell the additional amount in part or full amount of Bank's hold position.

d. Ceiling:

The aggregate outstanding underwritten amount at any point of time shall not exceed 3% of the Net Bank Credit as at 31st March of previous year.

e. Others

Bank shall have the liberty to cancel the underwriting if any adverse feature is noticed / any misreporting or suppression of material information by the company / group surfaces.

f. Underwriting Fee:

Bank may charge upfront underwriting fee of upto 1% of the amount underwritten in addition to the normal syndication fee.

Any concession in the underwriting fee below 1% shall be considered with the approval of Credit Approval Committee of the Board.

g. Sanctioning Authority:

The delegated lending power for sanction of underwriting the debt shall be as under:

Head Office Level Credit Committee -Upto Rs 75 Crore

Credit Approval Committee of the Board -Upto Rs 250 Crore

Management Committee of the Board -Above Rs 250 Crore & upto Rs 500 Crore

h. Monitoring:

The status report of the individual borrower wise underwritten debt remaining unsold shall be placed before the Board by Credit Division on half yearly basis.

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40 GUIDELINES ON UNHEDGED FOREIGN CURRENCY EXPOSURE

40.1 Hedging of FCDL/FCTL loans:

In view of the present market scenario and the volatility in exchange rates, besides the thrust to monitor unhedged foreign exchange exposures, the following policy on hedging of FCDL/FCTL loans is proposed for implementation while extending FCDL/FCTL loans to exporters and importers:

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.

40.2 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.

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

b) 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.

40.3 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.

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

40.4 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. HLCC/ Credit Approval Committee of the Board [CAC] beyond USD 5.00 mio

40.5 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

40.6 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 of Rs 25 crore and above.

b. 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.

As per existing policy guidelines, while rating [Internal] the borrower, due weightage is given for management of unhedged foreign exchange risk. This carries maximum 10 marks in the overall rating of the borrower. Hence the Management of unhedged exposure will have impact on the pricing since the rate of interest is stipulated based on the internal rating.

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41 GUIDELINES ON REVITALISING DISTRESSED ASSETS

41.1 Formation of Joint Lenders' Forum

41.1.1. These guidelines shall be applicable for lending under Consortium and Multiple Banking Arrangement.

41.1.2. Identification of incipient stress in the account before the loan account turns into NPA by creation of the following three sub categories as mentioned below:

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress (Please see Appendix)
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

41.1.3. Bank shall report SMA-2 status of the accounts and JLF formation to CRILC on a weekly basis as at the close of business of every Friday. If Friday happens to be holiday, Bank shall report the same as on the preceding working day.

41.1.4. Bank shall report credit information on a quarterly basis, including classification of an account as SMA to CRILC on all their borrowers having aggregate fund-based and non-fund based exposure of Rs.5 crore and above with them. In this regard, while Crop loans are exempted from such reporting, other Agriculture loans shall be reported.

41.1.5. The Joint Lending Forum [JLF] shall be mandatorily applicable to all Lending Arrangement where an Aggregate Exposure [AE] (both fund based and non fund based) of Rs 100 crore and above is reported as SMA-2 to Credit Repository of Information on Large Credit [CRILC] by any of the lenders. In cases, where Aggregate Exposure [AE] (both fund based and non fund based) is less than Rs 100 crore and/or when the account is reported as SMA-0 or SMA-1 to Credit Repository of Information on Large Credit [CRILC] by any of the lenders, formation of JLF shall be optional.

41.1.6. While the existing Consortium Arrangement for consortium accounts will serve as JLF with the Consortium Leader as convener, for accounts under Multiple Banking Arrangements (MBA), the lender with the highest AE will convene JLF at the earliest and facilitate exchange of credit information on the account. In case there are multiple consortium of lenders for a borrower (e.g. separate consortium for working capital and term loans), the lender with the highest AE will convene the JLF.

41.1.7. It is also possible that a borrower may request the lender/s, with substantiated grounds, for formation of a JLF on account of imminent stress. When such a request is received by a lender, the account shall be reported to CRILC as SMA-0, and the lenders shall also form the JLF immediately if the AE is Rs. 100 crore and above. At present, JLF formation is optional in other cases of SMA-0 reporting.

41.1.8. All the lenders shall formulate and sign an Agreement (which shall be called JLF agreement) incorporating the broad rules for the functioning of the JLF. The Indian Banks' Association (IBA) would prepare a Master JLF agreement and operational guidelines for JLF which could be adopted by all lenders. The JLF shall explore the possibility of the borrower setting right the irregularities/weaknesses in the account. The JLF may invite representatives of the Central/State Government/Project authorities/Local authorities, if they have a role in the implementation of the project financed.

41.1.9. While JLF formation and subsequent corrective actions will be mandatory in accounts having AE of Rs.100 crore and above, in other cases also the lenders will have to monitor the asset quality closely and take corrective action for effective resolution as deemed appropriate.

41.2 Corrective Action Plan (CAP) by JLF

41.2.1 The JLF may explore various options to resolve the stress in the account. The intention is not to encourage a particular resolution option, e.g. restructuring or recovery, but to arrive at an early and feasible solution to preserve the economic value of the underlying assets as well as the lenders' loans. The options under Corrective Action Plan (CAP) by the JLF would generally include:

(a)Rectification - Obtaining a specific commitment from the borrower to regularise the account so that the account comes out of SMA status or does not slip into the NPA category. The commitment shall be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. If the existing promoters are not in a position to bring in additional money or take any measures to regularise the account, the possibility of getting some other equity/strategic investors to the company may be explored by the JLF in consultation with the borrower. These measures are intended to turn-around the entity/company without any change in terms and conditions of the loan.. The JLF may also consider providing need based finance to borrower if considered as part of rectification process under CAP. However, It is mandatory such proposal of additional finance for CAP has to be approved by Empowered Group (JLF-EG) of Lenders and it

shall be strictly ensured that additional financing is not provided with a view to ever-greening the account.

(b)Restructuring - Consider the possibility of restructuring the account if it is prima facie viable and the borrower is not a wilful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc. At this stage, commitment from promoters for extending their personal guarantees along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the JLF. Any deviation from the commitment by the borrowers affecting the security/recoverability of the loans may be treated as a valid factor for initiating recovery process. For this action to be sustainable, the lenders in the JLF may sign an Inter Creditor Agreement (ICA) and also require the borrower to sign the Debtor Creditor Agreement (DCA) which would provide the legal basis for any restructuring process. The formats used by the Corporate Debt Restructuring (CDR) mechanism for ICA and DCA could be considered, if necessary with appropriate changes. Further, a 'stand still'[1] clause could be stipulated in the DCA to enable a smooth process of restructuring. The 'stand-still' clause does not mean that the borrower is precluded from making payments to the lenders. The ICA may also stipulate that both secured and unsecured creditors need to agree to the final resolution.

(c)Recovery - Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The JLF may decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimising the efforts and results.

41.2.2 The decision agreed upon by a minimum of 75% of creditors by value and 50% of creditors by number in JLF would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of ICA.However, if the JLF decided to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws/act would be applicable.

41.2.3 The JLF is required to arrive at an agreement on the option to be adopted for CAP within 45 days from (i) the date of an account being reported as SMA-2 by one or more lender ,or (ii) receipt of request from the borrower to form a JLF, with substantiated grounds, if it senses imminent stress. The JLF shall sign off the detailed final CAP within the next 30days from the date of arriving such an agreement.

41.2.4 If the JLF decides on options 41.2.1(a) or (b),but the account fail to perform as per the agreed terms under option (a) or (b),the JLF shall initiate recovery under option 41.2.1(c) above.

[1]One of the important elements of DCA would be a 'stand still' agreement binding for the period from the date of signing of DCA to the date of approval of restructuring package as per the time frame indicated in paragraphs 41.2.3 and 41.2.4 of these Guidelines. Under this clause, both the debtor and creditor(s) shall agree to a legally binding 'stand-still' whereby both the parties commit themselves not to take recourse to any other legal action during the 'stand-still' period. This would be necessary to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the stand-still clause will be applicable only to any civil action either by the borrower or any lender against the other party and will not cover any criminal action. Further, during the stand-still period, outstanding foreign exchange forward contracts, derivative products, etc., can be crystallised, provided the borrower is agreeable to such crystallisation. The borrower will additionally undertake that during the stand-still period the documents will stand extended for the purpose of limitation and also that it will not approach any other authority for any relief and the directors of the borrowing company will not resign from the Board of Directors during the stand-still period.

41.3 Restructuring Process

41.3.1 RBI's extant prudential guidelines on restructuring of advances lay down detailed methodology and norms for restructuring of advances under sole banking as well as multiple/ consortium arrangements. Corporate Debt Restructuring (CDR) mechanism is an institutional framework for restructuring of multiple/ consortium advances of banks where even creditors who are not part of CDR system can join by signing transaction to transaction based agreements.

41.3.2 If the JLF decides, restructuring of the account as CAP, it will have the option of either referring the account to CDR Cell after a decision to restructure is taken under para 41.2.1 as indicated above or restructure the same independent of the CDR mechanism.

41.3.3 Restructuring by JLF:

41.3.3.1 If the JLF decides to restructure an account independent of the CDR mechanism, the JLF shall carry out the detailed Techno-Economic Viability (TEV) study, and found viable, finalise the restructuring package within 30days from the date of Signing final Cap as mentioned in Paragraph 2.3 above.

41.3.3.2 For accounts with AE of Less than Rs.500 crore, the above mentioned restructuring Package will be placed before an Empowered Group (JLF-EG) of lenders, which will be tasked to approve the restructuring packages under the CAP and conveyed by the lenders to borrower within the next 15days of implementation.

41.3.3.3 For accounts with AE of Rs.500 crore and above, the above-mentioned TEV study and restructuring package will have to be subjected to an evaluation by an Independent Evaluation Committee (IEC)[2] of experts fulfilling certain eligibility conditions. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the

lenders. The IEC will be required to give their recommendation in these cases to the JLF within a period of 45 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the restructuring package including all terms and conditions as mutually agreed upon between the lenders and borrower, would have to be approved by all the lenders and communicated to the borrower within next 15 days for implementation.

[2]The constitution of the IEC and the funding needs for payment of fees for independent experts would be decided by Indian Banks' Association (IBA) in consultation with RBI.

41.3.3.4 Asset Classification benefit as applicable under the extant guidelines will accrue to such restructured accounts as if they were restructured under CDR mechanism. For this purpose, the asset classification of the account as on the date of formation of JLF will be taken into account.

41.3.3.5 The above-mentioned time limits are maximum permitted time periods and the JLF shall try to arrive at a restructuring package as soon as possible in cases of simple restructuring.

41.3.3.6 Restructuring cases will be taken up by the JLF only in respect of assets reported as Standard, SMA or Sub-Standard by one or more lenders of the JLF. However, JLF may decide on restructuring of an account classified as 'doubtful' in the books of one or more lenders similar to that of SMA2 and Sub-Standard assets, if the account has been assessed as viable under the TEV and the JLF-EG concurs With the assessment and approves the proposal.

41.3.3.7 Wilful defaulters will normally not be eligible for restructuring. However, the JLF may review the reasons for classification of the borrower as a wilful defaulter and satisfy itself that the borrower is in a position to rectify the wilful default. The decision to restructure such cases shall however also have the approvals of the board/s of individual bank/s within the JLF who have classified the borrower as wilful defaulter.

41.3.3.8 The viability of the account shall be determined by the JLF based on acceptable viability benchmarks. Illustratively, the parameters may include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity/Current Ratio and the amount of provision required in lieu of the diminution in the fair value of the restructured advance, etc. Further, the JLF may consider the benchmarks for the viability parameters adopted by the CDR mechanism and adopt the same with suitable adjustments taking into account the fact that different sectors of the economy have different performance indicators.

41.3.4 Restructuring Referred by the JLF to the CDR Cell:

41.3.4.1 If the JLF decides to refer the account to CDR Cell after a decision to restructure is taken under para 41.2.1, the following procedure may be followed.

41.3.4.2 As the preliminary viability of account has already been decided by the JLF, CDR Cell Shall directly prepare the Techno-Economic Viability (TEV) study and restructuring plan in consultation with JLF within 30 days from the date of reference to it by the JLF.

41.3.4.3 For accounts with AE of less than Rs.500 crore, the above-mentioned restructuring package shall be submitted to CDR Empowered Group (EG) for approval. Under extant instructions, CDR EG can approve or suggest modifications but ensure that a final decision is taken within a total period of 90 days, which can be extended up to a maximum of 180 days from the date of reference to CDR Cell. However, the cases referred to CDR Cell by JLF will have to be finally decided by the CDR EG within the next 30 days. If approved by CDR EG, the restructuring package shall be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

41.3.4.4 For accounts with AE of Rs.500 crore and above, the TEV study and restructuring package prepared by CDR Cell will have to be subjected to an evaluation by an Independent Evaluation Committee (IEC) of experts. As stated in paragraph 41.3.3.3, composition and other details of the IEC would be communicated separately by IBA to banks. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC will be required to give their recommendation in these aspects to the CDR Cell under advice to JLF within a period of 45 days. Thereafter, considering the views of IEC if the JLF decides to go ahead with the restructuring, the same shall be communicated to CDR Cell and CDR Cell shall submit the restructuring package to CDR EG within a total period of 7 days from receiving the views of IEC. Thereafter, CDR EG shall decide on the approval/modification/rejection within the next 30 days. If approved by CDR EG, the restructuring package shall be approved by all lenders and conveyed to the borrower within the next 30 days for implementation.

41.4 Conditions Relating to Restructuring by JLF/CDR Cell

41.4.1 Both under JLF and CDR mechanism, the restructuring package shall also stipulate the timeline during which certain viability milestones (e.g. improvement in certain financial ratios after a period of time, say, 6 months or 1 year and so on) would be achieved. The JLF shall periodically review the account for achievement/non-achievement of milestones and shall consider initiating suitable measures including recovery measures as deemed appropriate.

41.4.2 Restructuring whether under JLF or CDR is to be completed within the specified time periods. The JLF and CDR Cell shall optimally utilise the specified time periods so that the aggregate time limit is not breached under any mode of restructuring. If the JLF/CDR takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilise the saved time for other activities provided the aggregate time limit is not breached.

41.4.3 The general principle of restructuring shall be that the shareholders bear the first loss rather than the debt holders. With this principle in view and also to ensure more 'skin in the game' of promoters, JLF/CDR may consider the following options when a loan is restructured:

- Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;
- Promoters infusing more equity into their companies;
- Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of company. This will enable a change in management control, should lenders favour it.

41.4.4 In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets may be stipulated as a condition for restructuring the account, if under the TEV study the account is likely to become viable on hiving-off of non-core activities and other assets.

41.4.5 The decisions agreed upon by a minimum of 75% of creditors by value and 50%of creditors by number in the JLF would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of the ICA. However, if the JLF decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws/Acts would be applicable.

41.4.6 Where the decision to provide additional finance has been taken by JLF as CAP, irrespective of whether the Bank is within or outside the minimum 75 per cent and 60 per cent, can exercise the exit option for providing additional finance only by way of arranging its share of additional finance to be provided by a new or existing creditor. The other provisions of extant exit options, i.e., to exit from the package by selling their existing share to either the existing lenders or fresh lenders will continue to remain in force.

41.4.6.1 In this regard, sometimes disagreement may arise among lenders on deciding the CAP on rectification or restructuring, resulting in delay in initiating timely Corrective action. Although, co-operation among lenders for deciding a CAP by consensus is desirable for timely turn-around of a viable account, it is also important that all lenders shall take an independent view on the viability of account and consequent participation in rectification or

restructuring of accounts, without riding on efforts made by others. In view of this, it has now been decided that dissenting lenders who do not want to participate in the rectification or restructuring of the account as CAP, which may or may not involve additional financing, will have an option to exit their exposure completely by selling their exposure to a new or existing lender(s) within the prescribed timeline for implementation of the agreed CAP. The exiting lender will not have the option to continue with their existing exposure and simultaneously not agreeing for rectification or restructuring as CAP. The new lender to whom the exiting lender sells its stake may not be required to commit any additional finance, if the agreed CAP involves additional finance. In such cases, if the new lender chooses to not to participate in additional finance, the share of additional finance pertaining to the exiting lender will be met by the existing lenders on a pro-rata basis.

41.4.7 The JLF is required to arrive at an agreement on the option to be adopted for CAP within 45 days from (i) the date of an account being reported as SMA-2 by one or more lender, or (ii) receipt of request from the borrower to form a JLF, with substantiated grounds, if it senses imminent stress. The JLF shall sign off the detailed final CAP within the next 30 days from the date of arriving at such an agreement.

41.4.8 If the JLF decides on one of the options of Rectification or Restructuring, but the account fails to perform as per the agreed terms, the JLF shall initiate the Recovery option.

41.4.9 For restructuring of dues in respect of listed companies, lenders may be ab-initio compensated for their loss/sacrifice (diminution in fair value of account in net present value terms) by way of issuance of equities of the company upfront, subject to the extant regulations and statutory requirements. In such cases, the restructuring agreement shall not incorporate any right of recompense clause. However, if the lenders' sacrifice is not fully compensated by way of issuance of equities, the right of recompense clause may be incorporated to the extent of shortfall. For unlisted companies, the JLF shall have an option of either getting equities issued or incorporate suitable 'right to recompense' clause.

41.4.10 If acquisition of equity shares as indicated above, results in exceeding the extant regulatory Capital Market Exposure [CME] limit, the same shall not be considered as a breach of regulatory limit. However, the same shall be reported to RBI and shall form part of disclosure in the Notes to Accounts in the Annual Financial Statements.

41.4.11 In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the JLF/CDR could consider various options like:

- Prior agreement in the ICA among the above classes of lenders regarding repayments, say, as per an agreed waterfall mechanism;

- A structured agreement stipulating priority of secured creditors;
- Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre-agreed proportion.

The above is only an illustrative list and the JLF may decide on a mutually agreed option, with a view to preserving the economic value of the assets. Once an option is agreed upon, the bank having the largest exposure may take the lead in ensuring distribution according to agreed terms once the restructuring package is implemented.

41.4.12 As regards prudential norms and operational details, RBI's guidelines on CDR Mechanism, including OTS, will be applicable to the extent that they are not inconsistent with these guidelines.
Henceforth, the following general conditions would be applicable in all cases of restructuring in addition to general conditions already mentioned:
1 Rectification process under CAP shall be initiated when the borrower shows early signs of stress and it shall not be to resolve deep financial stress, as such stress would require financial

2 Rectification process should primarily be a borrower driven process, under which the borrower shall take measures to sort out the temporary problems being faced within a well-defined time frame not exceeding one year with monitorable milestones and such measures/commitment should be supported by identifiable cash flows.

3. As part of such measures, JLF could explore the possibility of getting some other equity /strategic investors into the company in consultation with the borrower if the borrower is not in a position to bring in additional money or take necessary measures to regularize the account.

4. Under Rectification process, additional need based finance, if necessary and in exceptional cases, may be provided to the borrower for meeting unavoidable increased working capital requirement.

5 Such additional finance shall only be an ad-hoc facility to be repaid or regularized within a maximum period of six months.

6. Additional finance for any other purpose, as also any roll-over of existing facilities, or funding not in compliance with the above conditions, will tantamount to restructuring.

7. Further, repeated rectification with funding, within the space of one year, will be treated as a restructuring. And no additional finance should be sanctioned under CAP, in cases where the account has been reported as fraud by any lender / JLF member.

8. In all cases of such additional finance for working capital, it shall be strictly ensured that this finance is not used to service existing loans or to evergreen the account and any diversion of funds will render the account as NPA.

9. The additional funding provided under restructuring/rectification as part of the CAP will have priority in repayment over repayment of existing debts. Therefore, installments of the additional funding which fall due for repayment will have priority over the repayment obligations of the existing debt. Necessary conditions shall accordingly be incorporated in the JLF agreement.

41.5 Refinancing of Project Loans:

41.5.1 As per the extant RBI guidelines on 'Prudential Guidelines on Restructuring of Advances by Banks', a restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/securities, which would generally include, among others, alteration of repayment period/repayable amount/ the amount of instalments/rate of interest (due to reasons other than competitive reasons). Thus, any change in repayment schedule of a loan will render it as restructured account.

41.5.2 Bank can refinance their existing infrastructure project loans by entering into take-out financing agreements with any banks /financial institution on a pre-determined basis and fix a longer repayment period, the same would not be considered as restructuring, if the following conditions are satisfied:

- Such loans should be 'standard' in the books of the existing banks, and should have not been restructured in the past.
- Such loans should be substantially taken over i.e., more than 50% of the outstanding loan by value, from the existing financing banks/Financial institutions.
- The repayment period should be fixed by taking into account the life cycle of the project and cash flows from the project.

41.5.3 In case if it is not possible to take over 50% of the outstanding loan, Bank may refinance existing project loans by way of full or partial take-out financing, even without a pre-determined agreement with other banks / FIs, and fix a longer repayment period only once during the life of the existing project loans, and the same would not be considered as restructuring in the books of the existing as well as taking over lenders, if the following conditions are satisfied:

i. The aggregate exposure of all institutional lenders to such project should be minimum Rs.1,000 crore and the exposure shall be 'standard' in the books of the existing banks at the time of the refinancing;
ii. The project should have started commercial operation after achieving Date of Commencement of Commercial Operation (DCCO);

iii. The repayment period shall be fixed by taking into account the life cycle of and cash flows from the project;
iv. The total repayment period should not exceed 85% of the initial economic life of the project / concession period in the case of PPP projects;
v. In case of partial take-out, a significant amount of the loan (a minimum 25% of the outstanding loan by value) should be taken over by a new set of lenders from the existing financing banks/Financial Institutions;
vi. The promoters should bring in additional equity, if required, so as to reduce the debt to make the current debt-equity ratio and Debt Service Coverage Ratio (DSCR) of the project loan acceptable to the banks; and
vii. Such loans shall be sanctioned by the Management Committee Only after satisfying itself about the viability of the project.

The refinancing of existing project loans not meeting the above mentioned conditions [para 41.5.3] will continue to be governed by the instructions contained in para 41.5.2 above.

41.6 Bank Loans for Financing Promoters' Contribution:

41.6.1 As per the extant RBI guidelines on "Loans and Advances – Statutory & Other Restrictions", the promoters' contribution towards the equity capital of a company should come from their own resources and Bank should not normally grant advances to take up shares of other companies.

41.6.2 However, as a special provision under Revitalising Distressed Assets, RBI has informed that banks can extend finance to 'specialized' entities established for acquisition of troubled companies subject to the general guidelines applicable to advances against shares / debentures / bonds as contained in the Master Circular on "Loans and Advances – Statutory & Other Restrictions". However, the lenders shall assess the risks associated with such financing and ensure that these entities are adequately capitalized, and debt equity ratio for such entity is not more than 3:1.

41.6.3 In this connection, a 'specialized' entity will be a body corporate exclusively set up for the purpose of taking over and turning around troubled companies and promoted by individuals or/and institutional promoters (including Government) having professional expertise in turning around 'troubled companies' and eligible to make investments in the industry/segment to which the target asset belonged.

41.7 Credit Risk Management:

41.7.1 Bank shall carry out independent and objective credit appraisal in all cases and shall not depend on credit appraisal reports prepared by outside consultants, especially the in-house consultants of the borrowing entity.

41.7.2 To aid in taking a view on the viability of the project, at the time of deciding Corrective Action Plan [CAP], the Bank shall carry out sensitivity tests / scenario analysis, especially for infrastructure projects, which shall inter alia include project delays and cost overruns.

41.7.3 Bank shall ascertain the source and quality of equity capital brought in by the promoters /shareholders. Multiple leveraging, especially, in infrastructure projects, is a matter of concern as it effectively camouflages the financial ratios such as Debt/Equity ratio, leading to adverse selection of the borrowers. Therefore, Bank shall ensure at the time of credit appraisal that debt of the parent company is not infused as equity capital of the subsidiary/SPV.

41.7.4 While carrying out the credit appraisal, Bank shall verify as to whether the names of any of the directors of the companies appear in the list of defaulters/ wilful defaulters by way of reference to DIN/PAN etc. Further, in case of any doubt arising on account of identical names, Bank shall use independent sources for confirmation of the identity of directors rather than seeking declaration from the borrowing company.

41.8 Reinforcement of Regulatory Instructions

41.8.1 Before opening Current account / sanctioning post sale limits, Bank shall obtain the concurrence of main bankers and/or the banks which are sanctioned inventory limits.

41.8.2 Bank shall not extend Non Fund Based limits/ facilities to non-borrower constituents.

41.9 Registration of Transactions with CERSAI:

Transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by Bank as defined under the SARFAESI Act, shall be registered in the Central Registry.

41.10 NON-COOPERATIVE BORROWERS:

41.10.1 Definition:

"Is one who does not engage constructively with his lender by defaulting in timely repayment of dues while having ability to pay, thwarting lenders' efforts for recovery of their dues by not providing necessary information sought, denying access to assets financed/collateral securities, obstructing sale of securities, etc. In effect, a non-cooperative borrower is a defaulter who deliberately stone walls legitimate efforts of the lenders to recover their dues."

41.10.2 Applicability:

These guidelines shall be applicable to borrowers with aggregate fund based and non-fund based facilities of Rs. 5.00 Crore from the Bank.

In case, the borrower is a Company, non-cooperative borrower will include, besides the company, its promoters and directors (excluding independent directors and directors nominated by Government and the lending institution).

In case, the borrower is other business enterprise/s (other than companies), non-cooperative borrower would include persons who are in-charge and responsible for the management of the affairs of the business enterprise.

41.10.3 Constitution of Committee & Procedure for Identification of Non-Cooperative Borrowers:

A solitary or an isolated instance shall not be the basis for classification of a borrower as Non-cooperative Borrower and accordingly, the following transparent mechanism has been put in place.

Identification Committee shall classify as Non-Cooperative Borrower which shall become effective only after confirmation by the Review Committee. The details of the committees constituted are as under:

A. Identification Committee

The identification committee shall be headed by the Senior Most Executive Director and in his absence; the next senior most Executive Director shall head the committee. The other members of the committee shall be as under:

01. General Manager [Recovery]
02. General Manager [Credit]
03. General Manager [Retail/MSE Division/Development of Priority Sector]
04. General Manager [IRMD]
05. General Manager [Credit Monitoring]

Quorum: 3 [Three] including Chairman of the Committee

Convener: The Deputy General Manager/Assistant General Manager [Credit Division] in case the account is Standard Assets and The Deputy General Manager/Assistant General Manager [Recovery Division] in case the account is NPA shall be the convener. The meeting shall be invariably attended by the concerned functional General Manager and in case of leave of absence; the meeting shall be attended by the Alternate General Manager.

Scope of the Committee: The committee after taking into account the facts and submissions made, shall classify/identify a borrower as non-cooperative borrower.

Appeal:
Once, the identification committee concludes that a borrower is non-cooperative; Bank shall issue a Show Cause Notice to the concerned Borrower (and the promoter/whole-time director's in case of companies) and call for his/her/their submission. After considering the submissions made by the borrower, an order is to be issued recording therein the reasons for identifying the borrower to be non-cooperative borrower. Further, an opportunity shall be given to the borrower for a personal hearing, if the committee feels such an opportunity is necessary.

B. Review Committee:
The order so issued by the ED level Committee, should be reviewed by another Committee headed by the Chairman & Managing Director/CEO and MD and consisting, in addition, of two independent directors of the bank. Thereafter, the order shall become final only after it is confirmed by said Review Committee.

41.10.4 Reporting to Central Repository of Information on Large Credits (CRILC):

The present practice of reporting information on non-cooperative borrowers to Central Repository of Information on Large Credits (CRILC) under CRILC-Main (Quarterly Submission) return as advised by RBI vide Circular No. DBS.OSMOS,No.14703/ 33.01.001/2013-14 dated 22.05.2014 shall continue. As per the said circular, the Quarterly CRILC Main Report is required to be submitted within 21 days from the close of the relevant quarter. The Reserve Bank of India has reiterated that as CRILC data is collected under the

provisions of the RBI Act, non-adherence to reporting instructions attract penal provisions under the Act.

41.10.5 Review of Status:

The Bank's Board of Directors shall review on a half-yearly basis the status of non-cooperative borrowers for deciding whether their names can be declassified as evidenced by their return to credit discipline and cooperative dealings. Further, removal of names from the list of non-cooperative borrowers shall be separately reported under CRILC with adequate reasoning/rationale for such removal.

41.10.6 Provision requirement on fresh exposure:

Any new/fresh loans sanctioned to borrower/s reported as Non-Cooperative Borrower/s as also new loans sanctioned to any other company that has on its board of directors any of the whole time directors/promoters of a non-cooperative borrowing company or any firm in which such a non-cooperative borrower is in charge of management of the affairs, will by implication entail greater risk necessitating higher provisioning. Hence, higher provisioning as applicable to substandard assets in respect of such exposure shall be made.

In this regard, the Reserve Bank of India has advised that for the purpose of asset classification and income recognition, the new loans would be treated as standard asset, which supersedes

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42 STRATEGIC DEBT RESTRUCTURING [SDR] SCHEME:

42.1 Features:

i. At the time of initial restructuring, the JLF must incorporate, in the terms and conditions attached to the restructured loan/s agreed with the borrower, an option to convert the entire loan (including unpaid interest), or part thereof, into shares in the company in the event the borrower is not able to achieve the viability milestones and/or adhere to 'critical conditions' as stipulated in the restructuring package. This should be supported by necessary approvals/ authorizations (including special resolution by the shareholders) from the borrower company, as required under the extant laws/regulations, to enable the lenders to exercise the said option effectively.

ii. Restructuring of loans without the said approvals/authorisations for SDR is not permitted. If the borrower is not able to achieve the viability milestones and/or adhere to the 'critical conditions' referred to above, the JLF shall immediately review the account and examine whether the account will be viable by effecting a change in ownership. If found viable under such examination, the JLF may decide on whether to invoke the SDR, i.e. convert the whole or part of the loan and interest outstanding into equity shares in the borrower company, so as to acquire majority shareholding in the company;

iii. Accounts which have been restructured before the date of this circular are also eligible under the scheme, provided the necessary enabling clauses, as indicated in the above paragraph, are included in the agreement between the banks and borrower;

iv. The decision on invoking the SDR by converting the whole or part of the loan into equity shares should be taken by the JLF as early as possible but within 30 days from the review of the account. Such decision shall be well documented and approved by the majority of the JLF members (minimum of 75% of creditors by value and 50% of creditors by number);

v. In order to achieve the change in ownership, the lenders under the JLF shall collectively become the majority shareholder by conversion of their dues from the borrower into equity. However the conversion by JLF lenders of their outstanding debt (principal as well as unpaid interest) into equity instruments shall be subject to the member banks' respective total holdings in shares of the company conforming to the statutory limit in terms of Section 19(2)[1] of Banking Regulation Act, 1949;

[1] no banking company shall hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding thirty per cent of the paid-up share capital of that company or thirty per cent of its own paid-up share capital and reserves, whichever is less:

vi. Post the conversion, all lenders under the JLF must collectively hold 51% or more of the equity shares issued by the company;

vii. The share price for such conversion of debt into equity will be determined as per the method given in paragraph 5 of this circular;

viii. Henceforth, banks shall include necessary covenants in all loan agreements, including restructuring, supported by necessary approvals/ authorizations (including special resolution by the shareholders) from the borrower company, as required under extant laws/regulations, to enable invocation of SDR in applicable cases. Necessary covenants shall also be part of rectification agreement in cases of failure of rectification or restructuring as a CAP as decided by JLF.

ix. The JLF shall approve the SDR conversion package within 90 days from the date of deciding to undertake SDR;

x. The conversion of debt into equity as approved under the SDR shall be completed within a period of 90 days from the date of approval of the SDR package by the JLF. For accounts which have been referred by the JLF to CDR Cell for restructuring in terms of the framework, the JLF may decide to undertake the SDR either directly or under the CDR Cell. With reference to iv,ix and x it is advised by by RBI that JLF can have the flexibility in the time taken [within the overall timeline of 210 days] for completion of individual activities i.e.,decision to invoke SDR, approve SDR package and its implementation as per the SDR package approved by JLF. RBI has further clarified that the benefit of 'stand-still' in asset classification will apply from the reference date itself which will cease if the targeted conversion of debt into equity shares does not take place within 210 days from the review of achievement of milestones/critical conditions. Thereafter, the loans will be classified as per the conduct of the account as per the extant Income Recognition, Asset Classification and Provisioning norms.

xi. The invocation of SDR shall not be treated as restructuring for the purpose of asset classification and provisioning norms.

xii. On completion of conversion of debt to equity as approved under SDR, the existing asset classification of the account, as on the reference date indicated at para 2(ii) below, shall continue for a period of 18 months from the reference date. Thereafter, the asset

classification shall be as per the extant IRAC norms, assuming the aforesaid 'stand-still' in asset classification had not been given. However, when banks' holding are divested to a new promoter, the asset classification shall be as per the para 1(xiv) below.

xiii. Banks shall ensure compliance with the provisions of Section 6[2] of Banking Regulation Act and JLF shall closely monitor the performance of the company and consider appointing suitable professional management to run the affairs of the company;

xiv. **JLF and lenders shall divest their holdings in the equity of the company as soon as possible. On divestment of banks' holding in favour of a 'new promoter', the asset classification of the account may be upgraded to 'Standard'.** However, the quantum of provision held by the bank against the said account as on the date of divestment, which shall not be less than what was held as at the 'reference date', shall not be reversed. It is possible that the lenders may not be able to sell their stake to new promoters within the 18 month period, thus revoking the 'stand-still' benefit, which may result in sharp deterioration in the classification of their remaining loan exposures from what prevailed on the 'reference date'. In order to avoid the cliff effect of resultant provisioning, banks should build provisions such that, by the end of the 18 month period from the reference date, they hold provision of at least 15 per cent of the residual loan. The required provision should be made in equal installments over the four quarters. This provision shall be reversed only when all the outstanding loans/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant norms on restructuring of advances) after transfer of ownership/management control to new promoters. At the time of divestment of their holdings to a 'new promoter', banks may refinance the existing debt of the company considering the changed risk profile of the company without treating the exercise as 'restructuring' subject to banks making provision for any diminution in fair value of the existing debt on account of the refinance.It should strictly adhere to the provisioning as prescribed under SDR framework while refinancing the existing debt of the company under the 'new promoter. If banks partially write off the existing loan which is being refinanced, the abovementioned provision for diminution in fair value will be net of the amount written off .Banks may reverse the provision held against the said account only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant norms on restructuring of advances), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period. In case, however, satisfactory performance during the specified period is not evidenced, the asset classification of the restructured account would be governed by the extant IRAC norms as per the repayment schedule that existed as on the reference date indicated at para 5 (ii) below, assuming that 'stand-still'/above upgrade in asset classification had not been given. However, in cases where

the bank exits the account completely, i.e. no longer has any exposure to the borrower, the provision may be reversed/absorbed as on the date of exit;

xv. The asset classification benefit provided at the above paragraph is subject to the following conditions:

a. The 'new promoter' should not be a person/entity/subsidiary/associate etc. (domestic as well as overseas), from the existing promoter/promoter group. Banks should clearly establish that the acquirer does not belong to the existing promoter group and Necessary due diligence of new Promoter to whom the lenders intend to divest their equity shall be made and in no case should the current management allowed to continue without the representatives of banks on the Board of the company and without supervision by an entity/person appointed by the banks

[2] Section 6 of Banking Regulation Act, 1949 deals with 'Forms of business in which banking Companies may engage'. i.e. the concept of functions of a bank

b. The new promoters should have acquired at least 51 per cent of the paid up equity capital of the borrower company. If the new promoter is a non-resident, and in sectors where the ceiling on foreign investment is less than 51 per cent, the new promoter should own at least 26 per cent of the paid up equity capital or up to applicable foreign investment limit, whichever is higher, provided banks are satisfied that with this equity stake the new non-resident promoter controls the management of the company. The Asset classification benefit will be available to the lenders provided they divest a minimum of 26% of the shares of the company as against 51% to the new promoters. The disinvestment should be completed within the stipulated time line of 18 months and the new promoters shall take over management control of the company. As the Lenders would have the option to exit their remaining holdings gradually, the new promoters shall be granted the 'Right of First Refusal' for the subsequent divestment of their remaining stake.
c. Wherever personal guarantees/commitments are obtained, they should cover losses incurred by lenders. Hence, the invocation/release of personal guarantee should be based on the principle of reasonable satisfaction of the lenders' claim, which could include pledge of the promoters share in favor of the Bank. Further, such personal guarantees/commitments so obtained should be released only after transfer of ownership and/or management control to the new promoters

42.2 The conversion price of the equity shall be determined as per the guidelines given below:

(i) Conversion of outstanding debt (principal as well as unpaid interest) into equity instruments should be at a 'Fair Value' which will not exceed the lowest of the following, subject to the floor of 'Face Value' (restriction under section 53 of the Companies Act, 2013):

a. Market value (for listed companies): Average of the closing prices of the instrument on a recognized stock exchange during the ten trading days preceding the 'reference date' indicated at (ii) below;

b. Break-up value: Book value per share to be calculated from the company's latest audited balance sheet (without considering 'revaluation reserves', if any) adjusted for cash flows and financials post the earlier restructuring; the balance sheet should not be more than a year old. In case the latest balance sheet is not available this break-up value shall be Re.1.

(ii) The above Fair Value will be decided at a 'reference date' which is the date of JLF's decision to undertake SDR.

42.3 The above pricing formula under Strategic Debt Restructuring Scheme has been exempted from the Securities and Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) Regulations, 2009 subject to certain conditions, in terms of SEBI (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2015 notified vide the Gazette of India Extraordinary Part–III–Section 4, published on May 5, 2015. Further, in the case of listed companies, the acquiring lender on account of conversion of debt into equity under SDR will also be exempted from the obligation to make an open offer under regulation 3 and regulation 4 of the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 in terms of SEBI (Substantial Acquisition of Shares and Takeovers) (Second Amendment) Regulations, 2015. This has been notified vide the Gazette of India Extraordinary Part–III–Section 4 published on May 05, 2015. JLF shall adhere to all the prescribed conditions by SEBI in this regard. The scheme will also be available to an ARC, which is a member of the JLF undertaking SDR of a borrower company.

42.4 In addition to conversion of debt into equity under SDR, JLF may also convert their debt into equity at the time of restructuring of credit facilities under the extant restructuring guidelines. However, exemption from regulations of SEBI, as detailed in paragraph 42.3 above, shall be subject to adhering to the guidelines stipulated in the above paragraphs.

42.5 Acquisition of shares due to such conversion will be exempted from regulatory ceilings/restrictions on Capital Market Exposures, investment in Para-Banking activities and intra-group exposure. However, this will require reporting to RBI (reporting to DBS, CO every month along with the regular DSB Return on Asset Quality) and disclosure by banks in the Notes to Accounts in Annual Financial Statements. Equity shares of entities acquired by the banks under SDR shall be assigned a 150% risk weight for a period of 18 months from the 'reference date' indicated in para 42.2(ii) above. After 18 months from the 'reference date', these shares shall be assigned risk weights as per the extant capital adequacy regulations.

42.6 Equity shares acquired and held by banks under the scheme shall be exempt from the requirement of periodic mark-to-market (stipulated vide Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks) for the 18 month period indicated at para 42.1(xii). To overcome the possibility of facing a cliff-effect of provisioning at the end of the 18 month period on account of mark-to-market requirement and/or on account of recognizing loss on sale of equity shares to the new promoters, RBI has now advised to periodically value and provide for depreciation of these equity shares as per IRAC norms for investment portfolio. However, Banks have been given the option of distributing the depreciation on equity shares acquired under SDR, over a maximum of four calendar quarters from the date of conversion of debt into equity i.e., the provisioning held for such depreciation should not be less than 25% of the depreciation during the first quarter, 50% of the depreciation as per the current valuation during the second quarter, and so on. Furthermore, banks desiring to have a longer period for making provisions, say 6 quarters, can start making ex-ante provisions in anticipation of MTM requirement, from the reference date itself.

42.7 Conversion of debt into equity in an enterprise by a bank may result in the bank holding more than 20% of voting power, which will normally result in an investor-associate relationship under applicable accounting standards. However, as the lender acquires such voting power in the borrower entity in satisfaction of its advances under the SDR, and the rights exercised by the lenders are more protective in nature and not participative, such investment may not be treated as investment in associates [Paragraph 10.2.3 of Annexure to circular DBOD.No.BP.BC.89/21.04.018/2002 -03 dated March 29, 2003 on 'Guidelines on Compliance with Accounting Standards (AS) by Banks'].

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43 SCHEME FOR SUSTAINABLE STRUCTURING OF STRESSED ASSETS

In order to strengthen the ability to deal with stressed assets and to put real assets back on track by providing another avenue for reworking the financial structure of entities facing genuine difficulties, a Scheme for Sustainable Structuring of Stressed Assets has been formulated by the Reserve Bank of India for implementation in Banks. Accordingly, Bank has framed the same on the lines advised by RBI.

The following are the main features of the scheme guidelines:

43.1 Eligible Accounts

The account shall meet all the following conditions:

a. The project shall have commenced commercial operations;

b. The aggregate exposure (including accrued interest) of all institutional lenders in the account shall be more than Rs. 500 crore (including Rupee loans, Foreign Currency loans/External Commercial Borrowings,);

c. The debt meets the test of sustainability (Debt sustainability is explained in the following paragraphs);

d. In respect of Securitisation Companies/Reconstruction Companies (SCs/RCs), only those accounts are eligible which, in addition to meeting the above criteria, have been acquired against consideration in cash only, i.e. not by issuing any Security Receipts.

43.2 Ineligible Accounts

This scheme shall not be applicable where malfeasance on the part of the promoter has been established through a forensic audit or otherwise and there is no change in promoter or the management is vested in the delinquent promoter.

43.3 Debt Sustainability

A debt is deemed to have passed the test of debt sustainability provided the Joint Lenders Forum (JLF)/Consortium of lenders/Bank conclude through independent Techno-Economic Viability (TEV) study conclude that: -

a. The future cash flows assumed shall remain at the current level.

b. The value of the principal debt is the amount that can be serviced over the same tenor as that of the existing facilities with the assumed cash flow.

c. The principal debt includes the current funded/non-funded liabilities owed to the Institutional lenders. Further, the sustainable debt should not be less than 50 percent of current funded liabilities.

43.4 Sustainable Debt

The JLF/Consortium/Bank shall, after an independent TEV, bifurcate the current dues of the borrower into Part A and Part B.

a. Part-A shall be

i. That level of debt (including new funding required to be sanctioned within next six months and non-funded credit facilities crystallizing within next 6 months) that can be serviced (both interest and principal) within the respective residual maturities of existing debt, from all sources, based on the cash flows available from the current as well as immediately prospective (not more than six months) level of operations.

ii. For this purpose, free cash flows (i.e., cash flow from operations minus committed capital expenditure) available for servicing debt as per latest audited/reviewed financial statement will be considered.

iii. Where there is more than one debt facility, the maturity profile of each facility shall be that which exists on the date of finalizing this resolution plan.
iv. For the purpose of determining the level of debt that can be serviced, the assessed free cash flow shall be allocated to servicing each existing debt facility in the order in which its servicing falls due.

b. Part B

shall be the difference between the aggregate current outstanding debt, from all sources, and Part A referred above. However, the security position of lenders will not be diluted and Part A portion of loan will continue to have at least the same amount of security cover as was available prior to this resolution.

43.5 The Resolution Plan

a. The Resolution Plan shall have the following features:

i. There shall be no fresh moratorium granted on interest or principal repayment for servicing of Part A.

ii. There shall not be any extension of the repayment schedule or reduction in the interest rate for servicing of Part A, as compared to repayment schedule and interest rate prior to this resolution.

iii. Part B shall be converted into equity/redeemable cumulative optionally convertible preference shares. However, in cases where the resolution plan does not involve change in promoter, banks may, at their discretion, also convert a portion of Part B into optionally convertible debentures. All such instruments will continue to be referred to as Part B instruments.

b. The post-resolution ownership of the borrowing entity shall be any of the following: -

i. The current promoter may continue to hold majority of the shares or shares required to have control.

ii. The current promoter may be replaced with a new promoter within the provisions of SDR mechanism or Outside SDR Scheme;

iii. The lenders have acquired majority shareholding in the entity through conversion of debt into equity either under SDR or otherwise and

1. Allow the current management to continue or
2. Hand over management to another agency/professionals under an operate and manage contract.

43.6 Valuation and marking to market

a. For the purpose of this scheme, the fair value for Part B instruments will be arrived at as per the following methodologies:

i. Equity - The equity shares in the bank's portfolio should be marked to market preferably on a daily basis, but at least on a weekly basis. Equity shares for which current quotations are not available or where the shares are not listed on the stock exchanges, should be valued at the lowest value arrived using the following valuation methodologies i.e., Breakup value method and Discounted Cash Flow method:

1. Break-up value method: Break-up value (without considering 'revaluation reserves', if any) is to be ascertained from the company's latest audited balance sheet (which should not be more than one year prior to the date of valuation). In case the latest audited balance sheet is not available the shares are to be valued at Re.1 per company.

The independent TEV will assist in ascertaining the break-up value.

2. Discounted cash flow method: The discount factor is the actual interest rate charged to the borrower plus 3 per cent, subject to floor of 14 per cent. Further, cash flows available

from the current as well as immediately prospective (not more than six months) level of operations occurring within 85 per cent of the useful economic life of the project only shall be reckoned.

ii. Redeemable cumulative optionally convertible preference shares/optionally convertible debentures -
The valuation should be on discounted cash flow (DCF) basis. These will be valued with a discount rate of a minimum mark up of 1.5 per cent over the weighted average actual interest rate charged to the borrower for the various facilities. Where preference dividends are in arrears, no credit should be taken for accrued dividends and the value determined as above on DCF basis should be discounted further by at least 15 per cent if arrears are for one year, 25 per cent if arrears are for two years, so on and so forth (i.e., with 10 percent increments).

b. Where the resolution plan does not involve a change in promoter or where existing promoter is allowed to operate and manage the company as minority owner by lenders, the principle of proportionate loss sharing by the promoters shall be met in the form of dilution of their shareholdings by way of conversion of debt into equity / sale of some portion of promoter's equity to lenders, at least in the same proportion as that of part B to total dues to lenders. JLF/Consortium/ Bank should also obtain promoters' personal guarantee in all such cases, for at least the amount of Part A.

c. The upside for the lenders will be primarily through equity/quasi equity, if the borrowing entity turns around. The terms for exercise of option for the conversion of preference shares/debentures to equity shall be clearly spelt out. The existing promoter or the new promoter, as the case may be, may have the right of first refusal in case the lenders decide to sell the share, at a price beyond some predetermined price. The lenders may also include appropriate covenants to cover the use of cash flows arising beyond the projected levels having regard to quasi-equity instruments held in Part B.

43.7 Other important principles for this scheme are the following:

a. The JLF/Consortium/Bank shall engage the services of a credible professional agency/ies to conduct the TEV and prepare the resolution plan. While engaging professional agencies, the JLF/Consortium/Bank shall ensure that the agency is reputed, truly independent/free from any conflict of interest, has proven expertise and will be in a position to safeguard the interest of lenders while preserving the economic value of the assets. Further, from a risk management perspective, lenders should avoid concentration of such assignments in any one particular professional agency.

b. The resolution plan shall be agreed upon by a minimum of 75 percent of lenders by value and 50 percent of lenders by number in the JLF/Consortium/Bank.
c. At individual bank level, the bifurcation into Part A and part B shall be in the proportion of part A to Part B at the aggregate level.

43.8 Asset Classification and Provisioning

a. Where there is a change of promoter–

In case a change of promoter takes place, i.e. a new promoter comes in, the asset classification and provisioning requirement will be as per the 'SDR' scheme or 'outside SDR' scheme as applicable.

b. Where there is no change of promoters –
i. Asset classification as on the date of lenders' decision to resolve the account under these guidelines (reference date) will continue for a period of 90 days from this date. This standstill clause is permitted to enable JLF/Consortium/Bank to formulate the resolution plan and implement the same within the said 90 day period. If the resolution is not implemented within this period, the asset classification will be as per the extant asset classification norms, assuming there was no such 'stand-still'.
ii. In respect of an account that is 'Standard' as on the reference date, the entire outstanding (both Part A and part B) will remain Standard subject to provisions made upfront by the lenders being at least the higher of 40 percent of the amount held in part B or 20 percent of the aggregate outstanding (sum of Part A and part B). For this purpose, the provisions already held in the account can be reckoned.
iii. In respect of an account that is classified as non-performing asset on the date of this resolution, the entire outstanding (both Part A and part B) shall continue to be classified and provided for as a non-performing asset as per extant IRAC norms.
iv. Lenders may upgrade Part A and Part B to standard category after one year of satisfactory performance of Part A loans. In case of any pre-existing moratorium in the account, the upgrade will be permitted one year after completion of the longest moratorium, subject to satisfactory performance of Part A debt during this period. However, lenders will continue to mark to market Part B instruments as per the norms stated herein.
v. Any provisioning requirement on account of difference between the book value of Part B instruments and their fair value as indicated in para 6.1 ibid, in excess of the minimum requirements prescribed as per the above para (ii) and (iii), shall be made within four quarters commencing with the quarter in which the resolution plan is actually implemented in the lender's books, such that the MTM provision held is not less than 25 percent of the required provision in the first quarter, not less than 50 percent in the second quarter and so on. For this purpose, the provision already held in the account can be reckoned.

vi. If the provisions held by the bank in respect of an account prior to this resolution are more than the cumulative provisioning requirement prescribed in the applicable subparagraphs above, the excess can be reversed only after one year from the date of implementation of resolution plan (i.e. when it is reflected in the books of the lender, herein after referred to as 'date of restructuring'), subject to satisfactory performance during this period.

vii. The resolution plan and control rights should be structured in such a way so that the promoters are noting a position to sell the company/firm without the prior approval of lenders and without sharing the upside, if any, with the lenders towards loss in Part B.

viii. If Part A subsequently slips into NPA category, the account will be classified with slippage in category with reference to the classification obtaining on the reference date and necessary provisions should be made immediately.

ix. Where a bank/NBFC/AIFI chooses to make the prescribed provisions/write downs over more than one quarter and this results in the full provisioning/write down remaining to be made as on the close of a financial year, banks/NBFCs/AIFIs should debit 'other reserves' [i.e., reserves other than the one created in terms of Section 17(2) of the Banking Regulation Act 1949] by the amount remaining un-provided/not written down at the end of the financial year, by credit to specific provisions. However, bank/NBFC/AIFI should proportionately reverse the debits to 'other reserves' and complete the provisioning/write down by debiting profit and loss account, in the subsequent quarters of the next financial year. Banks shall make suitable disclosures in notes to Accounts with regard to the quantum of provision made during the year under this scheme and the quantum of unamortised provisions debited to 'other reserves' as at the end of the year.

43.9 Overseeing Committee [OC]

a. General Guidelines:

i. An Overseeing Committee (OC), comprising of eminent persons, will be constituted by IBA in consultation with RBI. The members of OC cannot be changed without the prior approval of RBI.

ii. The resolution plan shall be submitted by the JLF/Consortium/Bank to the OC.

iii. The OC will review the processes involved in preparation of resolution plan, etc. for reasonableness and adherence to the provisions of these guidelines, and opine on it.

iv. The OC will be an advisory body.

b. Scope/Role of the OC

i. To role of the OC is to look after the issues on the Scheme for Sustainable Structuring of Stressed Assets [S4A scheme].

ii. In addition to the above, it will also look into the process of OTS proposal above Rs 500 crore.

c. Others:

i. When the meetings of the OC takes place in Mumbai, IBA shall provide secretarial and logistic support and the meetings shall take place in IBA Office.

ii. When the meetings are held at other centers, arrangements shall be made by the concerned Lead Bank/JLF Leader/Bank.

iii. The committee shall have minimum of four sittings per month.

iv. The resolutions proposals meeting the criteria/process requirement under the scheme shall be submitted by the concerned JLF/Consortium/Bank to OC Secretariat located in IBA, Mumbai.

d. Fees and Charges

The IBA will collect a fee from the lenders as a prescribed percentage of the outstanding debt of the borrowal entity to the consortium/JLF/consortium/bank.

43.10 Mandatory Implementation

Once the resolution plan prepared/presented by the lenders is ratified by the OC, it will be binding on all lenders. The lenders however, have the option to exit as per the extant guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP).

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