SAURASTRA GRAMIN BANK

LOAN POLICY OF THE BANK

Dated September 30th, 2015

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BANK'S LOAN POLICY FOR THE YEAR 2015-16

1. BANKING SCENARIO

1.1 The financial system is the lifeline of the economy. The changes in the economy get mirrored in the performance of the financial system, more so of the banking industry.

1.2 Economic Liberalization & Financial Sector reforms introduced in 1991 followed by Second Phase of Financial Sector reforms in 1997 ushered in an era of fast track growth in size, technology and deliverables of banks in India.

1.3 The initial phase of financial sector reforms focused on modification in the policy framework, improvement in financial health through prudential norms. The second phase laid emphasis on strengthening the foundations, streamlining procedures, upgrading technology & human resources. The financial sector reforms gradually moved the Banking Industry from a regulated environment to a deregulated market economy. In this process, banking operations transformed from its traditional intermediary role to a business of risk return trade-off. Every micro and macro aspects of banking are put to Risk Return Matrix. The Risk Adjusted Returns on Capital (RAROC) to be used to drive pricing, performance measurement, portfolio management and capital management.

1.4 Taking cues from the macro economic scenario, development in the financial sector, changing market realities, business priorities, Government policies, regulatory prescriptions, Bank's vision goals and past experience, and to enhance a healthy growth in credit portfolio, the Loan Policy is fine tuned in this revision. In this endeavor, changes/modification/ updation in earlier Loan Policy wherever required is made and the Loan Policy 2015-16 is prepared.

1.5 Bank will ensure to emphasis developing of Rural & Urban economy by providing finance for the purpose of developing of agriculture, trade, commerce, industries and other productive activities in Rural, Semi-urban & Urban Areas, credit and other facilities particularly to Small and Marginal farmers, Tenant Farmers, Oral lessees, Agricultural Laborers, Rural Artisans, Small entrepreneurs and beneficiaries under Weaker Sections of the society. Bank will implement various schemes sponsored by Government of India and Government of Gujarat in close co-ordination with concerned developmental departments of the Government, NABARD, RBI, SBI and make its all sincere endeavors to achieve the set targets under various Govt. Sponsored Programs

2. OBJECTIVES OF LOAN POLICY

- *Profitable deployment of resources in line with ALM requirements.*
- *To aim at a common approach in credit appraisal and monitoring standards to meet genuine credit needs of existing clients and to enlarge client base through client acquisition besides facilitating quick and prompt credit decisions.*
- *To set up standard and uniform credit evaluation systems & procedures to monitor portfolio performance and set up guide-posts to augment income from non-fund exposures.*
- *To strengthen the credit delivery system and to clearly lay down the preferred deployment area of credit keeping in view the socio-economic obligations, profitability, past experience of asset impairment and with greater focus on retail banking.*
- *To address issues of credit concentration and to set up prudential credit exposure norms.*
- *To build and maintain a well diversified portfolio for an orderly asset growth.*
- *To set up a Credit Risk Management System with parameters for risk identification, measurement, monitoring and mitigation.*
- *To provide for Loan Review Mechanism, and*
- *To set up a risk based Loan Pricing Policy.*
- *To provide for dissemination of information to enable informed credit decision making at all levels and to facilitate proper training of field staff on credit appraisal and monitoring.*
- *To provide for adequate delegation of discretionary authority at all levels consistent with the canons of this Policy Document, and*
- *To improve market share in the identified areas of business through:*

a) Maintaining continuous contacts with the existing clients to meet their credit requirements for their business & expansion plans etc.

b) Obtaining reference from existing clients for increasing the customer base and cross selling of various banking products.

c) Such references may also be obtained from various associations of merchants/ industries / traders etc.

d) Acquiring new clients, by identifying potential non-customers, establishing contacts for bringing them to our fold, adhering to take over codes and policy guidelines.

e) By leveraging the technological advantage of the Bank.

3. SCOPE OF LOAN POLICY

3.1 The Provisions of this Loan Policy shall be applicable to the Credit portfolio of the Bank, if otherwise not prescribed for specific schematic /non-schematic advances. Bank has separate supplementary policy documents in respect of Loan Recovery. The scope of Loan Policy is restricted to:

◊ All Working Capital Facilities (including all types of demand loans, short term finances, bills facilities, ad-hoc limits, etc).

◊ All term finance facilities including term loans (with repayment terms of over 3 years, deferred payment guarantees, etc).

◊ Non-fund based facilities (financial/performance guarantees).

- ***Specific schematic finance schemes are introduced by banks on time to time after obtaining approval from Head Office Management Committee.***

4. LOAN POLICY COMPLIANCE & DEVIATIONS

4.1 All the functional divisions (Branches, ROs & HO) 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 Credit Department at RO/HO prior to committing credit exposure on behalf of the Bank.

4.2 This policy contains necessary provisions indicating the authority that is competent to permit deviations from various provisions in the respective provision itself. In the case of all other provisions, where such authority level is not prescribed, the Chairman with the consent of Board of Directors shall be the competent authority to permit any deviation from such provisions.

4.3 Micro level issues pertaining to credit in the area of fixation of credit limit, security coverage, margin requirements, as also fixation of interest rate (subject to regulatory guidelines, where ever applicable) and other operative guidelines are not dealt with in detail in this document. These aspects specifies in each loan scheme for security coverage and margin and rate of intrest are applicable as per circular instruction time to time..

5. REGULATORY COMPLIANCE

5.1 Fair Practices Code (FPC)

5.1.1. In compliance to Reserve Bank of India's directives, Bank has formulated its Fair Practice Code for Lenders. The basic tenets of the Code are as under:

5.1.1.1. To provide professional, efficient, courteous, diligent and speedy services in the matter of lending in all categories.

5.1.1.2. Not to discriminate on the basis of religion, caste, sex, descent, etc.

5.1.1.3. To be fair and honest in disclosures, dissemination of information and presentation while releasing information to public and marketing of Loan Products.

5.1.1.4. To provide customers with accurate and timely disclosure of terms, costs, rights and liabilities as regards loan transactions.

5.1.1.5. If sought, to render necessary assistance to customers applying for loans.

5.1.1.6. To attempt with good faith to resolve any disputes or differences with customers by setting up complaint redressal cells within the organizations.

5.1.1.7. To comply with all regulatory requirements in good faith.

5.1.1.8. To spread general awareness about potential risks in contracting loans and encourage customers to take independent financial advice and not to act only on the representation from the Bank.

5.2 KYC Norms

5.2.1. As part of "Know Your Customer" (KYC) principle, RBI has issued several guidelines on proper customer identification and advised the banks to put in place systems & procedures to help control financial frauds, identify money laundering and suspicious activities and for scrutiny/monitoring of large value cash transactions.

5.2.2. The objectives of the KYC framework are twofold.

5.2.2.1. To ensure appropriate customer identification.
5.2.2.2. To monitor transactions of suspicious nature.

5.2.3. Branches shall strictly adhere to KYC guidelines, obtain all information necessary to establish the identity, legal existence of each new customer and to be vigilant while opening a/cs for new customers to prevent misuse of banking system for perpetration of frauds.

5.2.4. KYC procedures are to be applied as per the extant policy guidelines for all existing accounts as well as new accounts.

5.3. CREDIT DEPLOYMENT

5.3.1. Asset Liability Management

5.3.1.1. As a financial intermediary, Bank's prime responsibility is to provide working capital advances & term loans to all productive sectors and retail banking areas including housing and other requirements of credit worthy households, besides its socio-economic obligations in lending, matching with the maturities of the resource mobilized. Therefore, Bank's term commitments shall be subject to the requirements of management of its assets & liabilities and normally extend over a period, not exceeding 7 years .In case of lending to capital-intensive infrastructure projects, Bank may assume exposure for longer period after evaluating such credit needs from Asset Liability Management angle by Asset Liability Committee.

5.3.1.2. Bank, where exigencies of the borrowers necessitate, may sanction such facilities; approve Ad-hoc Limits etc. Power of approve Ad-hoc limit will be as per discretionary power approved by Board and to be rivewed by next higher authority.

6. DIRECTION OF CREDIT

6.1. Credit Planning & Budgeting

6.1.1. Bank will endeavor to increase credit exposure to all types of customers, Individuals, Proprietorship concerns, Partnership firms including LLPs, Companies registered under Companies Act, Association of persons and Undertakings owned by Governments including PSUs.

6.1.2. Bank's credit is to be broadly covered under Priority Sector and Non-Priority Sector lending. The coverage under Priority Sector lending would remain the chosen area of lending. In addition, Thrust Areas for credit deployment are also identified in the Policy.

6.1.3. Bank would adopt the RBI guidelines on Lending targets set under Priority Sector.

6.1.4. Project Finance

Project Finance may be defined as an arrangement of financing long term Capital Projects, large in scale, long in life and generally high in risk. Usually projects cover life cycle of a minimum of 10 years although it depends on the nature, size and coverage of the projects etc.

6.2. Thrust Areas

6.2.1. The primary goal before the Bank is to scatter the credit risk in its portfolio and therefore, the Thrust Area concept will be utilized to channelize credit into low credit risk avenues.

6.2.2. Agriculture, SME, MSME, MUDRA and Retail Banking shall remain the focus area with further thrust on investment credit in Agriculture segment. Credits to Agriculture would be guided by extant guidelines issued by NABARD, Government of India, RBI, and SBI.

7. CREDIT RESTRICTIONS

7.1. *Prohibitions List:*

7.1.1. Bank will strictly adhere to the Statutory restrictions imposed on lending activities through Banking Regulation Act, RBI Act, Companies Act, SEBI guidelines and also the directives from RBI/Government, etc.

7.1.2. Bank will also draw and maintain a list of sectors/activities to which no credit will be considered in accordance with Section-20 of the Banking Regulation Act, 1949 and other legal and regulatory guidelines issued from time to time. The list will be termed as 'Prohibitions List'. The list shall comprise of sectors / activities as follows.

7.2. *Restrictions in terms of the Section 20 of the Banking Regulation Act, 1949.*

7.2.1. No Banking Company shall:

a) Grant any loans or advances on the security of its own shares, or

b) Enter into any commitments for granting any loan or advance to or on behalf of
   - i) Any of its Directors.
   - ii) Any firm in which any of its Directors is interested as Partner, Manager, Employee or Guarantor.
   - iii) Any company (not being a subsidiary of the banking company or a company registered under Section-25 of the Companies Act, 1956 (1 of 1956) or a Government company, of which (or the subsidiary or the holding company of which) any of the Directors of the banking company is a Director, Managing Agent, Employee or Guarantor or in which he

holds substantial interest, or

iv) Any individual in respect of whom any of its Directors is a partner or guarantor.

7.2.2. ***Clarification:*** RBI, DBOD has clarified vide its letter No. DBOD. NO. Leg.BC.98./09.11.013/2004-05 dated 24th June 2005 that for the purpose of Section-20 of the Banking Regulation Act, 1949 the term 'loans and advances' shall not include loans or advances against Government Securities, life insurance policies or fixed deposits, facilities like bills purchased/discounted, purchase of cheques, other non-fund based facilities like acceptance/co-acceptance of bills, opening of LCs and issue of guarantees, etc. Further, it shall also not include line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd. (NSCCL) to facilitate smooth settlement.

7.3. Restrictions in terms of Section 77A (1) of the Companies Act, 1956 on Credit to Companies for Buy-back of their securities.

7.3.1. In terms of Section 77A (1) of the Companies Act, 1956, the companies are permitted to purchase their own shares or other specified securities out of their (a) free reserves, or (b) Securities premium account, or (c) proceeds of any shares, or (d) other specified securities subject to compliance of various conditions specified in the Companies (Amendment) Act, 1999.

7.3.2. Therefore, Bank shall not extend loans to companies for buy-back of its own shares/securities.

7.4. Regulatory Guidelines on credit restrictions:

a. Bank shall not grant loans against primary security of Certificate of Deposits.

b. Bank shall not grant loans against primary security of deposits of other Banks.

c. Bank shall not undertake financing of Badla transactions.

d. Bank shall not extend loans to partnership/ proprietorship concerns against the primary security of shares and debentures.

e. Bank shall not extend finance for setting up new units consuming/producing Ozone Depleting Substance (ODS).

f. Bank shall not extend advances for speculative purposes or extend advances against company shares to promoters of such companies during lock-in-period.

g. Bank shall not grant temporary credit facilities for adjusting over-dues in other accounts.

h. Bank shall not purchase any cheque/s drawn in favor of borrowers by their associate concerns, friends or close relatives without trade transactions/considerations.

i. The discretionary powers to sanction loans to relatives of staff members are as per usual guidelines of the bank from time to time. Approval have to be obtained by staff member & authority for approval will be General Manager.

j. In the matter of granting of loans and advances and award of contracts to the bank's directors and their relatives and directors of other banks and their relatives, Reserve Bank of India has laid down guidelines, which the Bank will adhere to subject to changes from time to time by RBI.
k. Scope of the term, relative will cover, 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.

7.4.1. ***Unless sanctioned by the Board of Directors, bank should not grant loans and advances aggregating Rs.25.00 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.

7.4.2. ***Unless sanctioned by the Board of Directors, bank should not also grant loans and advances aggregating Rs.25.00 lakhs and above to:***

a. Any relatives of their own Chairman or other Directors.

b. Any relatives of the Chairman or other Directors of other Banks.

c. Any firm/company in which any of the relative as mentioned at (a) and (b) above holds 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.

7.4.3. Proposals for credit facilities of an amount less than Rs.25.00 lakhs to these borrowers may be sanctioned by appropriate authority in the bank under powers vested in each authority, but should be reported to the Board. The Chairman or other Director interested in the proposal shall not, however, take part in the relative proceedings.

7.4.4. Above norms related to grant of loans and advances will also equally apply to awarding of contracts. The above guidelines should also be followed in case of Directors of scheduled co-operative banks or their relatives, Directors of subsidiaries/trustees of mutual funds/venture capital funds set up by them as also other banks.

7.4.5. The term loans and advances will not include loans or advances against (a) Government Securities, (b) Life Insurance Policies, (c) Fixed or other deposits, (d) Stocks and shares, (e) Temporary overdrafts for small amount, i.e. up to Rs.50,000/-,(f) casual purchase of cheques up to Rs.10,000/- at a time and (g) housing loans, car advances, etc. granted to an employee of the bank under any scheme applicable generally to all employees.

7.4.6. In this context, every borrower should furnish a declaration to the Bank that :

- Where the borrower is an individual, that he/she is not a Director or specified near relation of Directors of a banking company.
- where the borrower is a partnership firm, that none of the partners is a Director or specified near relation of a Director of a banking company and
- where the borrower is a joint stock company, that none of its Directors is a Director or specified near relation of a Director of a banking company.

7.4.7. In the light of the above, Branches will take a suitable declaration from the borrower/s. In case the borrower/s is/are related to the Directors then they should furnish full details of the relationship of the borrower/s with the Director. Besides this, the borrower/s also should give an undertaking that, where it transpires that the borrower has given a false declaration, the Bank shall forthwith recall the loan.

7.4.8. In addition, Branches shall also obtain declaration from the borrowers on the court cases pending against them.

7.5 *Negative & Discretionary Lists:*

7.5.1 With a view to restrict exposure to sectors and activities wherein the credit risk is perceived to be high or the Bank's past experience has not been satisfactory, Bank will draw and maintain Negative and Discretionary Lists.

7.5.2 Negative List shall comprise of sectors and activities in respect of which the Bank proposes to minimize its exposure. In case of such sectors/activities, any credit proposal shall be sanctioned only at the level of Board of Directors, subject to availability of adequate collateral security, irrespective of the quantum of credit facilities (FBL & NFBL) to be considered.

7.5.3 The Negative List shall comprise of following sectors/ activities:

Negative List	
i)	Plantation firms in the nature of NBFCs
ii)	Unregistered NBFCs
iii)	Partnership firm, where HUF is one of the partners

7.5.4. Bank will preferably avoid exposure to following industry :

- Chits/ chit funds and credit/ thrift co-operative societies
- Film industry
- TV serials
- Entertainment and amusement park
- Manufacturing and trading of liquor
- Fertilizer industries

- Sugar mills / factories

7.5.4.1. Exposure: Definition

Exposure shall include-

a) Credit exposure (funded & non-funded credit limits).

b) Investment exposure (including underwriting & similar commitments) as well as certain types of investments in companies.

c) The sanctioned limits or outstanding, whichever is higher, shall be reckoned for arriving at exposure limit.

d) Exposures shall include credit exposure (funded and Non-funded credit limits) and investment exposure (including underwriting and similar commitements). The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at the exposure limit. However, incase of fully drawn term loans, where there is no scope for re-draw of any position of the sanctioned limit, bank may reckon the outstanding as the exposure.

e) Both Funded and Non-funded will attract 100% risk weightage for prudential norms.

7.5.4.2. Bills purchased/discounted/negotiated under LC (where the payment to the beneficiary is not made "under reserve" will be treated as an exposure on the LC issuing Bank and not on the borrower. In case of negotiations "under reserve", the exposure should be treated as on the borrower.

7.5.4.3. Bank will adhere to the prudential exposure norms for taking exposure towards an individual borrower, group of borrowers and for infrastructure projects prescribed by the Regulator, which at present is as under:

7.5.4.4 EXPOSURE LEVELS:

(a) In order to contain and minimize concentration risks in certain sectors, industries and borrower categories, exposure levels assume great importance. Keeping this in view, loan policy seeks to stipulate exposure levels to different sectors, industries and borrower categories in tune with the economic / business environment, policy prescriptions from the Government, RBI, NABARD, performance of industrial segments (current and anticipated) and value of business connections.

(b) As for priority sector viz., agriculture, SME and all other Business, the benchmark levels are prescribed by the Reserve Bank of India. Such Benchmark levels will be endeavored to be achieved mainly through Bank's rural, semi-urban and urban branches. Bank would continue financing in this direction without stipulating any maximum levels for these sectors. **At present prescribed benchmark is 60% outstanding advances for RRB.**

c) Analysis of NPA, particularly the high value once would yield valuable insights into the risk prone areas from the point of view of activity, geographical distributions etc. leading us to conclusion on the applications of brakes on exposure to specific area which may done as directed by the Board.

7.5.4.5: **Prudential Exposure limit (as per Regulatory guidelines): (Based on Audited Balance Sheet as at 31.3.2015)**

Prudential Exposure Limits	*Prudential Exposure Limits*
A) INDIVIDUAL BORROWER EXPOSURE LIMITS (15% of capital funds of the Bank)	*Rs. 26.89 Cr*
B) GROUP BORROWER EXPOSURE LIMITS (40%of Capital Funds of the Bank)	*Rs. 71.71 Cr*

7.5.4.4. As the above limits are calculated as specified percentage/s of the Bank's Capital Funds, which may vary from year to year, the Bank will observe these limits as calculated for each financial year in the manner as stipulated by the Regulator after adoption of audited balance sheet.

7.5.4.5. Reserve Bank of India has discontinued the practice of case to case basis approval for exceeding the Individual/Group borrowers risk exposure ceiling of 15%/ 40% since May 2004. Instead, with the approval of the Board, Banks have been permitted to consider enhancement up to a maximum of further 5% of capital funds in exceptional circumstances subject to disclosure in Annual Reports with the consent of the borrower.

7.5.4.6. Further, as a matter of abundant prudence, Bank will preferably limit Internal Exposure for sanction of credit facilities to any borrower as under.

Internal exposure limits for Corporate/Non-corporate Borrowers:

Borrower Type	**Exposure Norm**
Individuals (except where exposure is fully secured by fully liquid specified securities)	*Rs.5.00 Cr*
Other Corporate/non-Corporate borrowers like Partnership Firms/Group Firms, Association of Persons etc.	*Rs. 15.00 Cr*

7.6. Credit Risk Management for Takeover of Advances

7.6.1. Bank has stipulated the following norms for taking over of advances from other Banks:

7.6.1.1. In case of fresh sanctions/takeover of limits, along with application form for the credit limits, at least 50% process fee should be recovered before issue of sanction letters conveying the terms of sanction to the client. Further, process fees should not normally be eligible for refund. If it is to be refunded, Chairman is the authority to approve such refund.

7.6.1.2. The borrower account should have been classified as standard asset with satisfactory track record for the last three years.

7.6.1.3. The financial ratios should be as per norms with the permissible deviations. Deviation with proper justification may be allowed on case to case duly approved by sanctioning authorities to be reviewed by next higher authority.

7.6.1.4. Such borrowal accounts may be under consortium/sole banking/syndication/multiple banking arrangements.

7.6.1.5. In case of take over of an account from other Bank (fund based & non-fund based facilities), Bank should obtain satisfactory credit report of the borrower from their bankers OR alternatively the Branch Manager should obtain the Bank's statement of accounts for the last one year (at least one year) and certify that the operations in the account including servicing of interest/installments are satisfactory, which also should be confirmed by way of a certificate from the borrower's chartered accountants/Bank.

7.6.1.6. In case of take over of an account from other Bank (fund based & non fund based facilities), Bank should obtain satisfactory credit report of the borrower from their bankers or alternatively the Branch Manager should obtain the Bank's Statement of accounts for the last one year (atleast one year) and satisfy himself that the operations in the account including servicing of interest/installments are satisfactory and assets is standard, which also should be confirmed by way of a certificate from the borrower's Chartered Accountant/Bank.

7.6.1.7. Sanction letter from the existing bank/s shall also be obtained for verification of existing borrowing arrangements of the borrower with detailed terms of sanction.

7.6.1.8. Branch Manager should carry out pre-sanction visit of the borrower's factory/office and submit report thereof including market information.

7.6.1.9. Before taking over, Bank should make an independent assessment of the credit requirements of the borrower by calling for complete financial, production and the sales data, as also latest annual accounts of the borrower, so that the borrower's genuine credit needs are fully met by our bank.

7.6.1.10. If the names of the company and/or its associate concerns, its directors/promoters etc. appear in the Defaulters'/Willful Defaulters/Caution List of RBI/ECGC/CIBIL, etc., the discretion regarding takeover lies with the Chairman . while adhering to guidelines issued by RBI.

7.6.1.11. In order to ensure strict adherence to takeover code, branches should obtain prior clearance from respective Regional Manager, furnishing point-wise compliance to Takeover code.

7.6.1.12. Final Sanction Letter should not be issued to borrowers unless process fee is recovered. Letter of "In-Principle Sanction" can be given in certain situation subject to loans will be disbursed after compliance of sanction terms and conditions.

8. CREDIT RISK ASSESSMENT SYSTEM:

Bank had been formulated a policy on Credit Risk Rating System with a view to making a detailed assessment of the credit proposal from the point of view of soundness, credit worthiness, credibility of promoters, pricing of the limit, etc. Such a policy would be made applicable to limits of Rs 25 lac & above in all segments. Bank have adopted a suitable model for the purpose keeping in view the CRA guidelines of sponsor bank, SBI.

9. CREDIT MONITORING POLICY

9.1 Credit Portfolio Monitoring:

9.1.1.1 Bank will monitor its credit portfolio regularly with particular reference to exposures, industry wise and to sensitive sectors. Such monitoring will also focus on exposure by way of unsecured advances.

9.2 Borrower wise Monitoring:

9.2.1 Bank will strengthen its extant systems and procedures on monitoring of its advances, borrower wise. Specific attention will be paid to monitoring at monthly intervals of troubled exposures/weak credit, i.e. Standard 'B' category assets of Rs.5 lakhs and above, which exhibit signs of weaknesses (weakness like default in monthly installment/interest or erosion of networth etc.) These are Special Mention Accounts & Probable NPA accounts.

9.2.2 Large Accounts (Accounts having limit of Rs. 25.00 Lac & Above) causing concern shall also be subjected to Special Audit by Senior Auditors or experienced firms of Chartered Accountants to identify areas of weaknesses in such accounts in order to take necessary corrective action.

9.2.3 Wherever found necessary, Chairman is authorized to permit and appoint CAs for undertaking such special audits.

9.2.4 Further, the extant system of monitoring all irregularities in borrowal accounts with credit approvals or exposure levels of Rs. 25 Lakhs and above by Head Office will be adhered to. In case of borrowal accounts with credit limits of Rs.10 Lakhs to Rs.25 lakhs, the same will be monitored by respective Regional Offices. Credit limit up to Rs. 10.00 Lac will be monitored by Branch Manager.

10. CREDIT PROCEDURES & PRACTICES AT A GLANCE

10.1 Credit Approval Authorities:

10.1.1 The authority to approve credit, both fund based and non-fund based or a combination of both, including enhancements in respect of existing borrowers shall be as per the Bank's "Delegation of Discretionary Powers for Conducting Bank's Business" as approved by the Board of Directors from time to time.

10.1.2 The Board of Directors shall be the competent authority to revise/amend/modify the Delegation of Discretionary Powers for Conducting Bank's Business from time to time. No delegatee shall exceed the powers vested in him/her for according credit approvals except as provided for in the Delegation of Discretionary Powers for Conducting Bank's Business.

10.1.3 Every delegatee under the Discretionary Powers for Conducting Bank's Business shall report all credit approvals approved by him/her, in the manner provided therefor, to the next higher authority for 'NOTING/Control/Review' by the end of next calendar month from the month of according of credit approval.

10.1.4 **At Branches**: Sanctioning Credit Proposals is restricted to Branch Managers only. Such sanctions should be reported to Regional Office/Head Office (as the case may be) for the purpose of noting/control/review.

10.1.5 All proposals duly sanctioned by respective sanctioning authority should be put up to next higher controlling authority under control returns for noting.

10.1.6 No delegatee at the level of Regional Office/Branch (irrespective of the category of the branch or the cadre of the delegatee) shall exercise the powers vested in him/her for according credit approvals if the submission of Control Returns are in arrears for more than 30 days beyond the prescribed due date/s. The next higher authority may, at his discretion, provide an extension of further 30 days for this purpose in genuine cases where necessary. Regional Office will ensure compliance of the terms & conditions of the sanction & will follow up for the same.

10.2 Timely Disposal of Credit Applications:

10.2.1 ***Sanction of Facilities:***

Bank will endeavor to dispose all credit applications by its operational units in respect of various discretionary authorities as under:

No	Category / Sector	Maximum time limit for sanction
A	Proposals under Anti Poverty Programs/Government sponsored Schemes	15 days
B	All Applications for Micro & Small Enterprises up to credit limit Rs. 25,000/-	15 days
C	Proposals from SSI & Other priority sectors with limits of less than Rs 10 lakhs	30 days
D	Proposals under Retail Banking Schemes	30 days
E	In all other cases:	
i	Proposals for sanction of fresh/ Enhancement of credit limits.	45 days
ii	Proposals for renewal of existing Limits	45 days
iii	Proposals for sanction of ad-hoc credit facilities	15 Days

10.2.1.1 Bank recognizes that above time limits are outer limits only and expeditious disposal even before expiry of above time limits, preferably within 30 days from the date when the application, complete in all respects with usually required information and financial statements, is submitted to the Bank, will be endeavored at all levels.

10.2.2 ***Rejection of Loan Applications:***

10.2.2.1 Any decision on rejection of loan application/s along with reasons thereof shall be communicated to the applicant/s expeditiously, in any case, within a reasonable time period, say not exceeding 4 weeks.

10.2.2.2 Rejection of loan applications pertaining to Weaker Sections of the society and Scheduled Castes/Scheduled Tribes shall be done only at the level of next higher authority.

10.2.2.3 Full Details of Loan Application received, sanctioned/rejected and disbursement to be maintained by Branch.

10.3 ***Credit Committee***

10.3.1 All credit proposals for approval of AGL, SME, MSME and C&I having credit limit beyond discretionary power of Regional Manager be assessed and recommendation by a Credit Committee.

10.3.2 The Board shall be the competent authority to approve setting up of the Committees, to change the composition & quorum for the committee and other matters.

10.4 ***Credit Appraisals:***

10.4.1 Bank will ensure that the industrial borrower obtains clearance certificate from Pollution Control Board and other statutory environmental requirements of the Government of India wherever applicable and the concerned Department of the Government before releasing of credit limits. The same will form part of the terms of sanction.

10.4.2 Pre-sanction visit/inspection will be conducted by the Bank's branch level officials to ascertain the facts about infrastructure facilities available at the site of the unit/project and assess all other aspects of the project. Meaningful Visits is to be made at the place of business &/or residence, wherever necessary & a proper record thereof be maintained.

10.4.3 In case of multiple/consortium arrangements close co-ordination with other banks/financial institutions at the time of the appraisal and disbursement and follow up of advances should be ensured so that timely exchange of data/information is made for effective monitoring and control of advance.

10.4.4 Bank shall carry out dynamic financial analysis by scrutinizing the audited accounts for previous years so as to ascertain the trend of growth in production, sales, profitability and improvement/impairment in all important financial parameters in order to know the overall health of the borrowal account. CRA Rating SB 10 is hurdle rate.

10.4.5 Bank will follow a policy of appraising financial position of a borrower (for sanction of new limits/ enhancement of existing limits and for renewal/review) based on the audited financial statements of the borrower for previous financial year wherever available. Further, the Bank will follow a system of introducing disincentives to borrowers who fail to submit audited accounts beyond three months from the date of renewal by levying penalty (2 % penal interest up to time of next renewal at present and it can be changed from time to time).

10.4.6 Where appraisal of financial health of a borrower (for sanction of new limits/enhancement of existing limits and for renewal/review) has been based on unaudited financial statements of the borrower for previous financial year, the Bank shall review the financial appraisal based on audited financial statements immediately on receipt. In case of adverse variations more than 10% or any significant deterioration in the financial health indicated by the Audit

Report, a note shall be put up to the sanctioning authority for information and necessary direction within a month.

10.5 ***Strategy for Credit Management***

10.5.1 The areas of the Bank's credit management strategies would be:

- *Credit plan for budgeting the envisaged credit expansion during the financial year.*
- *Spread management with thrust on small & mid-sized commercial segment accounts for credit growth with risk diversification through retail lending schemes.*
- *Identification of new avenues, assessment of existing product line & portfolio based on the risk-return profile and previous experience of the bank to update negative, discretionary and open list of the bank.*
- *Sector wise/industry wise diversification of credit portfolio with regard to macro-economic scenario and the performance/ prospects /outlook of the sector/industries.*
- *Management of fee-based income at micro and macro level by putting in concerted efforts towards non-fund based business of the Bank.*
- *Maturity wise diversification of portfolio with major thrust on Working Capital and short term finances, which provides quick recycling of funds with exposure to medium term finance ranging between 3 to 5 years subject to consideration exposure norms of Asset-Liability Management for balanced portfolio (Demand Loan: Up to One year, Short Term Loan: more than One & up to Three years, Medium Term above Three year up to seven year, Long Term: Above Seven year (with approval of Chairman)).*
- *The Bank will promote its credit products through the Bank's publicity program with services of Marketing Division and website to generate awareness and acceptability amongst end-users.*
- *Prudential credit risk management practices shall receive greater attention by timely identification, quantification, management and mitigation of various risks associated with credit, continuous basis.*
- *Compliance with all the Statutory and Regulatory stipulations/requirements shall be strictly ensured in credit operations of the Bank.*
- *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.*

10.6 ***Appraisal cum proposal memorandum***

The appraisal cum proposal memorandum shall be placed before the competent authority for consideration with specific recommendations as to whether or not to approve the credit facilities. The recommendation for approval shall include nature and extent of credit facilities proposed, purpose, securities, margin, rate of interest, commission, repayment, tenor of bills, guarantee, etc. Further, the Bank shall stipulate all necessary covenants to ensure that –

Bank funds are utilized for the purpose it is lent

- *there is no diversion of funds*
- *the business entity maintains financial stability*
- *securities stipulated are charged properly*
- *Bank is able to have proper monitoring and control over the exposure*

- *Borrower complies with laid down guidelines of the Bank/regulatory requirements*

10.7 ***Other General Guidelines***

10.7.1 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.

10.7.2 Establishment of facilities: The credit facility shall be made available to the constituent only after ensuring complete documentation and compliance with the terms of sanction. The facility shall be released in the manner stipulated in the terms of credit approval ensuring end use of funds.

10.7.3 Certificate of compliance of terms and conditions be submitted to the competent authority as per extant guidelines.

10.7.4 All the documents including mortgages Rs.25 lac and above shall be verified and vetted by Advocate to ensure enforceability and validity of the documents *and a certificate to this effect shall be kept on record.*

Preventing slippages for Technical Reasons

10.7.5 In view of clarifying guidelines by RBI making Income Recognition and Asset Classification norms more stringent, branches shall ensure that the account does not slip into NPA category on account of the following technical reasons:

- *Review/renewal of accounts overdue for 180 days or more from date of actual review/renewal of accounts.*
- *Stock statements not received for three months or more.*

10.7.6 Bank has issued detailed NPA Management Policy on the above aspects and branches shall ensure that no account shall slip to NPA due to technical reasons.

11. ***REVIEW / RENEWAL OF ADVANCES :***

11.1 The working capital facilities are granted by the Bank for a period of one year and thereafter they are required to be renewed each year, i.e. fresh sanction is accorded for the limits by the appropriate authority.

11.2 Where, however, renewal is not possible for some reason, sanction for the continuance of the limits is obtained in each case by reviewing the facilities. As regards the Term Loans, these are required to be reviewed as per circularized instruction, i.e. Quarterly / Half Yearly / Yearly on the basis of Loan limit.

11.3 All the loans sanctioned by various authorities are to be submitted for review to the next higher authority within 7 days and reviewing authority should review the same within 15 days but not later than 30 days. In case of ACC, control return under simple listing Method should be submitted following month and reviewed within the same month.

11.4 ***Methods of assessment :***

For Credit limits up to Rs.2 Cr (Rs.5 Cr in case of SSIs)	*Turnover Method*
In case working capital cycle is higher, the borrower will have the choice to be assessed under Turnover method or Modified MPBF method.	
For Credit limits beyond Rs.2 Cr (Rs.5 Cr in case of SSIs)	
For operating cycle is reasonably uniform and working capital remains more or less stable	*Modified MPBF Method*
For industries, where operations are seasonal or project based in nature like Tea, Sugar, Software, Contractors, Builders & Developers, etc.	*Cash Budget Method*

11.5 ***Compliance to financial parameters:***

11.5.1 A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures. The appraising official has to steer a careful course. His experience and objectives of analysis help him in determining which of the ratios are more meaningful in a given situation. Further, ratios do not provide a definite answer to financial problems. There is always the question of judgment as to what significance should be given to the figures. While some standards of reference and sources of background material may be found useful in this connection, in the final analysis, one must rely upon one's own good sense in selecting and evaluating the ratios.

11.5.2 The following are the desired/indicative levels fixed by the Bank for different classes of borrowers:

11.5.3 ***Total Debt Equity Ratio(TDER):***
The indicative Debt Equity Ratio for different classes of borrowers is given below. Adherence to the same will help the Bank in maintaining a healthy credit portfolio.

Sr. No.	Category of the Borrower	Indicative Total D/E Ratio	In Case of 100% or more Collateral Security Indicative Total D/E Ratio
	Total Debt Equity Ratio		
a)	Industries (Medium & Large) Industries (SSI)	3:1	4:1
b)	Traders	5:1	5:1
c)	Ship Breaking	5:1	6:1
d)	Service Industry	5:1	6:1
e)	Infrastructure Sector	5:1	6:1

11.5.4 ***Current Ratio:***

Sr. No.	Assessment Method	*Ratio (Indicative)*
1	Turnover Over Method	1.10:1
2	Modified MPBF Method : i) Working capital limit up to Rs.10.00 Cr ii) Working capital limit above Rs.10.00 Cr	 1.17:1 1.25:1
# While working out MPBF, minimum margin to be taken @ 15% or 20% of total current assets, so that minimum current ratios are maintained at 1.17 and 1.25 respectively.		
In case of item No 2 (i) & (ii), where the adequate future cash accruals are envisaged and the present current ratio is lower than the minimum, the Bank may consider Working Capital Term Loan (WCTL), repayable over a period of 1 to 2 years and comply with the current ratio.		
In case of assessment under turnover method a) Margin requirements are to be maintained upfront. b) Where upfront NWC is higher than the minimum margin requirements, the MPBF may be computed by excluding the minimum margin requirement from eligible current assets.		

11.5.5 ***Interest Coverage Ratio(ICR):*** Interest Coverage is an indicator as to the number of times the profit covers the interest liability of the company. This is a risk parameter and an indicator to the extent to which the interest liability will be serviced on time. Profit for this purpose would mean the gross profit before interest. Indicatively Interest coverage will be between 1.50 and 1.75. Companies having term loan obligations should have higher interest coverage ratio to serve term liability.

Example: Total interest liability of the company is Rs.100/-. Gross profit means net profit plus depreciation plus interest is Rs.175/-. Interest coverage ratio will be 175 divided by 100 = 1.75 times.

11.5.6 ***Debt Service Coverage Ratio (DSCR):*** Bank normally considers projects having average DSCR between 1.50 & 3 as adopted by the FIs. The Bank proposes to continue with the same policy.

11.5.7 ***Current Assets Turnover Ratio: {Gross Sales/(Debtors+ Inventory)}(CATO):*** This ratio will indicate the turnover of the current assets in a year. Generally this will be above 1.75.

11.5.8 ***PBIT to Total Assets:*** To have a better insight about the utilization of assets, this ratio needs be examined to find out the comparative performance of the unit over a period of time.

11.5.9 ***Internal Rate of Return on discounted cash inflow:*** In case of term loans of Rs.5.00 Cr and above, this needs to be worked out and the same should not be lower than the cost of funds.

11.5.10 ***Sensitivity Analysis:*** In case of term loans of Rs.5.00 Cr and above, sensitivity analysis should be worked out. It is clarified that Sensitivity Analysis is required to be carried out for Term Loans for funding projects and the same is not required for Short Term Loans, Unsecured Loans approved by the Banks. In case of advances to Public Sector Undertakings including State Electricity Boards/ Corporations, the sanctioning authority may waive conducting sensitivity analysis on case to case basis.

11.5.11 ***Deviations:***

11.5.11.1 The sanctioning authorities shall look for sound financial parameters in terms of prescribed benchmarks. The stipulated parameter benchmarks for five ratios (TDER, Current Ratio, ICR, DSCR and CATO) as mentioned above will serve as suggestive and indicative tool for the sanctioning authorities to ensure a holistic credit decision. In case of existing borrowers whose dealings are satisfactory (i.e. Transactions, regular Stock statements & % utilization of limit) and limits are fully secured, sanctioning authorities at branch levels may renew/enhance the limits even if two parameters are not as per policy guidelines. If two parameters are not as per the policy, renewal / enhancement has to be allowed by higher authority, not by Branch Official/s.

11.5.11.2 In case of deviations in respect of more than two parameters where renewal or enhancement is involved, Regional Manager shall consider all the proposals falling within the powers of branches.

11.5.11.3 In all other cases, where proposals fall within the powers of Regional Manager/GM and above, the respective sanctioning authority may permit deviations with due justification, on the merits of each case and having due regard to the business expediency, within their respective discretionary powers

11.5.11.4 Though the deviations are allowed by the respective sanctioning authorities as prescribed above, there should be endeavor to ensure that the borrower attains the benchmark level of ratio/financial parameters within a specified time frame.

11.5.12 ***Explanatory Notes:***

11.5.12.1 Current ratio varies from industry to industry. The sanctioning authority may take a view and satisfy him/her while accepting a lower current ratio and the reasons may be suitably recorded. Various options may be examined to improve the ratio.

11.5.12.2 Debt Equity Ratio – A higher ratio is generally allowed keeping in view activity of the borrower, industry, sectoral classification, etc. In case of infrastructure projects and capital goods manufacturer, deviation may be considered keeping in view size of the project, funds outlay, gestation of period, etc.

11.6 ***Credit Disbursal Norms***

11.6.1 The Bank will ensure that the company/ borrower have achieved financial closure before disbursement of term loans.

11.6.2 No branch shall disburse loans/funds or open Letters of Credit or issue any Guarantee in respect of any borrower unless all terms and conditions as per sanctioned terms are complied with.

11.6.3 Before disbursing funds under FBL or open Letters of Credit or issue any Guarantee under NFBL, Branch shall keep a certificate on record that all terms and conditions are complied with and that all required documentation is completed in respect of sanction at Branch level. In cases of sanctions by Regional Manager and above, the Branch Manager shall furnish such certificates to Regional Manager/General Manager.

11.6.4 Wherever disbursements under FBL or opening/issuance of Letters of Credit/Guarantee is necessary before full compliance to all terms and conditions, the permission of original sanctioning authority should be obtained giving justification for the same.

11.6.5 **Revalidation of sanctions:** In case, the sanctions remain unutilized for more than 3 months from the date of sanction, permission is required to be obtained from the sanctioning authority for release of limits.

11.7 ***Post Disbursement Monitoring:***

11.7.1 Inspection of plant and machinery, land & building and other fixed assets should be done periodically. Any discrepancies and irregularities in value of securities should be rectified immediately.

11.7.2 Proper execution of Documentation including timely registration of charge with ROC; CERSAI should be ensured in accordance with the guidelines given by the Bank.

11.7.3 Conduct of the account should be examined through Monthly Monitoring Statement for any symptoms of weaknesses in the health of the account and the same should be rectified to set right the account.

11.8 ***Monitoring End-use of Funds***

11.8.1 End use of funds should be monitored continuously. All actual drawings by the borrower for working capital should always be subject to the borrower maintaining sufficient security which is determined by the level of stocks / book debts and the prescribed margin.

11.8.2 Certificates ensuring end use of funds from competent authorities like Chartered Accountants /Chartered Engineers etc. shall be obtained, wherever stipulated.

11.9 ***Inspection of stocks/book debts:***

11.9.1 At least, once in a quarter, inspection of stocks/book debts & other securities should be conducted by officers from branches/controlling offices and external agencies (stock audits for large borrowal accounts). There could be specific relaxation in loans up to Rs. 100 Lac, if the scheme is framed with the approval of the Board. For Limit above Rs. 100 Lac, stock audit to be made mandatorily.

11.9.2 Record of Inspection carried out and the observations should be maintained at the Branch.

11.9.3 Wherever the observations are serious in nature or require immediate corrective action, the same should be discussed with the client and reported to Regional Manager proposing suitable corrective measure. Regional Manager may discuss with the client and the Branch Head for regularizing the irregularity in a time bound manner.

11.9.4 Observations of the visiting officers/stock/credit auditors and compliance thereon should necessarily find place in every renewal/enhancement proposal of the borrower.

11.9.5 In view of implementation of 90 days norms for classification of assets, inspection is to be carried out more frequently, wherever it is found necessary.

11.9.6 It will be ensured that the quality and quantity of the stocks are correct and in accordance with the entries in the records and the stocks shown do not include damage/unsalable/obsolete/old goods.

11.9.7 While inspecting the book debts, age-wise and value wise evaluation of debtors, reason for non-payment of old debts (i.e. debt above 90 days), if any, and verification of debtors with records should be done.

11.9.8 The inspecting officer should verify whether the rates given are based on cost price/market rate/invoice value less rebate/discount, whichever is less.

11.9.9 The goods should be adequately covered by insurance against fire and other necessary risks. The official should enquire whether all premiums on insurance policies have been paid and the policies are in force.

11.9.10 Stock Audit is considered as supplementary to Inspection of stocks by Bank's Officials and therefore, notwithstanding Stock Audit, inspection of stocks/securities by Bank's Officials needs to be carried out, as per prescribed schedules.

11.9.11 **Scrutiny of Control Returns**: Control Returns received at Regional Office/Head Office from the branches should be scrutinized thoroughly and timely remedial steps should be initiated without fail. Any irregularities in the borrowal accounts like, non-payments of bills, development of letters of credit, invocation of guarantees, exceeding of sanctioned limits/drawing powers, dishonor of cheques, non-submission of statements/returns, etc. should be dealt with promptly with proper follow up.

11.10 ***Security norms:***

11.10.1 The Bank's policy with regard to security against credit will be one of obtaining a charge (by way of charge/lien/mortgage as the case may be) on the assets created out of Bank credit.

11.10.2 The Bank will prefer to have its credit exposure covered by tangible security (either primary or collateral) to the full extent of its liability.

11.10.3 In case, security is not available for any reason, the concerned sanctioning authority would have to get him satisfied about the need for waiving security cover, partially. Nevertheless, assets created out of credit exposure must, as a general rule, be charged to the Bank under first charge.

11.10.4 Collateral Security will be obtained to cover any shortfall in value of prime security in case of existing borrowers and in the case of new borrowers.

11.10.5 The Bank's policy for security shall be as under:

11.10.6 ***Primary Securities – Margin Norms:*** Bank has prescribed detailed guidelines for margins in every loan scheme & to be stipulated for various credit facilities/securities. The respective sanctioning authority at the level of the General Manager and above may deviate from prescribed margin with due justification. The deviation approved to be put up to next higher authority for review/noting.

11.10.7 ***Collateral Securities:*** The Bank's policy with regard to Collateral securities shall be as under:

11.10.7.1 ***For New Borrowers:*** The Bank shall endeavor to obtain collateral security by way of fixed assets/cash margin/shares, etc.

- ¤ 10% to 20% of Fund based & Non Fund Based limits.
- ¤ In case of Consortium advances, the Bank will follow the decision on the Collaterals as agreed to by the Consortium bankers.
- ¤ Bank may insist on collateral security up to 10% in case of medium scale borrowers.
- ¤ Collateral Security for agricultural /tiny sector and Small Scale Sector will be as per RBI/ HO guidelines and revision from time to time
- ¤ Bank may not insist for collateral security in case of financing to Doctors having degree of MBBS, BDS.
- ¤ Bank will not insist for collateral for Loans & Advances covered under CGTMSE.

11.10.7.2 ***For existing Borrowers (upon sanction of enhanced FBL/NFBL limits):*** The requirement of collateral security shall be –

11.10.7.3

- ¤ 10% to 20% of Fund based and Non Fund Based limits.
- ¤ Normally no collateral security may be insisted upon over and above existing collateral security, if any, provided prescribed margins are maintained and the borrower is having good track record, sound financial position and satisfactory dealings with the Bank.
- ¤ Bank may not insist for collateral security in case of financing to Doctors having degree of MBBS, BDS and above.
- ¤ In case of Consortium advances, the Bank may follow the decision on the Collaterals as agreed to by the Consortium bankers.

11.10.7.4 In the case of industries/activities in respect of which separate lending guidelines are in force, the prescriptions as laid down therein for collateral security shall be applicable.

11.10.7.5 ***Deviation –*** Any non-conformity with the security norms may be considered by the sanctioning authority on merits after duly recording the reasons thereof has to be reported to next higher authority.

11.11 ***Valuation of Collateral Securities:***

11.11.1 The valuation of collateral security of fixed assets including landed properties is to be obtained from government approved valuers. As suggested by RBI, valuation of collateral securities such as immovable properties charged to Bank should be taken once in three years.

11.11.2 ***PROTECTION FROM LIMITATION / SAFEGUARDING SECURITIES***

These measures aim saving the documents from getting time bared by limitation and protecting the securities charged to the bank from being tempered with by any charge that might be created by the borrower to secure his other debts, if any.

The objectives are sought to be achieved by:

(a) Obtention or revival letter within the stipulated period.

(b) Obtention of Balance confirmation from the borrower at least at annual intervals.

(c) Insurance of Assets (unless specifically waived) to ensure the Bank against the risk of fire and other hazards.

(d) The bank has revised standard documents in most cases for various types of loans given to the borrowers. Wherever standard specimens have not been evolved, these are suitably drafted on case-by-case basis with the help of Bank's approved advocate and to be vetted at Head office.

Furthermore, changes in the documentation procedures and the implications involved are circulated from time to time to all the branches / offices so that those who are responsible for obtaining and safeguarding the documents are made fully conversant with them, where advances are extended jointly with Financial Institutions, documents should be specifically drafted in consultation with solicitors / in-house legal experts to ensure pari-passu charge and / or second charge, whichever is applicable of moveable / immovable assets of the borrowers to protect the Bank's interest.

11.12 ***Personal Guarantees of promoters:***

11.12.1 With regard to obtaining personal guarantee of promoters, the Bank will be guided by regulatory guidelines issued from time to time. However, the Bank should invariably insist for personal guarantee of promoters in all borrowal accounts. Sanctioning authority may take a view looking to overall credit worthiness of borrowal account.

11.13 ***Authority to fix interest rate/s***

11.13.1 ALCO shall be the competent authority to effect changes, from time to time, in interest rates on advances and report to Board for noting.

11.13.2 Chairman is authorized to consider reduction in Rate of Interest up to 1% on applicable rate in each category of the loans/advances.

11.14 ***Guidelines for entitlements in reduction/concession in Service charges/documentation charges/processing charges:*** Any concession or waiver of charges for valued customers may be considered by the Regional Manager/General Manager/Chairman taking into account the business prospects, track record, other business consideration, as per the norms stipulated by the Bank. Agenda for delegation of power for different types of concessions / deviations / Inprinciple approval proposals has been approved by Board & each case sanctioned is to be reviewed by next higher authority.

11.15 ***No Objection Certificate (NOC)***

11.15.1 The Bank will maintain healthy relationship with its borrowers and will increase exposures to good rated clients. However, the borrower may request for granting of NOC to seek financial assistance from other banks and institutions, which may involve ceding charge on Bank's securities, thereby effecting modifications in the terms and conditions of sanction.

11.15.2 As granting of NOC tantamount to modification in the existing terms and conditions of the sanction, the NOC can only be granted by the sanctioning authority within his discretionary powers only after ensuring that there is dilution of bank's interest.

11.15.3 In case of takeover of the account by other bank/s, sanctioning authority shall consider issuance of NOC.

11.16 ***In-Principle Approval***

11.16.1 In this era of cut-throat competition, it is imperative that Bank should be in a position to communicate in-principle approval to the prospective borrowers expeditiously.

11.16.2 In this regard, the sanctioning authorities may consider "in-principle approval" within their discretionary powers after examining the overall bankability of the prospective client and policy compliances.

11.16.3 The communication by the Bank/Branch to the party containing the **"In-principle"** approval should invariably contain the following clause:

"This is an "**In-principle"** approval only and should not be construed as a final approval or commitment on the part of the Bank to accord final sanction. Regular sanction of the credit limit would be purely at the discretion of the Bank and subject to detailed appraisal of the full-fledged proposal to be submitted by you, compliance of Bank's norms, merits and subject to Terms & Conditions that may be imposed by competent authority in the Bank. Bank reserves the right to reject the proposal on analysis of full proposal. The "**In-principle"** approval is valid for a period of 3 months from the date of this communication."

12. DEVELOPMENT OF COMPLIANCE CULTURE:

12.1 Every official will endeavor to strictly adhere to the Policy Guidelines on Credit, while taking credit decisions.

12.2 Besides strict adherence to policy guidelines, endeavor should be to make it highly professional by :

12.2.1 Proper and timely reporting under different returns emanated from their desk to make it meaningful for the recipient.

12.2.2 Disbursement shall be in accordance with Terms of sanction and no disbursement shall be made without the prior approval of sanctioning/higher authority.

12.2.3 Aim to maintain zero tolerance level as far as adverse remark in the Audit /Inspection Reports are concerned. In case of any discrepancy/adverse feature reported by Inspectors/Auditors, rectification should be made on the spot and such spot rectification should also form part of their report.

12.2.4 In case, for any reason, the irregularities continue to persists/could not be rectified on the spot, reason thereof should be furnished to the Auditors/Inspectors and the same should be rectified within a maximum period of 30 days with proper reporting to controlling offices.

12.2.5 Any incorrect/wrong/misleading compliance would attract strict penal action under disciplinary proceedings.

13. CREDIT RECOVERY POLICY:

13.1 Management of Credit Assets:

13.1.1 Continuous monitoring and relentless follow up of advances both borrower wise and portfolio wise is sin-qua-non for building a strong asset base.

13.1.2 Borrowers operating in a highly competitive environment with swift changes in technology and dynamic macro-economic policies of Government are susceptible to business risk.

13.1.3 To insulate the Bank against such risks, Bank has put in place a system of classifying its Standard Assets into 'A' & 'B' categories.

13.1.3.1 Standard 'A' category assets are those which do not exhibit any signs of weaknesses.

13.1.3.2 Standard 'B' category assets are those that are exhibiting signs of weaknesses (any of its borrowal accounts (principal or interest) has remained overdue for a period exceeding one year; **or** there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous financial year).

13.1.3.3 In the case of Standard 'B' assets, Bank will take all necessary steps like restructuring / rephasement of repayment wherever necessary / for viable units and close monitoring of such assets are ensured.

13.1.3.4 The details of every customer who has caused loss to the Bank should be recorded. The antecedents of the proprietors / borrowers are required to be verified while doing credit appraisal.

13.1.3.5 By circulating information of Defaulter borrowers above Rs.1.00 Cr, where suit have been filed or classified as Doubtful. Bank's own defaulters list is to be considered while examining the credit proposal for Fresh, Review / Renewal and Enhancement.

14. LOAN RECOVERY POLICY:

14.1 The Bank has separate Loan Recovery Policy guidelines on Restructuring, Rehabilitation of Sick Units, BIFR, Corporate Debt Restructuring etc., which is being up-dated / modified on continuous basis by the Recovery Management Department, Head Office and updated by time to time.

15 QUICK MORTALITY (Quick mortality are those account which becomes NPA within 24 months from day of sanction):

15.1 It is obligatory on every person concerned to appraise the proposal with due care, take necessary steps to ensure that the borrower comply with all the terms of sanction, appropriate end-use of funds, adequate and close monitoring of accounts, etc., so that quality of advance account does not deteriorate. However, instances of quick mortality have thrown light on inadequacy of proper care at various stages of the loan, viz. Pre-sanction Appraisal, Post-sanction Monitoring, etc.

15.2 Branches shall take sufficient and utmost care in case of all new advances accounts, so that they do not become cases of quick mortality and extant guidelines with regard to compliance of terms and conditions should be strictly adhered to.

16 *STAFF ACCOUNTABILITY:*

16.1 While the Bank recognizes that utmost care and due diligence needs to be exercised by all Officials of the Bank at every level, it is also a fact that demands of profitability have to be balanced against safety of Bank's funds. Therefore, while the Bank will examine staff accountability when the asset classification of an asset changes from Standard to any category of non-performing asset, a discriminatory policy that distinguishes between mala-fide and bona-fide acts will be adhered to.

16.2 In cases where an element of fraud is manifest, the bank will approach staff accountability giving due weight age to the past record of concerned officials, the adherence to laid down systems and procedures etc.

16.3 The accountability at the level of controlling Office will be deemed to have arisen only in cases where the controlling authority has failed to take necessary action/s in time based on control returns and other returns received which is expected from the controlling authority in a particular situation.

17 *INSIDER ABUSE:*

As a lender, the Bank get some information of sensitive and technical nature pertaining to the business of the Borrower and any unauthorized use of the same may affect his/her business. As such all the Officers of the Bank shall maintain secrecy of all relevant information to avoid allegations of insider trading.

18 *TRAINING:*

All officials working in credit related areas shall undergo appropriate training at regular intervals at least once in year in credit and related matters.

19 VALIDITY

19.1 This policy shall be modified to give effect to the changes /directives from RBI/Government of India from time to time, subject to reporting to Board.

19.2 The above policy document shall also be revisited /reviewed to suit the changing environment requirement and till further review by the Board, this policy will be in operation. Efforts will be made to up-date the policy document preferably on annual basis.

20 IBPC:

Reserve Bank Of India vide their letter No. RPCD.CO.RRB.NO. 13/03.05.33/2009-10 Dt.04.08.2009 has allowed RRBs to issue IBPC of tenor up to 180 days on risk sharing basis to scheduled commercial banks against their priority sector advances in excess of 60 % of their outstanding advances. IBPC will help our Bank to improve profit .So Bank can issue IBPC of priority sector advances against scheduled commercial banks priority/non priority sector advances with benefit of interest in favour of RRB.

21 STAFF LOAN :

In case of loan/over draft to staff against banks own fix deposits rate of interest will be at par with interest rate applicable on deposit.

22 CONCLUSION:

22.1 Operational Guidelines/Guideposts:

Bank's Chairman & General Manager/s jointly will be the competent authority to develop and implement operational guidelines/guide posts on matters like Margin, Security including Collateral Security, Financial Ratios, Appraisal areas etc. which is the part of Credit policy and submit to review/noting to Board.

22.2 Institution's Money:

Details of every customer who had caused loss to the bank should be properly recorded and the credit officer/Branch Manager should be aware of the antecedents of such customers and those appearing in defaulters list.

22.2.1 The contours of the credit philosophy and policy of the bank have been stated in this document.

22.2.2 Operating instructions/guidelines arising out of the credit philosophy stated herein will be issued from time to time by the Bank. All the dealing credit officers engaged in sanction and follow up of credit facilities will be mandated to get them familiarized with all facts of the credit philosophy and policy.

22.2.3 Credit Policy would remain valid till subsequent revise policy approved by Board.