DRAFT CREDIT MANAGEMENT & RISK POLICY (FOR RRBs)

1. OBJECTIVE

The Credit Management & Risk Policy of the bank at the macro level is an embodiment of the Bank's approach to understand, measure and manage the credit risk and aims at ensuring sustained growth of healthy loan portfolio while dispensing the credit and managing the risk. This would entail reducing exposures in high risk areas, emphasizing more on the promising industries/productive sectors/segments of the economy, optimizing the return by striking balance between the risk and the return on assets and striving towards maintaining/improving market share.

2. STRENGTHENING THE STRUCTURE & PROCESSES OF CREDIT RISK MANAGEMENT

2.1 Definition of "Credit Risk"

"Credit risk" is the possibility of loss associated with changes in the credit quality of the borrowers or counter parties. The counter parties may include an individual, small & medium enterprise, corporate, bank, financial institution, or a sovereign. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a borrower or counter party to honour commitments in relation to lending, settlement and other financial transactions.

2.2. Credit Risk Management -Framework

The overall framework of credit risk management in the bank would comprise of following building blocks:

2.2.1 Credit Risk Management Structure
2.2.2 Credit Risk Policy & Strategy
2.2.3 Processes and Systems

2.2.1 CREDIT RISK MANAGEMENT STRUCTURE

Under overall credit risk management framework, the bank has put in place the following structure:

A i) Risk Management Division (RMD):

The cell is headed by General Manager with distinct functions related to credit risk, namely:

- Framing of policies, inter-alia, related to credit risk, development of systems & models for identifying, measuring and managing credit risks and their implementation;

- Monitoring and managing the industry risk;
- Integrated risk management functions;
- Obtaining approval of Chairman/ Board.

ii) Regional Risk Management Departments (RRMDs):

Risk Management Departments functioning at Regions are called as Regional Risk Management Departments (RRMDs). RRMDs will function under the administrative supervision of second senior most official of the Region. The operational work will be looked after by Chief/Functional Manager of the Regional Office who is not directly involved in the process of the sanction of credit proposal. Their responsibilities include monitoring and initiating steps to improve the quality of the credit portfolio, tracking down the health of the borrowal accounts, besides assisting the respective Credit Committee in addressing the issues on risk. Their role in Credit Risk Management includes the following:

- To ensure that risk awareness percolates down to the branch level in the Region.
- To make scrutiny of all loan proposals falling under the powers of Region and Head Office from the credit risk angle.
- To take steps for upgradation of the skills of risk raters through periodical seminars/ training.
- To undertake Portfolio, Migration & Default Rate analysis for their respective Region.
- To undertake variance analysis of the rating being vetted by their office and ensuring that corrective measures are initiated to improve the position.
- To assist RMD, HO in formulating and developing bank's credit policy based on behavior of Region credit portfolio by giving feedback on the analysis made by them on various industries to which exposures have been made at Region level.
- To furnish feedback on refinement to be made on the credit risk rating tools on an on-going basis.
- To conduct studies and suggest to RMD with supporting documents, the area which shows increasing trend in risk perception viz. a particular scheme/ segment/ industry/ credit practice in geographical area showing signals of increased risk.

B. Risk Management Committee (RMC) is a Sub-committee of Board with overall responsibility of formulating policies/ procedures and managing all the risk. It adopts integrated approach in managing all the risks.

C. Formation of Credit Committees:

The Scope of Credit Committee will be winded to cover the proposals falling under the vested loaning powers of ROs working as Regional Heads. Accordingly, every loan proposal falling within the vested powers of Regional Head and above is discussed in a Credit Committee, which, on the merit of the case, recommends the proposal to the sanctioning authority. Such committees have been formed both at HO and Regional Office levels. The current constitution of the committee at HO/ Regional Office is as under:

- One senior officer from credit department.
- One senior officer from RRMD/SAMD.
- One independent senior officer not concerned with credit.

The members should preferably be in the rank of scale III or above but not below the level of scale II in Regions where sufficient officers in scale III and above are not available.

The committee deliberates upon the credit proposals including risk rating of the borrower, risk specific to the borrower, risk in the industry and suggests mitigation thereof.

D) Credit Approval Committees (CACs)

In order to improve quality of decision making and reverse the growing trend of upward delegation, two Credit Approval Committees have been set up at Head Office level, one headed by General Manager (Credit) and other by the Chairman. These committees shall be named as HOCAC Level-I and HOCAC Level-II, respectively.

i) HOCAC Level-I shall deal with the credit proposals falling within the vested loaning powers of General Manager at Head Office.

ii) HOCAC Level-II shall deal with the credit proposals falling within the vested loaning powers of the Chairman at Head Office.

The members of Credit Approval Committees at Head Office Level shall be as under:

S. No.	CAC at HO Level	Headed By	Constitution
1.	HO CAC Level - I	General Manager (Credit) - For Credit Proposals falling within the vested powers of General Manager	General Manager (Credit), Chief Manager (Credit), Chief Manager /Functional Manager (SAMD), Chief Manager/Functional Manager (I&A), Chief Manager /Functional Manager (P&D), Functional Manager (Credit)
2.	HO CAC Level - II	Chairman - For Credit Proposals falling within the vested powers of the Chairman	Chairman, General Manager (Credit), Chief Manager (Credit), GM/Chief Manager (SAMD), GM/Chief Manager (I&A), Chief Manager /Functional Manager (FID), Chief Manager /Functional Manager (P&D), Functional Manager (Credit)

Minimum quorum of HOCAC shall be three members and presence of head of the committee shall be mandatory. The proposals to HOCAC Level-I and HOCAC Level-II shall be marked by Chief Manager (Credit) and the General Manager (Credit) respectively.

The operational aspect of the HOCAC Level-I and Level-II involving convening of meeting, circulation of the agenda, preparation and placing of minutes, etc. shall be undertaken by the Credit Division under supervision of the General Manager.

The minutes of HOCAC Level-I shall be placed to HOCAC Level-II and the minutes of HOCAC Level-II shall be put up to the Board.

iii) Credit Appraisal Committee at Regional Office Level (ROCAC)

At Regional Office level, CAC shall be set up to consider proposals falling beyond the vested loaning powers of Incumbent of the branch but within the vested loaning powers of the Regional Manager.

The members of Credit Approval Committee at Regional Office Level shall be as under:

RO Level	Headed By	Constitution
RO CAC	Regional Manager - For Credit Proposals falling within the vested powers of Regional Manager	Regional Manager, Functional Manager (Credit), Functional Manager (SAMD), Functional Manager (Accounts), Functional Manager (P&D), Functional Manager (I&A)

Minimum quorum of ROCAC shall be three members and presence of head of the committee shall be mandatory.

2.2.2 CREDIT RISK POLICY & STRATEGY

In order to provide a robust risk management structure, the policy aims to provide a basic framework for implementation of sound credit risk management system in the bank. It deals with various areas of credit risk, goals to be achieved, current practices and future strategies.

I. THRUST AREAS

In the year 2014-15**,** the thrust areas for the bank shall be as under:

i) Retail Segment

Retail segment for business ownership credit dispensation purposes is considered a segment of borrowers governed by the various retail lending schemes. The performance, monitoring and control under such schemes shall be looked after by Planning & Development / Loans & Advances Department.

In order to facilitate the field functionaries for expeditious and proficient appraisal of loan proposals pertaining to Retail Segment Schemes, operational guidelines contained in various circulars issued by the Head Office of the Bank from time to time have been circulated.

Moreover, in order to improve quality of retail loan segment, Rule Base Lending (RBL) Policy guidelines have been implemented.

Following areas will be focused to build robust and quality based retail loan portfolio:-

(i) Pricing the retail products with competitive edge;
(ii) Curtailing the turnaround time in sanction/disbursement of loans.
(iii) Strengthening the retail marketing teams for popularizing the products in the nook and corner of the operational area of the Bank and optimizing retail dispensation;
(iv) Imparting requisite credit skills/knowledge through trainings/workshops.
(v) Ensuring timely recycling of funds, by further strengthening recovery mechanism.
(vi) Bringing objectivity and efficiency in decision making.
(vii) Making value additions in the retail products to keep them customer friendly.

There will be a continuous focus on maintaining and improving the quality of assets so that the NPA level in retail loans is kept at minimal level. Emphasis will particularly be on taking more stringent measures with a view to avoiding delinquency in the retail segment due to acts of impropriety on the part of the borrower through forged documents or the same borrower raising multiple loans from different Banks against the same asset. Some of the steps, requiring more focused attention, to address the credit and fraud risks shall include the following:

(i) Identity Proof of the customer and Market information;
(ii) Physical verification of the credentials from the employer and residence of the customer;
(iii) Stability of employment and period of stay at the place of residence;
(iv) Strict checks on the verification of income & other documents submitted by the customer;
(v) Physical verification of collateral offered;
(vi) Proper selection of Advocates/Valuers/ Chartered Accountants for various tasks relating to retail loans as also for other types of loans & advances.
(vii) Personal discussion with the customer involving pointed queries to know the customer profile, family background, qualification, work experience, property owned, other earning members in the family, lifestyle maintained, family budget, customer behaviour, attitude, etc.
(viii) Careful assessment of other liabilities/market indebtedness of the customer.

Advances under following retail loan schemes will be encouraged for increasing the priority sector portfolio:

1. Housing loan to public and Retail Advances covered under Priority Sector.

(ii) PRIORITY SECTOR CREDIT:

Bank will continue to direct its policies for boosting advances to all segments of Priority Sector to remain ahead of the national goals under priority sector, agriculture sector, weaker sections, women beneficiaries, Solar Lighting System, Joint Liability Groups, etc.

In addition to agriculture, thrust shall remain on boosting Micro Credit by formation of Self-Help Groups and also to have higher growth under small enterprises, Education, Housing and Retail Trade Segments of Priority Sector.

Moreover, keeping in view the priority of Government of India to provide General Credit Card to all eligible non farmer, a new scheme ‘Overdraft Facility in SB-GCC Accounts’ has been implemented which will provide hassle free instant credit to the rural people for their petty needs in a simplified way.

In addition to the above, in order to bring good customers having satisfactory repayment history under Bank’s fold, the guidelines for takeover of borrowal accounts from other Banks / financial institutions have been implemented.

Thrust will be given for increasing Agricultural Investment Credit Portfolio under Kisan Investment Credit Card Yojana (KICC), for purposes like Horticulture, Farm Mechanization, Minor Irrigation, Post Harvest Technology, Transportation and Processing, etc.

Apart from traditional activities, financing under Commercial Dairy/Poultry and other allied agriculture activities like bee-keeping, fisheries, etc. shall be encouraged. In addition to this, thrust shall remain on boosting financing Solar Home Lighting System and other Solar Systems.

Loans for pre and post harvest activities including food and agro-processing under taken by individuals, SHGs and JLGs will be encouraged for increasing lending under Priority Sector besides loans to food and agro processing units (investment in plant & machinery upto Rs. 5 crore.

Formation of more and more Farmers' Clubs and organization of Kisan Goshthies for dissemination of latest information regarding farming and to create awareness about our various loan schemes shall be encouraged.

In order to increase income level and reduce unemployment and poverty, efforts shall be made to promote micro-finance through formation and credit linkage of Self Help Groups. Thrust shall be given on financing to tenant farmers and oral lessee farmers by forming Joint Liability Groups (JLGs). Financing of Micro Enterprise Projects, especially to agriculturists, self-employed persons, the urban poor and women beneficiaries shall be the thrust area

Committed efforts will be made with the help of Business Correspondent Agents to make Banking services easily accessible to the vast un-Banked population in rural and semi-urban areas to maximize Financial Inclusion through KIOSK banking solutions. Special Financial Inclusion Project for 100 per cent Financial Inclusion in command area of our Bank branches has already been launched.

Focused attention shall be paid to increase disbursement under following Priority Sector Schemes:

i. Kisan Credit Card/Crop Loans
ii. Farm Mechanisation viz. Tractor-Trolley, Combine Harvester and Other Agriculture Implements
iii. Minor Irrigation
iv. Plantation/Horticulture
v. Purchase of Agriculture Land
vi. Dairy Development
vii. Bio-Gas

Our main focus will be on Poly Houses and Kisan Credit Cards (Rs.10 Lakh & above)

In order to facilitate the field functionaries for expeditious and proficient appraisal of projects pertaining to direct agriculture and its allied activities, the operative guidelines contained in various circulars issued by Head Office of the Bank from time to time which would be very helpful for field functionaries in augmentation of Agricultural Credit Portfolio.

The revised guidelines of Kisan Credit Card scheme have been implemented for the benefit of farmers and branches have been advised to give wide publicity so that maximum number of farmers may be benefited and agricultural advances portfolio of our Bank may be boosted.

(iii) Advances to Micro and Small Enterprises (MSEs):

(i) The Bank shall continue to lay emphasis on financing Micro and Small Enterprises and our existing MSE credit portfolio shall be enlarged by customer friendly products.

(ii) Endeavour will be to achieve a minimum growth of 25 per cent per annum in MSE advances and to increase the share of the Micro Enterprises advances (i.e. manufacturing/ service enterprises having investment in plant and machinery/equipment up to Rs. 25 lakh / Rs. 10 lakh) in the advances to Small Enterprises to 60 per cent.

(iii) The Bank is financing Artisans, Craftsmen, Village & Cottage Industries and Industries falling under PMEGP (Prime Minister Employment Generation Programme). The small non–farm sector units in rural areas, women, minorities, SC/ST and other special groups are being financed in terms of Government of India/Reserve Bank of India policy and shall continue to be given more focused attention.

(iv) The Reserve Bank of India guidelines on financing to MSEs shall continue to be followed and incorporated in various schemes for financing MSEs. These guidelines on timely sanctioning of MSE applications, margin, rate of interest, collateral security, etc shall continue to be adhered to.

(v) The Bank envisaged credit growth through MSMEs, Financial Inclusion, through collateral free and without third party guarantee lending by leveraging CGTMSE. For this, the Bank has made Mandatory coverage under CGTMSE for loans up to Rs. 50 Lakh to Micro and Small Enterprises (MSEs).

The Bank has adopted the code of Bank's commitment to Micro & Small Enterprises of Banking Code and Standards Board of India (BCSBI).

CD Ratio:
In order to boost CD ratio of rural and semi urban branches, specific emphasis will be laid on marketing and financing under rural based lending schemes. Endeavour would be to take up hi-value agri-projects and cluster based lending to small and medium enterprises, to enable bank to **surpass** the benchmark of CD ratio set for rural and semi-urban areas by RRB ALCO Committee under the leadership of Chairman. The ALCO meeting should be convened fortnightly.

With the above policy Bank aims to achieve the following National Goals under Priority Sector and Sub-sectors:

Sector	National Goal
Priority Sector	60% of total advances
Weaker Sections	15% of Total Advances (25% of Priority Sector advances)

Credit Squeeze: Branches having CD ratio more than 80% and NPA level over and above corporate level, Chairman/ General Manager (Credit) shall review the branch performance, quality of assets from the angle of risk management and will decide for restricting the loaning powers, if required, except Govt. Sponsored Schemes. However, Head Office shall keep a watch on branches with higher CD ratio accompanied with higher NPA level.

II OTHER STRATEGIES

I) Non-Fund Based Business

Non-fund based business shall be increased so as to augment non-interest/fee based income. There is a need to explore more and more avenues under this category by adopting aggressive marketing strategies. Some of the strategies to be adopted in this direction are as under:

While considering non-fund based business, the aspect of additional cost towards requirement of capital shall be kept in view.

Further, it shall be ensured that non-fund based facilities like issuance of guarantees, opening of LCs, and acceptances are not extended to Non-Constituent Borrowers or/and Non-Constituent Member of a Consortium/Multiple Banking Arrangement.

As regards to the assessment of NFB facilities, the proposals for issue of non-fund based limits should be thoroughly appraised and assessed with the same diligence as is done in case of fund based limits by ensuring that projections and cash flows are realistic and in line with the past trend and the borrower would be in a position to perform the obligations/honour their commitments out of their resources as and when needed.

iii) Take Over Of Accounts From Other Banks

Only borrowal accounts in "Standard Category" having Credit Risk Rating 'BB' or better can be taken over from other banks. However, Chairman may consider takeover of **B** rated accounts in large and mid corporate categories on merits of the case shall have full powers in this regard.

Further, such borrowers should have earned net profit after tax in the immediate preceding three years and have sound financial position.

Takeover of Housing/Retail segments loans, should be permitted by the sanctioning authority in case of standard category, regular and fulfill all the terms and conditions of the scheme. The rescheduling in the accounts should not be permitted except in case of change in interest rate.

In order to further strengthen the eligibility criteria for takeover current ratio and debt equity ratio (as per DER policy) have been made as additional criteria while considering takeover of borrowal accounts. In cases where the current ratio and debt equity ratio are not within the prescribed range, such takeover proposal cases may be considered as under:

- In case of Regions, such proposals shall be considered by GM (HO) within his vested loaning powers.

- However, GM (HO) and above shall exercise their vested loaning powers for considering takeover of such borrowal accounts.

- The sanctioning authority should give due justification/ comment for accepting the account for takeover duly highlighting the other favourable features of the account.

- For accounts, which are in existence for less than three years, the unit should have earned cash profit during first year of commercial operation and from second year onward, the unit should have earned net profit after tax. However, in such cases, at least one audited balance sheet should be available before hand. However, for assessing the criteria of cash profit in the first year of commercial production, the working of 12 months should be reckoned.

- Borrowal account would be taken over from other banks only on selective basis on merits
- The accounts of project financing where commercial production has not started or just started, takeover can be considered, if project is found technically feasible and economically viable subject to the fulfillment of conditions.
- Credit reports of the client obtained from the existing bankers should be satisfactory.
- Besides, other guidelines for takeover of accounts shall also be adhered to.

B DECISION ON RISK ACCEPTANCE LEVELS:

The bank has also taken various initiatives for putting in place the systems for risk acceptance, wherein informed decisions on credit sanctions are taken after taking care of the risk inherent in the borrower and returns desired by the bank. Certain policy initiatives taken are as:

I Loaning Powers

The Bank has in place a multi-tier credit approving system. In order to enable the field functionaries for taking expeditious decisions and also to attract quality accounts, adequate loaning powers have been vested with the sanctioning officials.

Guidelines to allocation loan sanctioning powers at various levels of Senior Officers are given below:

Level of Senior Officer	**Amount up to which loan can be sanctioned**
CM at Branches/Regional officers (ROs)	Rs.1.00 Crore
General Manager	Rs.2.00 Crore
Chairman	Rs.5.00 Crore
Board	Rs.10.00 Crore

- Credit Proposals above Rs.10.00 Crore to individuals, Corporates, Group of Corporates, Institutions or any other entity shall not be considered for acceptance/sanction including participation of IBPC other than Sponsor Bank.
- Branches with Incumbent in-charge scale I, II send the loan proposals beyond their vested powers and the Incumbent in-charges whose powers have been suspended on certain administrative grounds also send the proposal to ROs for sanction. Proposal falling within the sanctioning power of Functional Manager upto Scale III be sanctioned by the Sr.

Manager (Scale III)/Manager (Scale II) as the case may be and will be put up to Regional Manager for review.

- Exposure Norms: Credit exposure ceiling shall not exceed Rs.10 Crore in case of individual borrower / group borrowers, the exposure will be sum of Fund Base and Non Fund Exposure to a single Group borrower/s.

- All the proposals falling within the vested powers of Senior Officers of Administrative Offices shall be placed before the respective credit approach committees. However the branch officials in various scales shall continue to exercise their vested loaning powers as per the extant system.

- Various miscellaneous credit related issues, discretionary powers in the matter of service charges/pricing, administrative approvals etc. are vested with senior officials (Administrative Offices), CACs shall be exercised by these committees while dealing with such miscellaneous credit related issues.

- Detailed Guidelines regarding CACs including their constitution and operational aspects etc. are available at **Annexure.**

II Adhoc limits:

To meet the emergent requirements in respect of standard account whose viability is not in doubt as at present, officials may permit adhoc facilities in exceptional circumstances in highly deserving cases after a complete appraisal thereof giving proper justifications, as under:

Sl. No.	**Adhoc Facilities to be permitted by officials up to the level of:**	**Time period up to which Adhoc Facilities in Secured Limits can be considered up to a maximum of:**
1.	Regional Manager	01Months
2.	General Manager	03 Months
3.	Chairman	05 Months

Such powers shall be exercised by the various officials discreetly and not in a repetitive and routine manner.

To meet the genuine requirements of borrowers, need based limits shall be considered rather than allowing frequent adhoc facilities. However, rollover of adhoc facilities should not be permitted beyond the period mentioned above.

III Linking of pricing with credit risk:

The pricing is linked with credit risk. Interest rate is charged depending upon the quality of asset. In normal course of business, better accounts are priced at lower rate of interest as compared to low credit worthiness having low risk accounts. However, in the larger business interest of the bank, the competent authority can permit lower than normal rates on case to case basis strictly on merits by recording the reasons/justification for making the exception as under:

Authority	Relaxation in ROI
Regional Manager	NIL
General Manager	1.00%
Chairman	3.00%

The concession in rate of interest may also be given only when we will be having surplus funds and no opportunity will be available to deploy the funds profitably. The decisions shall be taken by the Chairman on the recommendations of Credit Committee cited earlier.

Bank will endeavor to develop its own Risk Rating model by **01.04.2015** and present system of relaxation of ROI will continue till implementation of the same.

(iv) Confirmation of Action:

The officials shall exercise the vested loaning powers and also the powers of permitting relaxations in various matters diligently and shall not exceed the vested powers. However, in exceptional circumstances and for bonafide exigencies, wherever such powers are exceeded, the existing system of **reporting the same immediately** but in any case not later than seven days from the date of the transaction **to the Controlling Authority for confirmation by the Competent Authority** shall continue to be followed.

(v) Benchmark Prime Lending Rate (BPLR):

The Bank has determined the bench mark PLR (BPLR) after taking into account actual cost of funds, operating expenses and a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin. Current BPLR of our Bank is 14%. BPLR is the reference rate for determination of rate of interest for the borrowal accounts. Further, for determining interest rates on all term loans repayable in 3 years and above, a term premia of 0.50 per cent is to be added for arriving at interest rate over and above the card rate for the relevant category. As regards rates of interest for advances above Rs. 2 lakh, different rates are prescribed depending upon the activity/sector of the borrower, recovery position of the sector, risk premium applicable for particular borrower/ industry, etc. Interest rates for loans up to Rs. 2 lakh shall not exceed BPLR.

C ADHERENCE TO PRUDENTIAL EXPOSURE NORMS:

Exposure

Credit Proposals above Rs.10.00 Crore to individuals, Corporate, Group of Corporate, Institutions or any other entity shall not be considered for acceptance/sanction including participation of IBPC other than Sponsor Bank.

Prudential exposure limit for single/group borrowers:

Group Exposure Norms: Credit exposure ceiling shall not exceed Rs.10 Crore in case of individual borrower / group borrowers, the exposure will be sum of Fund Base and Non Fund Exposure to a single Group borrower/s.

Real Estate:

It being a sensitive sector, RRB should avoid this Sector for exposure.

2.2.3 PROCESS AND SYSTEMS

A comprehensive credit risk management process encompasses the following steps:

A. Credit Risk Identification and Measurement
B. Grading of Borrowers under the Rating System
C. Reporting and analysis of Credit Risk
D. Portfolio Management
E. Use of Securities as Risk Mitigants
F. Use of Guarantees as Risk Mitigants

A. Credit Risk Identification and measurement

Credit risk management process involves identification, measurement, monitoring and control. The bank has put in place strong credit risk management structure, which ensures continuous identification of possible areas, which may adversely affect the credit quality of a borrower and/ or portfolio.

The process of identification of credit risk is done by:

- Identifying potentially good and weak industries to manage risk in portfolio.
- Identifying potential credit risk in a new as well as existing borrower through various credit risk rating models.
- Identifying signals of weakness in an existing borrower
- Identifying weak accounts having incipient sickness.

a. Credit Risk Rating Models:

To measure risk in individual borrowal accounts, the bank has identified various segments. Borrowers in these segments reflect similarity of potential credit risk factors and as such can be rated using the single model for the segment. Parameters under these models capture potential credit risk both internal as well as external, which may affect the credit quality of a borrower. The credit risk rating awarded to a borrower is subject to review from time to time. These models have already been implemented at the field level and results of these models are regularly monitored to calibrate/ refine the models. The bank is also aggregating the credit risk in its rated portfolio and monitoring the same. Advance portfolio risk identification and measurement models shall be adopted by the bank on completing the measurement of credit risk in its entire portfolio.

b. Categories of "Advances" exempted from Credit Risk Rating

Out of the total Credit portfolio of the bank covered under the purview of different rating models, the following categories of advances are exempted for rating purposes:
Demand Loan, Staff Loan and proposal backed by 100% Cash Collateral.

c. CREDIT DELIVERY

STRENGTHENING OF PRE-SANCTION APPRAISAL

To ensure the quality of loan portfolio, pre-sanction appraisal is given special attention. Over the years, Bank has developed useful credit appraisal methodology, which is constantly toned up in the light of the experience gained. Induction/intensive training on Credit Management and Risk Mitigation is provided to officers to bring improvement in the quality of appraisal.

As regards retail loans, the bank has been following the system of Score based lending for housing loan, car loan & personal loan schemes etc., which envisages assigning of scores to the prospective borrowers for the purpose of deciding their eligibility for these loans. This process is aimed at healthy growth of the Retail loan portfolio of the bank.

Due diligence and market intelligence on borrowers/borrowing firms are important ingredients of Credit Management. Before sanction and disbursement of loan, visit of the unit, market report on borrowers and guarantors, besides other pre-sanction/pre-disbursement guidelines issued from time to time, should be a part of corporate culture. At the time of compilation/review of Confidential Reports (CRs) on borrowers/borrowing firms/co-obligants/guarantors, following points should be kept in view:

- It is imperative that the CRs should invariably be compiled/reviewed in terms of laid down guidelines.
- At least two reports on each party should be obtained from sources uninfluenced by the party.
- It should be noted that the name of the person with his position in the firm or the company must invariably be given while incorporating market reports in the CRs.

- Reports should also be obtained preferably from all other banks with which the party has dealings. Such reports are, however, usually very brief and drawn up in general terms and need to be amplified by enquiries from other reliable sources.

I. Valuation of Property and Plant & Machinery.

(A) Valuation of Property:

Based on Sponsor Bank (PNB) guidelines on valuation of property and empanelment of valuers, our policy on valuation of property is as under:

(i) **In case of fresh loan accounts:**

In borrowal accounts where aggregate credit limits shall be Rs.10 Lakh & above and value of immovable property to be mortgaged/charged is Rs.20 Lakh & above, branches shall get valuation of such Immovable Property done from the valuer on the Bank's approved panel. However, the valuation of agriculture land will continue to be done by incumbent-in-charge at the circle rate/market rate whichever is less.

(ii) **In case of existing loan accounts:**

Wherever the Incumbent feels that realisable value of IPs is significantly lower than the one on Bank's record in accounts with aggregate limits/outstanding of Rs.10 lakh & above and value of immovable property mortgaged/charged to the Bank is Rs.20 lakh & above, he may get the property re-valued from the Bank's approved valuer provided the valuation is more than **one year old.** Further, periodicity for valuation from approved valuer would be once in 3 years.

Further, if the value of immoveable properties (IPs) is more than Rs. 5 crore, the valuation from two approved valuers of the Bank shall be obtained.

Moreover, Incumbent-In-charge shall personally inspect the security and submit the report on the prescribed proforma for Counter Checking the Value of Property Assessed by approved Valuer in all cases.

(iii) **In all other cases:**

In all other cases including the above, valuation of property shall also be done by the Incumbents by adopting one or more of the following methods:

(a) Taking Architect's or Valuer's/Engineer's Certificate if the property consists of a building.

(b) Scrutinizing the valuation certificate issued by local authority for taxation purposes.

(c) Making enquiries through brokers, neighbours, etc.

(d) Net Yield Method (by way of rent).

In those cases also where there is significant variation in the valuation reported by borrower and the one assessed by the Incumbent, the property shall be got valued from the valuer on the approved panel.

Further, in all cases if there is significant variation i.e. 25% & above in the realisable value of the property reported by the valuer and the one assessed by the incumbents, fresh valuation by another approved valuer of the Bank should be got done after consultation with the concerned Regional Manager, which should be treated as final. However, where variation is below 25% i.e. one reported by the valuer and the other assessed by the incumbents, the lower of the two may be reckoned as value of the property.

Subsequent valuation should be assigned to the empanelled valuer other than the valuer who has conducted the previous valuation.

(B) Valuation of Plant & Machinery:

(i) In cases where **new plant and machinery** is to be financed, the cost price indicated in the quotation/ supplier's bill shall be reckoned as its value, which should be verified by making enquiries through other vendors supplying such machinery.

(ii) In fresh borrowal accounts where credit facility is to be considered against the principal/collateral security of **existing plant & machinery** to be charged to the Bank by way of hypothecation, mortgage, etc., valuation of such plant & machinery be got done by branches from the valuer on the Bank's approved panel.

Visit of Senior Officers

i) The Chairman may visit 5% of the total branches of the bank in a year.

ii) General Managers – HO may visit 10% of the total branches in a year. It is also proposed that visit of Regional Offices in every quarter by GM-HO / Chairman alternatively.

iii) Regional Officers may visit al the branches in their respective controlling areas once in a half year in such a way that 50% of the branches are covered in a quarter.

Further, officials should visit the branches in such a way that all branches having critical areas like higher NPA, low business growth, critical branches as per Inspection Report, extra ordinary growth in advances etc. are covered 100%.

METHODS OF LENDING:

(A) Working Capital:

Following systems shall continue to be followed for assessment of working capital requirements of the borrowers:

(i) Simplified method linked with turnover:

Simplified method based on turnover for assessing working capital finance upto Rs.2 crore (upto Rs. 5 Crore in case of SME units) shall continue, as per RBI guidelines

(ii) Maximum Permissible Bank Finance (MPBF) System:

Existing MPBF system with flexible approach shall be followed for units requiring working capital finance exceeding the above-mentioned amount in terms of guidelines of Punjab National Bank.

(B) Assessment of Non-fund based facilities:

Assessment of Non-Fund based facilities shall be subjected to the same degree of appraisal, scrutiny as in the case of fund based limits because outstanding in these facilities are to be reckoned at 100 per cent for exposure purposes. Therefore, need based requirement of a borrower should be assessed after reckoning the lead time, credit period available, source of supply, etc., in case of LGs. The working of Non-Fund Based assessment is to be incorporated in the appraisal note. Further, while assessing non-fund facilities, cash flow aspects should also be taken into account.

POST-SANCTION MONITORING AND FOLLOW-UP:

(A) Documentation – Vetting of Loan Documents:

Bank has put in place a system of Vetting of Loan Documents from the approved advocate in case of borrowal accounts, with sanctioned limits of Rs. 20.00 Lac & above (both fund based and non-fund based). The system should be followed meticulously. Panel of Advocates already approved shall be used for this vetting process.

(B) Legal Compliance Certificate

Under this system, for all credit limits of Rs.10 Lac & above, branches will submit legal compliance certificate, certifying the compliance of all the formalities contained therein. Pending formalities, if any, shall also be reported in terms of extant guidelines. The same is to be submitted in respect of all fresh sanctions/ enhancement/renewal, to the respective controlling office, within the stipulated time.

(C) Ensuring end-use of funds:

As a matter of prudence, Bank needs to ensure end-use of funds it has lent. The Bank shall strengthen its internal controls and the Credit Risk Management System to ensure end-use of funds, which would enhance the quality of the loan portfolio. Some of the illustrative measures that could be taken by the branches to ensure end-use of funds are as follows:

(i) Carefully scrutiny of quarterly progress reports/operating statements, balance sheets of the borrowers;
(ii) Regular inspection of borrowers' assets charged to the Bank as security;
(iii) Periodical scrutiny of borrowers' books of accounts:;
(iv) Periodical visits to the financed units;

The appraising office, i.e. Branch Office/RO/HO, as the case may be, should conduct pre-sanction visit of borrower's factory/business premises/IP offered as security in the loan account/borrower's place of work/residence as part of appraisal and annex the copy of visit report with the proposal. The details of such visits are required to be reported in the Unit Inspection Register. Further, in order to minimize the instances of selling off of mortgaged IP/multiple mortgages, etc., a well defined system for periodic visit to the mortgaged property shall be put in place to ensure that the security remains charged to the Bank during the currency of the loan and guidelines in this regard will be as follows:

(a) **For Regular accounts:** At least one personal visit in a year, by the Branch Incumbent or the 2nd Officer.
(b) **For Irregular/NPA accounts:** At least one personal visit in three months.
(c) **Stock Audit:** Banks may have a policy to conduct annual stock audit (including book debts) for all accounts with fund based working capital limits of Rs.1.00 Crore and above whether standard or NPAs, which shall be followed by the branches. Further, in respect of borrowers enjoying fund based limits of less than Rs.2 Crore, the guidelines for getting the stock audit done in emergent cases and/or, wherever bank's interest demands, with prior concurrence of Head Office be required.

(D) **Recovery in Loans:**

To maintain better quality of the loan portfolio, recovery of Bank's dues in time has a crucial importance in post-sanction monitoring process in the Bank. At all levels, meticulous follow up needs to be continued to ensure that the recovery is made timely, in all loan accounts in terms of sanction, to ensure that no overdues remain outstanding in any loan account.

(E) Monitoring of Weak and Irregular Accounts:

The Bank has established systems for inspection and control of its lending activity to ensure that loan accounts are conducted in terms of sanction so as to have a sound credit portfolio.

All Irregular/NPA accounts shall be followed up by the Incumbent-In-charge/2nd Officer at the Branch Level. At field level, monitoring of all such accounts is done as under:

All Accounts	Branch Manager
Above Rs.50000/- and up to Rs 5 Lakh	Regional Manager
Above Rs. 500000/-and up to Rs. 10 Lakh	General Manager
Above Rs. 10 Lakh	Chairman

(F) CRAR

CRAR should be calculated on quarterly basis and position put up to the Board for information

OTHER ASPECTS:

(A) Group Approach:

For identification of a group, the guiding principle is "Commonality of Management and Effective Control".

In case the accounts of any unit belonging to a Group become irregular and the concerned promoters do not co-operate with the Bank and Financial Institution to settle their dues, the Group will not be provided accommodation from the Bank. While dealing with cases involving extension of fresh facilities to such units belonging to a group, the under mentioned basic point shall be kept in view:-

"Financial support for setting up of new ventures or expansion should not be extended to unit belonging to a Group which is willful defaulter or non co-operative so as to ensure that no amount lent to a healthier unit of a Group for its Working Capital requirements is transferred to another unit within the Group by reducing the Current Ratio of transferor unit.

For identification of cases of Promoter Groups/Companies for deterrent action, a coordinated approach be taken with Banks and Financial Institutions.

Industrial Units in Public Sector are to be kept out of the purview of "Group Approach."

(B) Use of Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI):

The Bank has got registered with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) to file information in relation to mortgage by deposit of

Title Deeds with the registry. The objective of the registration system is to compile data relating to the secured transactions which can be searched by any person on payment of fee prescribed.

(C) Willful Defaulters and Action against them:

Guidelines regarding action against willful defaulters are now being issued by Special Asset Management Department at Head Office.

D) Sharing of Information

Sanction of fresh /ad-hoc /renewal of loans to new/existing borrowers should be done only after obtaining/sharing necessary information on the prescribed format, as the Bank would be liable to action by RBI including imposition of penalty w.e.f. 1st January 2013 for non-adherence of RBI Directions in case of lending under consortium/multiple Banking Arrangements/Joint Lending Arrangement.

E) Validity of Credit Limit Sanctioned

Sanctions in respect of Working Capital and Term Loan facilities shall be valid for 6 months, from the date of sanction. Facilities not availed within the above period should be treated as lapsed and borrower be advised accordingly. Unless a lapsed sanction is revalidated by the competent authority within a maximum period of 12 months from the date of sanction, no facility should be released.

F) Use of data of Credit Information Companies and RBI defaulters list

With the aim of taking informed credit decisions, the bank has become a member of Credit Information Companies (CICs) namely Credit Information Bureau (India) Ltd (CIBIL) and M/s High Mark Credit Information Services which have been set up for creation of data base in respect of borrowers, guarantor and co-obligants of bank. Credit information reports should be drawn while considering fresh/enhanced /renewal proposal.

In cases, Where name of a company appears in the RBI list of defaulters and the Directors of such are also Directors in another company seeking credit facilities from our bank such case should not be considered .CIBIL is not to be taken in case of advance against FD and Govt. Securities.

SANCTION OF PROPOSALS BEYOND THE PURVIEW OF CREDIT MANAGEMENT & RISK POLICY

Policy prescriptions mentioned herein are subject to review / modifications by the competent authority (ies) as per the powers delegated to them depending upon the changing market conditions & business exigencies. Chairman shall be the competent authority to allow any deviation in policy based on the recommendations of Credit committee and CAC at HO level .However, any deviation in the policy shall be placed before the board in the next meeting along with justification thereon for confirmation of the board.

The Credit Management & Risk Policy formulated for 2014-15 shall be valid till further review.

Annexure

Credit Approval Committees at Head Office/Regional Office level

CACs at HO Level (HOCACs)

In order to improve quality of decision making and reverse the growing trend of upward delegation, two Credit Approval Committees is to set up at HO, one headed by GM (Credit) and other by Chairman to look after the credit proposals above Rs. 1.00 crore but upto Rs.2.00 crore and above Rs.2.00 crore but upto Rs.10.00 crore respectively. These committees shall be named as HOCAC Level-I and HOCAC Level-II respectively.

- The proposals to HOCAC Level-I, HOCAC Level-II shall be marked by CM (Credit), GM (Credit) respectively.
- Minimum quorum of HOCAC 1 & II shall be three members and presence of head of the committee, i.e. Chairman/GM Credit, as the case may be, shall be mandatory.
- The minutes of HOCAC Level-I and Level-II shall be placed to HOCAC Level-II & Board respectively.

CACs at Regional Office (ROs)

At Regional Office, one CAC viz. ROCAC Level shall be set up to consider proposals falling beyond the loaning powers of Incumbent of the branch but within the vested loaning powers of RO.

Loaning powers

- The detailed loaning powers of various credit committees shall be the loaning powers presently vested with the head of these committees.
- The Branch officials in various scales shall continue to exercise their vested loaning powers as per the extant system. However, consequent upon formation of aforesaid CACs, the existing individual loaning powers vested with officers in various scales and posted at administrative offices (other than branches) shall become redundant as all the proposals falling within their vested loaning powers shall now be placed before the respective Credit Approval Committees.
- It is possible that all the members of CAC may not agree for credit decision in respect of a particular proposal. Such proposals should be sanctioned with the approval of majority members with the condition that the head of the committee should be agreeable to the proposal. In exceptional cases where unanimous decision could not be reached, the reasons of disagreement and basis of decision should be recorded in the minutes to be put up for over sighting.

- The loaning powers for sanction of proposals will be exercised by CACs at HO/ RDMO level and the committee is not empowered to delegate loaning powers to any individual or any other sub-committee.
- As regards the powers for OTS/compromise/write-off proposals, CACs at HO/RDMO level shall consider these proposals to the extent of the powers vested with the head of these committees in individual capacity as per extant guidelines.

Time period for disposal of loan proposals

- In terms of extant guidelines, maximum time period for disposal of loan application is prescribed amount wise irrespective of the sanctioning authority. For proposals beyond Rs.1 crore and upto Rs.10 crore, the maximum prescribed time is 6 to 7 weeks. The time norms for disposal of loan applications shall continue to hold for sanctions by CACs.

  Further, it is reiterated that all loan applications should be expeditiously disposed off without leaving any room for complaints by the applicants and Senior Officers visiting the branches as well as Inspecting Officials/Concurrent Auditors during the course of Inspection/Audit should examine and comment in their reports about adherence of laid down guidelines with regard to recording and disposal of loan applications.

Meetings and Minutes of CACs

- The CACs at HO/RO level may meet frequently as per the requirement but at least once a week except HOCAC Level-II committee which may meet as per requirement.
- As per extant system, the minutes of HOCAC Level - II are put up to Board in its ensuing meeting for information. The minutes of CACs shall be placed to the next higher authority for over sighting as under:

  - Minutes of ROCAC Level-I to be put up to HOCAC Level-I
  - Minutes of HOCAC Level-I to be put up to HOCAC Level-II at HO level.

  The over sighting shall include ensuring that the delegated financial powers are being exercised in line with the bank’s loan policy, related regulatory guidelines and other instructions.

Other issues

i) At present, besides the cutoff of aggregate commitment per borrower, the powers for various miscellaneous credit related issues, discretionary powers in the matter of service charges/pricing, administrative approvals etc. are vested with the senior officials of administrative offices. The powers vested in terms of extant guidelines with the head of these CACs shall be exercised by these committees while dealing with such miscellaneous credit related issues.

ii) The proposals to HOCAC Level-I, HOCAC Level-II shall be marked by CM (Credit), GM (Credit) respectively.

iii) At present, officials, in organizational interest, may exceed their vested loaning powers subject to the confirmation by the competent authority within the prescribed time period. For permitting such unauthorized accommodation, the official should seek prior telephonic/oral sanction from the head of the committee under whose loaning powers the proposals fall. The cases of such transgression of powers shall be put up before the competent authority for confirmation of action as per the extant guidelines in the matter.

iv) In terms of extant guidelines, Chairman is empowered to sanction limits and other facilities in urgent cases, in anticipation of Board/Management Committee's approval in case of Existing as well as New Borrowers. Such cases are referred to Board/Management Committee for ratification in its next meeting.

v) The credit proposals before being placed to CACs at RDMO/HO level for approval shall be placed to the **credit committee** as per the extant system. The constitution of the credit committee may be defined with the approval of Chairman by involving senior officers from other division/department as it is possible that majority members in the Credit Committees and Credit Approval Committees at various levels are common.

Constitution of Credit Committees:

The Scope of Credit Committee will be winded to cover the proposals falling under the vested loaning powers of ROs working as Regional Heads. Accordingly, every loan proposal falling within the vested powers of Regional Head and above is discussed in a Credit Committee, which, on the merit of the case, recommends the proposal to the sanctioning authority. Such committees are to be formed both at HO and RO levels. The current constitution of the committee at HO/ RO is as under:

- One senior officer from credit department.
- One senior officer from RO
- One independent senior officer not concerned with credit

The members should preferably be in the rank of scale III or above but not below the level of scale II in Regions where sufficient officers in scale III and above are not available.

The committee deliberates upon the credit proposals including risk rating of the borrower, risk specific to the borrower, risk in the industry and suggests mitigation thereof.