RISK MANAGEMENT

Risk implies future uncertainty about deviation from expected earnings or expected outcome. It is an unexpected event. Risk is the possibility that an outcome will not be as expected, specifically with reference to returns on investment in finance. It is therefore the probability of loss that may arise due to uncertainties. Risk is that force or cause which adversely affects the existence, stability and growth of a system or process resulting in loss or failure or abrupt deviation from its set objectives. Such causes or risk factors may either be known or uncertain. Risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. It is the systematic process of identifying the risks the business faces, evaluating them according to the likelihood of their occurrence and the damage that could ensue, deciding whether to bear the risk, avoid the risk, control the risk or insure against the risk (or any combination of these four). Risk management therefore involves three steps: 1) Identification of all types of risks the business can face and thus prepare a Risk Profile, 2) Measurement of these risks, and 3) Taking measures to control and monitor risk.

Basel – I:

Banks are at the epicenter of financial crisis that precipitated global economic crisis. In order to provide stability to the international banking system Central Bank Governors of G -10 countries constituted the Basel Committee on Banking Supervision (BCBS) in 1974 to provide a forum for regular co-operation on banking supervisory matters. The objective of constituting the BCBS was to enhance the understanding of key supervisory issues and quality improvement of banking supervision worldwide. In 1988, the Basel Committee on Banking Supervision published a set of minimal capital requirements for banks that mainly focused on credit risk. It was called as Basel-I accord. Basel committee recommended 8% of risk weighted assets, simply known as CAR (Capital adequacy ratio). In India it was implemented on the recommendations of Narasimhan Committee, effective from March 1993 and based upon second report of 1998, CAR of 9% was stipulated by Reserve Bank of India in India. Risk weights for investments in government securities, government guaranteed advances, FX open position, provision for standard assets, change in classification norms etc. were also implemented from 1998.

In the beginning, credit risk was included in Basel-I. Subsequently, market risk was included from 1996 on account of failure of Barring Bank.

Why the Need for Basel – II:

Basel – I suffered from many limitations and need for introducing further reforms were felt. In Basel I, the same risk weight was prescribed to all the accounts belonging to a particular category irrespective of risk involved in different accounts. As a result, the risk weight assigned to a highly rated account remained same to that assigned for an asset with far inferior rating. As a result, the regulatory capital requirement stipulated by the accord was not in line with the actual risk profile of the portfolio of assets of the bank. The Basel II accord attempted to eliminate this anomaly by prescribing risk weight depending on the degree of credit risk. The risk weights are given depending upon the credit rating of each asset. Further, Basel II also prescribed capital for market risk and operational risk undertaken by a bank.

The second of the Basel accords, published in 2004, was designed to create an international standard on Banks' capital requirements. This committee is best known for its International Standards on capital adequacy and primarily addresses the principles of banking supervision and the agreement on cross-border banking supervision. Basel-II came into force in India as under

- First Phase-2008: For Foreign banks in India and Indian Bank with foreign presence.
- Second Phase-2009: Other Scheduled Banks.
- 2014: Complete implementation.

It is applicable for all commercial banks, excluding local area banks and RRBs.

Three pillar approach:

Basel II not only provides for the minimum capital requirement, it also provides for Supervisory Review by the central bank to ensure the adequacy of the capital. Lastly, it stipulates that banks should make adequate market disclosures regarding their risk profile and capital requirement.. In other words, Basel II rests on three pillars viz.

- **Pillar I: Minimum Capital Requirement,**
- **Pillar II: Supervisory Review of capital adequacy**
- **Pillar III: Market Discipline.**

The minimum capital required for Indian Banks is 9% of credit risk, market risk and operational risk. It talks about three approaches for credit risk viz., standardized, foundation internal rating based and advanced internal rating based. RBI has directed use of standardized approach by Indian Banks.

Our Bank is using undernoted techniques for measuring risks

- Credit Risk: Standardised Approach
- Market Risk: Standardized Duration Approach.
- Operational Risk: Basic Indicator Approach

Basel – III:

In spite of the preventive safeguards of Basel I & II, the world banking system went into a tailspin during the early 2008 ushering in a financial crisis that shook the world economy. This has raised a serious issue of moral hazard. Since then, the BCBS had begun an international consultative process among banking regulators to examine the issue and to work out a new international regulatory architecture that may stand better chance of averting recurrence of another banking crisis and broadened framework of tighter standards to restrict the banks from indulging in unhealthy and imprudent practices which could have great cascading effects on the economies around. With the solemn aim never to see the repeat of the 2008 Crisis, the BCBS, through Basel III, put forward norms aimed at strengthening both sides of balance sheets of banks viz. enhancing the quantum of common equity, improving the quality of capital base, creation of capital buffers to absorb shocks, improving liquidity of assets, optimizing the leverage through Leverage Ratio, creating more space for banking supervision by regulators under Pillar II and bringing further transparency and market discipline under Pillar III. Needless to stress, banks whose balance sheets can absorb the losses with resilience, will stand in the face of a financial Tsunami.

The Basel committee finalized the Basel III guidelines in December 2010, following which Reserve Bank of India issued guidelines on the implementation of BASEL III Capital Regulations on May 2, 2012. Implementation of these guidelines will commence on April 1, 2013 and the process was to be completed by March 31, 2019. The Basel III guidelines improve the ability of banks to withstand periods of economic and financial stress by implementing more stringent capital and liquidity requirements.

As a percentage of RWA	**BASEL-III**	**BASEL-II**	**BASEL-I**
CET-1 ***(A)*** *or equity Capital*	*5.5%*		

Capital Conservation Buffer ***(B)***	*2.50%*		
Total Equity Capital Ratio **(C=A+B)**	*8.00%*		
Additional Tier-1 or Non Equity Tier-1 Capital Ratio **(D)**	1.50%		
Total Tier-1 Capital Ratio +CCB **(E=C+D)**	9.50% (7%+2.50%)	7.00%	4.50%
Total Tier-II capital Ratio **(F)**	2.00%	2.00%	4.50%
Total Capital Ratio(E+F)	**11.50%$**	**9.00%**	**9.00%**

$ = In view of the continuing stress on account of COVID-19, it was decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from September 30, 2020 to April 1, 2021. Again RBI vide its circular dated 15.02.2021, had deferred the same to 01.10.2021.

Features of Basel III Accord

- **Capital requirements -** As per Basel III norms, the key capital ratio has been raised to 9% of risky assets,
- **Tier 1 Capital requirements:** Under the new rules, the mandatory reserve (known as Tier 1 capital) has been raised from to 7% by 2019.

Introduction of a Capital Conservation Buffer.

- The Capital Conservation Buffer is an additional reserve buffer of 2.5% of Risk weighted Assets, to "withstand future periods of stress", This buffer is introduced to meet one of the four key objectives identified by the Committee in December 2009 Consultative Document “Strengthening the resilience of the banking sector”; conserve enough capital to build buffers at individual banks and the entire banking sector which can then be used in times of stress. It was introduced in aphased manner with four tranche of 0.625% every quarter. The last tranche of 0.625% was to be implemented by 31.03.2019. In view of the continuing stress on account of COVID-19, it was decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) to April 1, 2021. Again RBI vide its circular dated 15.02.2021, had deferred the same to 01.10.2021. The purpose of the conservation buffer is to ensure that Banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. While banks are allowed to draw on the buffer during such periods of stress, the closer their regulatory capital ratios approach the minimum requirement, the greater the constraints on earnings distributions.

Introduction of Countercyclical Buffer (CCCB).

- According to the new rules, local regulators are not only responsible for controlling Banks’ compliance with the Basel requirements but also for regulating credit volume in their national economies. During the Boom, the loans made are generally poorer in quality and require more provision. The loans made during recession are of superior quality as banks are very careful and hence need less provision.

Objective of Counter Cyclical Buffer

- It is required by Bank's to build up a buffer of capital in good times which may be used to maintain flow of credit in difficult times.
- It helps to achieve the goal of restricting the Banking sector from indiscriminate lending in the period of excess credit growth.
- Additional CET-1 ranging from 0-2.50% may be required over 11.50%. CCCB may be pre announced with a lead time of 4 quarters.
- **Implementation of Counter Cyclical Capital Buffer:** RBI has the power to instruct banks to build this CCCB. It has not been activated by RBI.

Liquidity Risk Measurement.

Basel III introduces a new instrument for liquidity risk measurement which is Liquidity Coverage Ratio (LCR). It is designed to ensure that a bank maintains an adequate level of unencumbered, high-quality assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario specified by supervisors. The standard requires that the ratio be no lower than 100%. To ensure that investment banking inventories, off balance sheet exposures, securitization pipelines and other assets and activities are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profiles the new Accord introduces Net Funding Stability Ratio (NFSR). It is defined as the ratio, for a bank, of its "available amount of stable funding" divided by its "required amount of stable funding". **The standard requires that the ratio be no lower than 100%.**

National Stable Funding Ratio (NSFR):

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet (OBS) exposures

RBI vide its circular dated 05.02.2021 deffered the implementation of NSFR till 01.10.2021.

$$\frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}} \Rightarrow 100\%$$

Leverage ratio

The leverage ratio defines as the ratio of capital (Tier-1) to total exposure (On Balance sheet +Off Balance sheet). Capital means Tier-1 as per Basel-III

Leverage Ratio: Capital/Exposure measure

Leverage Ratio

- As per Basel –III=>3.00%
- As per RBI, for Indian Bank=>3.50
- For DSIB(Domestically Systematically Important Bank)=>4.00%

Global and Domestic Systemically Important Banks (D-SIBs)

- These are those Banks whose failure would have cascading effect on the whole Financial System which in other words means Banks that are considered to be too big to fail.

- As per norms, these Banks will have to set aside more capital for their continued operation.
- At present SBI,ICICI and HDFC Banks are D-SIBs and require additional 0.60%,0.20% and 0.20% of their RWA.
- This additional capital has to be in the form of Common equity Tier-1 Capital

Enhancement in loss absorption capacity of capital of internationally active banks –
A "write off clause" is proposed to be introduced in all non-common Tier I and Tier II instruments issued by internationally active banks. The main purpose of the contingent capital clause is to ensure that holders of capital bear the loss in a stress scenario before public money is infused and are not its (public funds) beneficiaries and to reduce the possibility of public support for a bank under stress.

Forensic Audit
Forensic Audit is an examination and evaluation of a firm's or individual's financial information for using as an evidence in a court. A forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims. In addition, an audit may be conducted to determine negligence or even to determine how much spousal or child support an individual has to pay. Forensic Auditing is a specialization within the field of auditing. Therefore, Forensic Auditing can be defined as the application of auditing skills to situations that have legal consequences. Forensic auditors often provide expert testimony during trial proceedings in the courts. Forensic auditing also refers to investigation of a fraud or presumptive fraud with a view to gathering evidence that could be presented in the court of law. Most large audit and accounting firms have a forensic department. Forensic Auditing can be used either by a corporate management or by statutory or other auditors to carry out general reviews of activities to highlight risks arising either out of fraud or from any other source with the purpose of initiating focused reviews of particular areas, targeting specific threats to the organization.
The objective of the forensic audit is to find whether or not a fraud has taken place in the financial affairs of an organization. It involves examination of voluminous records and witnesses as permitted by law. Proper documentation is vital in substantiating the findings. The outcome shall focus on the following in case of frauds:

- Proving the loss and the quantum of loss
- Proving the responsibility for the loss
- Proving the method / motive
- Establishing guilt of person / persons
- Identifying other beneficiaries

What is risk in bank?
Risk can be defined as the potential loss from a banking transaction, which a Bank can suffer due to variety of reasons.

Can we stop the risk aspects in bank or we should stop banking?
Risk is inherent to any kind of business and so in banking business. So long as we will be doing banking business risk is a part of it. Again, risk cannot be eradicated completely. It can be mitigated through different tools.

Then what are the tools for the risk control?
Tools for risk control are -

- Diversification of the business
- Insurance and hedging
- Fixation of exposure ceiling
- Transfer of risk to another party at right time
- Securitisation and reconstruction

What is risk management?
Risk management is a process through different functions such as Risk identification or naming, risk measurement, evaluation or quantification, risk control or risk mitigation and lastly monitoring and reviewing of risk.

What are the different types of risk in banks?
During the process of banking business, Banks are exposed to different types of risk such as credit risk, market risk, operational risk, liquidity risk, strategy risk, reputational risk etc.

What is the difference between interest rate risk and market risk?
Interest rate risk is a component of market risk. The other components of market risks are foreign exchange risk, equity risk and commodity risk.

What is Basis risk?
The interest rates on different assets or liabilities may change in different magnitude which is called basis risk. For example in a declining interest rate scenario, the rate of interest on assets may be declining in a different magnitude than the interest rate on the corresponding liability, which may create variation in interest income.

What are the other names of market risk and credit risk?
Market risk is also known as price risk and the other name of credit risk is default risk.

What is the objective of Credit risk policy of our bank?
Adhering to the guidelines/policies related to credit risk management, as enunciated in the Bank's internal guidelines and issued by Reserve Bank of India.
To ensure that the operations are in line with the expectations of the management and the strategies of the top management are translated into meaningful directions to the operating level.

What is the objective of operational risk policy of our bank?
The objective of operational risk management is reduction of operational losses by adopting various risk mitigating strategies and to enhance stakeholder value by improving Bank's competitive advantage.

What is strategy risk?
It arises on account of adverse business decision, improper implementation of decisions etc.

What is reputational risk?
It is the risk that arises from negative public opinion. It can expose an Institution to litigation, financial loss or decline in customer.

What is operational risk?
It is the risk that arises due to failed internal processes, people or systems or from external events.

What is liquidity risk?
Risk arises when the banks are unable to generate cash to cope with the decline in deposits or increase in assets.

<u>New Business Group</u>
Clearance of New Business Group Committee shall be obtained for fresh proposals of new borrowers seeking credit facilities above Rs 10.00 crore as well as for enhancement proposals involving enhancement of more than 25% of the existing credit exposure subject to minimum of Rs.50 crore

<u>New Business under consortium/Multiple banking arrangement:</u> In case of credit limits aggregating to Rs 10 Crore or less, efforts should be made to bring the account under sole banking arrangement with our Bank provided the financials of the unit are sound. In respect of borrowers enjoying credit facilities of above Rs 10 Crore under multiple banking arrangements, efforts should be made to finance under a formalized consortium arrangement. If such consortium arrangement is not possible, it shall be ensured that there is adequate information-sharing among the banks involved as per the revised guidelines issued on Multiple Banking arrangement. Multiple Banking Arrangements for borrowers having exposure of Rs. 250 Crore or more from banking system should be discouraged and all efforts should be made to bring it under consortium. However, any fresh exposure to borrowers having fund based and non fund based limit of Rs.500.00 Crore& above from the banking system (other than specifically permitted categories of advances in this policy) shall be under Consortium Arrangement and the fresh exposure to be assumed by our bank shall be preferably minimum of 10% of the total exposure (fund and non fund based). ***Administrative clearance for Relaxation to this should be obtained from next higher authority for proposals falling up to COLCC (GM) Power. COLCC(ED) and above can permit this relaxation falling under their respective sanctioning powers.***

Verification of Certificates/Tax Audit Report through website of UDIN and MCA

- Wherever certificates from the Company Secretary / CA/ Cost Accountant/Stock Auditors are submitted, the Institute registration number and full address should be obtained
- Genuineness of Audited Balance Sheet/Any other document certified by a CA to be established through verification of UDIN from Unique Document Identification Number Portal introduced by Institute of Chartered Accountants of India (ICAI)
- ROC site is also to be verified in all the cases where the filings by the borrowers is mandatory and record of such verifications shall be kept on the records.
- *Branches to utilize the Unique Document Identification Number Portal introduced by Institute of Chartered Accountants of India for the same.*
- While entrusting the job of Stock Audit, Concurrent Audit, Legal Audit, Legal opinion, Engineer's valuation, CA Certificates etc, a condition to be incorporated that *"I/We certify that this certificate is issued after verifying the necessary details and I / we are aware that giving false certificate is a criminal act and is a punishable offence".* The condition is to be incorporated in all letters issued while appointing Advocates, Valuers, Chartered Accountants for Legal Audit, Stock Audit, Legal opinion, Engineer Valuation etc and also for getting all Chartered Accountant certificates.
- All appraisal notes should contain a clause *"No Third party is involved at any stage in the loan sanction process'.*
- All loan proposals that are submitted to Corporate Office should be accompanied by a Certificate signed by Branch Manager/Zonal Manager stating that *no third party is involved at any stage in the process of loan proposal*

Non-banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs)
The Bank's exposure shall normally be restricted to the existing/ prospective clients with proven track record, sound financials and those complying with the RBI stipulated norms/ Bank's norms. ***Term loan as well as Working Capital credit needs of NBFCs and HFCs will be assessed based on the cash flow.***

Entry Barrier for other than NBFC/MFI
Entry barrier for unsecured loans of Rs 5 crore and above will be combined internal rating of IB A. CAC and MC can sanction such loans, below the combined internal rating of IB A.

Valuation of Collaterals
Following requirements should be complied with respect to collateral valuation:

- From credit risk mitigation perspective, branch should compute LTV in Housing Loans based on realisable value of the underlying property
- Specific methodology for valuation based on nominal or notional value, market value, appraisal value, book value or distress sale values is applied depending upon the collateral type.
- The collateral is valued at, or less than, the current fair value under which the collateral could otherwise be sold under an arm's length contract on such date ofvaluation.
- The valuation takes into account any preferential creditors, such as tax or government authorities, who may have a prior claim to the proceeds of the collateral under certain jurisdictions, even

where the Bank has a legally perfectedfirst claim. If the Bank has a second or third priority right, the full value of the prior charges will be deducted from the collateral value.

- It is expected that the value of the collateral will be reassessed at periodic intervals at the time of credit review of the facilities. Collateral valuations are updated at a frequency appropriate to the value and nature of the collateral and the ease and costs of valuation.
- More frequent monitoring of collateral will be undertaken where the market valueof the collateral is subject to significant changes. The credit approving authority may require new collateral value appraisals to be carried out at any time.
- In cases of collaterals like land and building, equipment, plant and machinery etc., detailed appraisals are undertaken by approved valuers. These appraisals should be received as written reports and must consider the local guidelines regarding valuation and revaluation.
- Initial appraisals must not be older than six months prior to approval of the credit facility. In respect of periodic credit review of facilities and reassessment of collateral value, appraisals older than six months can be used, subject to the approval of the relevant sanctioning authority. In such cases, the appraisal must be supplemented by a recent valuation that takes into account normal depreciation rates applicable to the specific type of collateral, maintenance, market changes and other factors.
- In the case of consortium or multiple banking accounts led by our Bank, the periodicity of valuation should be followed as below. In consortium accounts led by other Banks, we may follow the leader Bank. If the existing valuation report is more than three years old, branches should follow up with the leader Bank for re-valuation. Pending the same, depreciated value as per the audited Balancesheet may be reckoned.
- If the collateral is established on a pari-passu charge basis with other parties, thepro-rata part of the value of the collateral must be taken.
- If the property under second charge in our Bank‘s favour, we may go by the valuation report obtained by the first charge holder. If the valuation report obtained by the first charge holder is more than three years old, branches should take up with the first charge holder for re-valuation of the property. Theoutstanding dues to the first charge holder/s should be reckoned.
- Bank will undertake revaluation of the collaterals, if there is deterioration in the quality of the exposure, or there are any early warning signals on deterioration.
- In a situation where market prices of security are declining, the revaluation hasto be done at lesser intervals as might be necessary to protect the Bank‘s interest.
- The Valuer has to give Market Value Realizable Value and Distress Sale Value of the securities. If Realizable Value and Distress Sale Value are not mentionedin the valuation report then Realizable Value will be arrived by reducing Market Value by 10% and Distress Sale Value will be arrived by reducing Realizable Value by 10%.
- Where a dispute / fraud is identified in any of the accounts, the collateral in respect of such accounts shall be made zero in the CBS environment.

- The Branches would be responsible for valuation of collaterals as per the methodology and frequency defined below, in compliance with the above requirements:

Collateral Type	**Methodology for valuation**	**Frequency**
Cash and Cash Securities	Bank's own deposits and term deposits arevalued at face value plus interest	Monthly
Government Securities	Valuation will be carried out as per RBI guidelines.	Monthly
Gold/Jewellery	Gold /Jewellery accepted as security/ collateral should be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. If the gold is of purity less than 22 carats, the Bank should translate the collateral into 22 carat and value the exact grams of the collateral i.e. Jewellery of lower purity of gold shall be valued proportionately	Monthly
KVP, NSCs	Valued at purchase price plus accrued interest forinstruments which are not in lock in period	Annually
Life Insurance Policies	Valued at surrender value	Annually
Debt/Equity Securities	Shares/Debentures of listed companies should be valued at prevailing market price and of unlisted companies book value should be arrived as per latest audited Balance sheet.	Weekly
Units of mutual funds	Valued at current net asset value quoted at respective fund	Monthly
Financial Receivables	Value of receivables is obtained from invoices	Monthly
Inventory, Stocks, FinishedGoods	• Raw materials - At cost or market value whichever is lower • Stock in progress – At cost of production • Finished goods - Cost of sales or sales price whichever is lower	Monthly

Plant and machinery	Should be in good working condition, and valued at depreciated value as reflected in the audited balance sheet not older than 18 months. Plantand machinery shall be got valued by an approved Chartered Engineer whenever felt necessary.	Annually
Vehicles	Vehicles are valued at depreciated value	Annually
Commercial/ Residential Land/ Building	For advances secured by immovable properties (Land/Building) as primary or collateral, it is necessary to get it valued by an empanelled engineer of the Bank before granting of the advance. Land and building will be valued at realizable value, not older than three years. ***For all non-structured product loans and MSME structured product loans with exposure of Rs 5 crore and above and if the value of each property is Rs 50 lakh and above the valuation should be done by two independent valuers at the time of on boarding***. **For other structured products with exposure of Rs 1 crore and above and if the value of each property is Rs 50 lakh and above the valuation should be done by two independent valuers at the time of on boarding.In case of difference in valuation of assets done by two independent valuers, the lower of the two valuations will be considered.** The immovable properties mortgaged to the Bank shall be revalued at least once in three years and a review of the account will be taken based on the revaluation. In cases where two valuations were required at the time of on boarding, secondvaluation report should be obtained only if revaluation amount is increased by more than 50% of previous lower value. **Valuation of immovable properties mortgaged for Home Loans, Mortgage Loans and Reverse Mortgage Loans** The immovable properties mortgaged to accounts with *aggregate balance outstanding of more than Rs.100 Lakh after three years from thedate of sanction and with asset status as SMA1, SMA2 have to be revalued once in three years. (*aggregate Balance outstanding means balances of Home loan + Home loan plus + OD advantage etc.)	Three Years
Agricultural land	For agriculture loans up to Rs 10lakh, government guideline value may be taken and for more than Rs 10 lakh realizable value obtainedfrom the approved empanelled engineer will be taken as value of the agricultural land. When agricultural land is taken as security for non-agricultural loans realizable value obtained from the approved empanelled engineer will be	Three Years

	taken as value of the security.	
Crops	Cost of cultivation	At initiation

COLCCGM may waive re-valuation based on valid reasons in individual case for those advances sanctioned up to General Manager Committee level. For advances sanctioned under the powers of ED committee and above, ED committee is empoweredto take such a decision. Such decisions taken are to be reported to the next higher authority.

The valuation of securities for accounts under recovery will be guided by Recovery Policy of the Bank.

Extension of validity of credit limits

- Review/renewal to be submitted before 3 months of the scheduled due date of review/renewal.
- In case of delay due to non-availability of required information/documents, such as, audited/provisional financial statements, operational data, borrower/s being out of station, etc., operational review to be submitted to the concerned sanctioning authority. Sanctioning authority shall record the same in review proposal and may review the account for a maximum period of 90 days from the due date on existing terms and conditions. Such review is restricted to two times within 180 days from the due date of renewal.
- MD/CEO (ED in the absence of MD&CEO) is authorised to accord review/renewal of limits falling under MC powers for maximum period of 180 days. The same may be placed to MC for ratification
- However, within 180 days from the original due date renewal must be completed. An account where the regular/ad-hoc credit limits have not been reviewed/ renewed within the prescribed timeline from the due date/date of ad-hoc sanction will be treated as Non-Performing Asset.
- Existing concessions including concessional ROI would stand withdrawn from the due date of review/renewal if the same is not permitted for continuation during sanction review.
- In case of NPA accounts, one-time status report has to be submitted to the sanctioning authority before the end of the succeeding quarter.
- Additional rate of interest to be charged for delayed submission of renewal papers by the borrowers as per terms and conditions.
- Any concessions/relaxations in the account, to be approved by the competent authority
- Operational Review format annexed to circular ADV 188/2020-21 dated 12-11-20 should be used for submitting such reviews.
- In all sanctions/ renewals/ reviews, it should be made clear that a condition to be stipulated that the ROI/ Commission on LC/BG will undergo change, in case of any rating downgrade.

Check List for Verification

While entertaining proposals, it is to be verified whether the names of the borrower / Directors / Promoters find place in:

- RBI Defaulters List – Non-suit filed
- RBI Willful Defaulters List – Non-suit filed
- RBI Caution list circular issued from time to time
- OTS List
- CIBIL: Suit Filed account of Rs.1.00 crore and above
- CIBIL Willful defaulters list of Rs.25.00 lakh and above
- CIBIL: Suit Filed account of below Rs.1.00 crore (updated on daily basis)
- CIBIL Willful defaulters list of below Rs.25.00 lakh (updated on daily basis)
- ECGC – SAL
- CIBIL Detect
- CERSAI Registration
- CRILC
- Banned List of Promoters of SEBI
- List of Disqualified Directors available in the website of Ministry of Company affairs (MCA)
- Central Fraud Registry in respect of accounts with exposure of Rs 1 lakh and above.

If name is found reported, the reason for such inclusion must be discreetly studied/clarified from the reporting bank/financial institution directly. The details of the Lists verified shall be recorded /reported in the proposal. Due Diligence in Credit Proposals – circular no. ADV- 130/2020-21 dated 21.09.2020 issued by CO: RMD should be referred

Accessing of Consumer Credit Information from CRIF Highmark / CIBIL / Experian/ Equifax Data Base

The name of Credit Information Companies are CRIF HIGHMARK, CIBIL, EXPERIAN and EQUIFAX

For Corporate Borrowers

- One CIR for loan of equal to more than 50 lacs less than 5 crore
- Two CIR for equal to or above 5 crore.
- CIR of Directors /Partners/etc to be extracted.

For Home Loan/Agriculture Proposals/Other Personal Segment Loan Products: Branches / ZLCCs as sanctioning authorities should sanction Home Loan, Agriculture proposals and other Personal Segment Loan Products only after due diligence and after verification from any one of the above four Data Base/Credit information companies (CIC) in case of loan amount of less than Rs 50 lakh and from any two of the above four CICs in regard to borrowers, promoter directors, partners and guarantors before taking a decision in case of loan amount of Rs 50 lakh and above. The prescribed charges for CIR verification should be recovered from the customer

Sanction in stressed accounts

In case of stressed accounts of Rs 5 crore and above reported under CRILC as SMA-2 within last one year except reported due to technical reasons, any requests for fresh/additional limit to such borrower shall be referred to next higher authority for sanction.

Large Exposure

Exposure to Single borrowers or group of connected borrowers equal to or above 10% of Tier I Capital of the Bank as per the last audited balance sheet are classified as Large Exposure. The sum total of Large Exposures to single borrowers and group of connected borrowers is fixed at 500% of the Tier I Capital funds of the Bank as per the last audited balance sheet. This Exposure Limit is not deemed as cap on further exposures but is intended for closer monitoring.

Loan System for Delivery of Bank Credit

In respect of borrowers having aggregate fund based working capital limit of ₹150 Crore and above from the banking system, the outstanding 'loan component' (Working Capital Loan) must be at least 60 percent of the sanctioned fund based working capital limit, including ad hoc limits and TODs. Drawings up to 60 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility. The bifurcation of the working capital limit into loan and cash credit components shall be effected after excluding the export credit limits (pre-shipment and post-shipment) and bills limit for inland sales from the working capital limit. Investment by the bank in the commercial papers issued by the borrower shall form part of the loan component, provided the investment is sanctioned as part of the working capital limit.

The amount and tenor of the loan component will be fixed by bank in consultation with the borrowers, subject to minimum seven days. Bank may decide to split the loan component into WCLs with different maturity periods as per the needs of the borrowers. Repayment of the WCLs can be in instalments or by way of a "bullet" repayment.

Effective from April 1, 2019, the undrawn portion of cash credit/ overdraft facility for limit of ₹150 Crore and above from the banking system irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20 percent.

Repayment period of term loans

- Generally maximum repayment period of 15 years may be allowed including moratorium period. For infrastructure projects/industry specific cases maximum repayment period of 25 years (including moratorium) may be allowed on case-to- case basis.
- Proposals for clearance other than structured loan products exceeding 10 years of repayment including holiday period shall be approved by COLCC (GM) and above at CO within their delegated powers subject to a maximum of 25 years or 85% of the economic life of the asset whichever is lower.
- Repayment under EMI shall be applicable only for PSLPs, Structured products in Agriculture/MSME and for other products where it is specifically permitted.
- The repayment period for restructured (past) debts should not normally exceed seven years from the date of implementation of the package and in exceptional cases may be extended up to ten years.

- Repayment in term loan In case of stressed accounts/consortium/MBA as per Resolution Plan approved by Bankers
- Bank has the right to exercise exit option after 8 years for project/infrastructure finance.

<u>Moratorium on Repayment</u>

- In case of structured products, it will be based on guidelines for respective products. In case of commercial activity/project, holiday period may be granted based on estimated time to start commercial operation and generate sufficient cash to meet the repayment.

- Realistic and activity based gestation and repayment periods are to be fixed. Generally, holiday period for payment of interest shall not be more than 2 years and the moratorium period for repayment of the principal shall not exceed 3 years.

- Sanctioning Authorities at the level of COLCC(GM) and above at CO are empowered to permit holiday period of more than 2 years for interest and 3 years for principal for accounts up to their delegated powers on a case-to-case basis.

Credit Monitoring Policy: Monitoring of Accounts at Corporate Office Level
In respect of project finance where the exposure from banking sector (Sole/Multiple/Consortium) is more than Rs 250 crore, specialized monitoring jointly by related department of Corporate Office us required.

Down gradation in internal rating
Wherever there is a down grade in rating, the following actions will be taken at Branch/ZO/FGM level based on applicability:

- The interest rate applicable to such borrowal account shall be refixed based on downgraded rating.
- Any kind of relaxation on interest rate or other charges on such accounts should be reviewed and it should be referred to the appropriate sanctioning authority forconcession in interest rate or other charges.
- Any proposals for enhancement in limits or sanction of new facility to borrowers downgraded to below investment grade, shall be recommended to next higher sanctioning authority.
- For review/renewal of existing limits, respective sanctioning authority can consider irrespective of any down gradation in internal rating.
- Any borrowal account which slips to NPA will be downgraded to D category.
- For rating proposals approved at Corporate Office level, a copy of the rating communication will be sent to Credit Monitoring Department and respective functional credit department at corporate office and respective Zonal Offices & FGM Offices for stepping up the monitoring mechanism and for ensuring maintenance of asset quality.
- Such downgraded accounts are being scheduled for review in LRMC. This process is ongoing and hence mitigation gets reinforced after each quarter to ensure better asset quality.

Validity of Internal Rating

Generally, ratings are assigned based on audited financial data or accepted projected financials. In certain cases where provisional financial data (i.e., unaudited) alone is available, the ratings may be worked out based on such provisional data also. The validity of the ratings is as specified below:

	Particulars	Validity period
1	• Rating based on audited data for entity required to get audited • Rating based on audited or unaudited data for entity not required to get audited	Internal rating should be completed by 31st Dec of next financial year of rating and it should be authorised by 31st March of next financial year of rating. Validity of the rating will be 24 months from the end of financial year of the rating.
2	Rating based on Provisional Company Financial Data	3 months from the due date of submission of return to income tax authority
3	Rating based on Projected Company Financial Data	6 months from the date of first year of financial projections.
4	Project rating	18 months from the financial closing date of rating year, and is to be reviewed based on the progress / available financials of the project, till publication of financial results for the first year of commercial operation.

On expiry of validity of rating, interest rate will be revised to the interest rate applicable for unrated exposure.

General Guidelines for internal rating

- The internal rating would be done at least once in each year for all existing standard borrowal accounts.
- No Fund based/Non fund-based credit proposal (fresh/enhancement/reduction/ review/renewal) should be forwarded /placed before the sanctioning authority without having valid and confirmed internal rating based on rating or scoring models as per applicability.
- The risk officer validating the rating will be at arm's length distance from the sanctioning authority.
- Fresh internal rating is essential for proposals which are being placed to different credit committees for interest rate concessions, waiver of charges, permission forNOC, and permission for deviation.
- Details like the confirmed rating, date of confirmation, approving authority should be incorporated in the Credit proposal. A copy of final company rating report (RAM) should be available with the branch for verification by the Inspecting Officials.

Dynamic internal rating System

Internal rating to be conducted more than once in a year in following cases:

- Internal rating to be conducted in an interval of 6 months for listed corporate borrowers having exposure of Rs 250.00 crore and above.
- Internal rating to be conducted within 1 month from the external rating downgrade when the external Credit rating has downgraded for a particular borrower.
- Internal rating to be conducted in an interval of 6 months for Corporate borrowers with external rating 'C' or 'D'
- Internal rating to be conducted within 1 month where there is adverse news in the market about the borrower.

Down gradation in internal rating:

Wherever there is a down grade in rating, the following actions will be taken at Branch/ZO/FGM level based on applicability:

- The interest rate applicable to such borrowal account shall be refixed based on downgraded rating.
- Any kind of relaxation on interest rate or other charges on such accounts should be reviewed and it should be referred to the appropriate sanctioning authority forconcession in interest rate or other charges.
- Any proposals for enhancement in limits or sanction of new facility to borrowers downgraded to below investment grade, shall be recommended to next higher sanctioning authority.
- For review/renewal of existing limits, respective sanctioning authority can consider irrespective of any down gradation in internal rating.
- Any borrowal account which slips to NPA will be downgraded to D category.
- For rating proposals approved at Corporate Office level, a copy of the rating communication will be sent to Credit Monitoring Department and respective functional credit department at corporate office and respective Zonal Offices & FGM Offices for stepping up the monitoring mechanism and for ensuring maintenance of asset quality.
- Such downgraded accounts are being scheduled for review in LRMC. This process is ongoing and hence mitigation gets reinforced after each quarter to ensure better asset quality.

External Rating

At present seven Credit Rating Agencies namely CARE, CRISIL, India Ratings and Research Private Limited (India Ratings), ICRA, Brickwork, SMERA (ACUITE) and INFOMERICS are accredited by RBI for the purpose of risk weighting the Bank's claims for capital adequacy purposes.

- External rating from any one of the accredited agencies should be obtained for all exposures as below: CRE: Rs 5 crore and above, MSME: Rs. 25 crore and above, others: Rs 10 crore and above. LRD loans sanctioned to corporate borrowers: Rs 50 Crore and above. (In case External rating for the company is not available, only Facility rating from External Rating Agency may be explored).
- No fresh exposure eligible for external rating as per Banks existing policy is permitted without external rating except project loans. In case of borrowers without external rating, the Bank has to insist on the external rating at the time of sanction. In the case of project loans the external rating has to be obtained within 3 months from the date of achievement of COD.
- Additional interest of 1.00% to be charged for eligible accounts which are not externally rated, till obtention of rating or closure of loan whichever is earlier from the deadline for getting externally rated.
- Waiver of external rating/extension of time for external rating/waiver of additional interest rate of 1.00% for proposals falling under the powers up to FGMCAC are to be considered only by the FGMCAC and by the respective sanctioning authorities for the proposals falling under the powers of COLCC (GM) and above.
- External rating for the Maharatna, Navaratna, Miniratna companies, proposals fully guaranteed by Central/ State Government, proposals covered with full financial collateral securities may not be insisted upon.

Entry Barrier for financing

The entry level rating for sanctioning of advances to borrowing entities has been fixed as below:

Segment	Entry Barrier

NBFC, HFC and NBFC-MFI	Combined internal rating IB A(Based on RAM)and external rating A/A2 (+ /-)
MFI	Combined internal rating IB BBB (Based on RAM) and external rating mfR3
Unsecured loans of Rs 5 crore and above	Combined internal rating IB A (Based on RAM)
Exposure where Project rating is applicable	Combined internal rating IB BBB (Based on RAM) andProject rating P3 (Based on RAM)
Exposure where Scoring Model is applicable	Internal rating BBB (Based on Scoring Model) andCIBIL Score of 700 or Experian/Equifax/CRIF Highmark Score of 650
Short Term Loans	External rating of AA (+ or -)/A1
All others	Combined internal rating IB BBB (Based on RAM)

- The above entry barrier is not applicable for Public Sector Undertakings (PSU) for all fresh sanctions. In respect of PSUs powers are vested only at Corporate Office within the respective committee.
- Sanction of fresh proposals other than PSU "below entry barrier" (up to one notch) falling up to the powers of ZLCC are to be considered by FGMCAC; under FGMCAC powers by COLCC(GM) and proposals falling under COLCC(GM) and abovecan be considered by the respective sanctioning authorities within their delegated powers with justification. For NBFC, HFC, NBFC-MFI and short term loans only CAC and MC are vested with powers to consider proposals below entry barrier within theirrespective delegated powers.
- ZLCC may consider CIBIL Score up to 650 or Experian/Equifax/CRIF Highmark Score up to 600. FGMCAC may consider CIBIL Score up to 600 or Experian/Equifax/CRIF Highmark Score up to 575 with proper justification. Cases with CIBIL Score below 600 or Experian/Equifax/CRIF Highmark Score below 575 will be put up to COLCC (GM) for permission/administrative clearance. CIC Hurdle rate (CIBIL Score of 700 or Experian/Equifax/CRIF Highmark Score of 650) is applicable only for Fresh/Enhancement proposals and not for review/renewal proposals. For review/renewal proposals where CIC score is lower than hurdle rate, same may be accepted by respective sanctioning authority with proper justification. In case of CIBIL score of -1,3-5 and insufficient history in any other CIC, report from 2 CIC to be pulled irrespective of loan amount and the same may be accepted by the sanctioning authority with proper justification. Hurdle rate is applicable for Customers availing loans on personal capacity including proprietorship/ Partnership.
- For accounts eligible for external rating, (except for MSME & specific segments / schemes for which external rating entry barrier is separately specified), External rating of BBB- is the hurdle rate for fresh & enhancement of accounts / proposals falling under the authority up to ZLCC. Proposals falling under authority upto ZLCC, having external rating below entry barrier should be referred to next higher authority(If two or more valid ratings are available from credit rating agencies, lower among the valid ratings should be considered).

Substantial Exposure

Single borrowers or group of connected borrowers having exposure equal to or above 10% of Tier I Capital of the Bank as per the last audited balance sheet are classified as borrowers having substantial exposure. The sum total of substantial exposures to single borrowers and group of connected borrowers is fixed at 400% of the Tier I Capital funds of the Bank as per the last audited balance sheet. Substantial Exposure Limits are not deemed as caps on further exposures but are intended for closer monitoring.

Limit for exposure without valid rating

Limit for Standard credit exposure eligible for internal rating but without valid internal rating is fixed at 10% of total standard credit exposure eligible for internal rating. Credit exposure to Central and State Government PSUs are excluded for monitoring of this limit.