Risk Management
(BASEL GUIDELINES+CRM POLICY OF BANK)

1. Introduction: What is Risk and Business Model of Banking Business.
2. Classification of Risks in Banking.
3. Basel-I.
4. Basel-II
5. Basel-III (Background, Three Pillars, CCB, LCR, NSFR, Leverege Ratios, SIBs).
6. Credit Risk Management Policy of Bank including latest amendments.

Introduction: What is Risk and Business Model of Banking Business?

2. Business Model of Banking Business(Cont.)

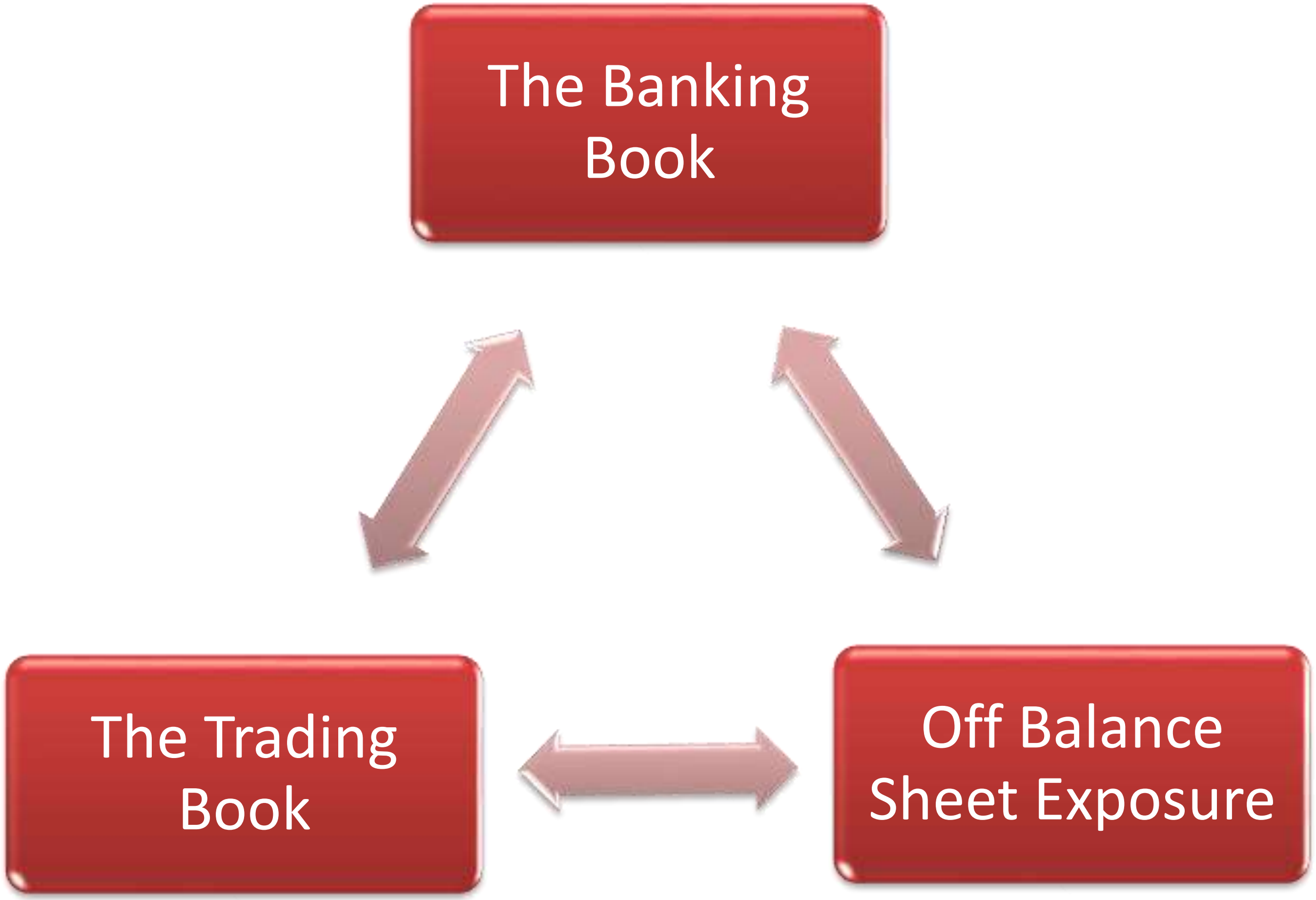
Section 5(b) of BR-Act 1949 defines Banking as :

"Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise;

So, a bank has to necessarily perform the two essential functions:

1. Acceptance of Deposit from the public and
2. Lending or investment of such deposits.

From the risk management point of view, Banking business lines may be grouped broadly under the following major heads.



Main components of Balance sheet of a Bank

Liability		Asset	
Equity	5%	Cash and Bank Balance	6%
Borrowing(Long Term, Unsecured and subordinate)	3%	Investment	26%
Borrowing(Senior)	2%	Loans and Advances	64%
Deposit	87%	Fixed Assets and other Assets	4%
Provisions	3%		
Total	**100%**	**Total**	**100%**
		Off Balance sheet items	22%

Around 80-90% of Asset side(Major portion Advances and Investment) is contributing in profits while around 95% of the liability side(Deposit + Borrowing+ Provisions) has a cost associated with it . So the difference(deficit) of 10-15% (95% -80%/85%) makes the bank exposed to risks.

Business Model of Banking Business(Cont.)

	Schedule		
<u>I. INCOME</u>			
Interest earned ***(80 to 85% of total Income)***			
Other income ***(15 to 20% of total Income)***			
Total			
II. EXPENDITURE			
Interest expended***(50 to 55% of total Expenses)***			
Operating expenses***(30-35% of total Expenses)***			
Provisions and contingencies ***(10-15% of total Expenses)***			
TOTAL			
III. Profit/Loss			
Net profit/loss (—) for the year			
Profit/Loss (—) brought forward			
Total			
IV. Appropriations			
Transfer to statutory reserves Transfer to other reserves			
Transfer to Government/Proposed dividends			
BALANCE CARRIED OVER TO BALANCE SHEET			

Major portion of Income side is interest Income. On Expense side, major chunk consist of interest expense and operating expense. Any increase in NPA or increase in Operational Cost will have negative impact on profitability of Bank. Hence risk is definitely there in the Banking Business

3. Is it necessary for a Bank to take Risk(Cont.)?

a. Repercussions of Risk are losses

b. Loss(Loss my be EL or UL)

c. Expected Loss(EL). EL is recovered by pricing

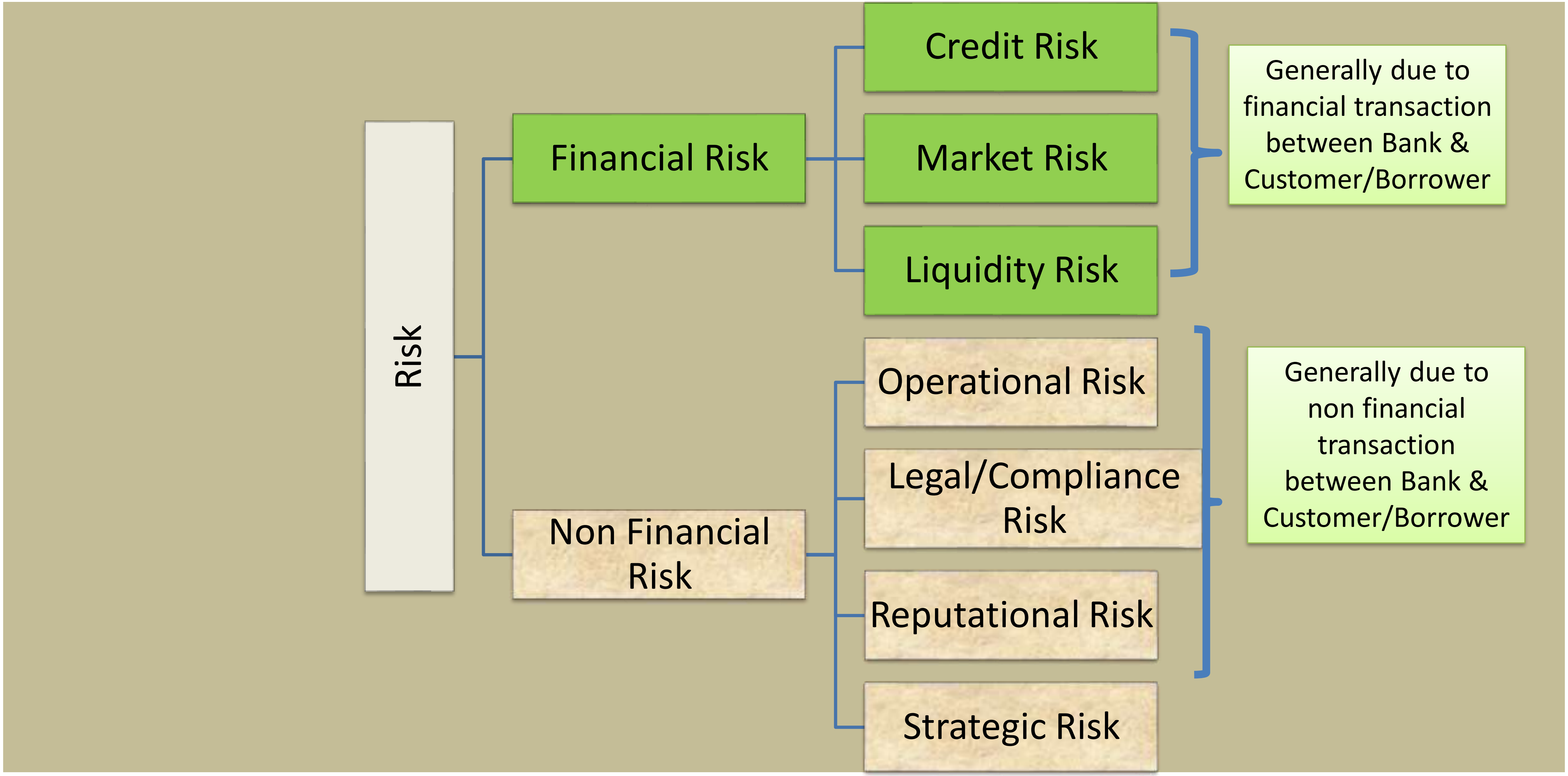
d. Various Measures for recovering EL are viz: Risk premium, cost, limits

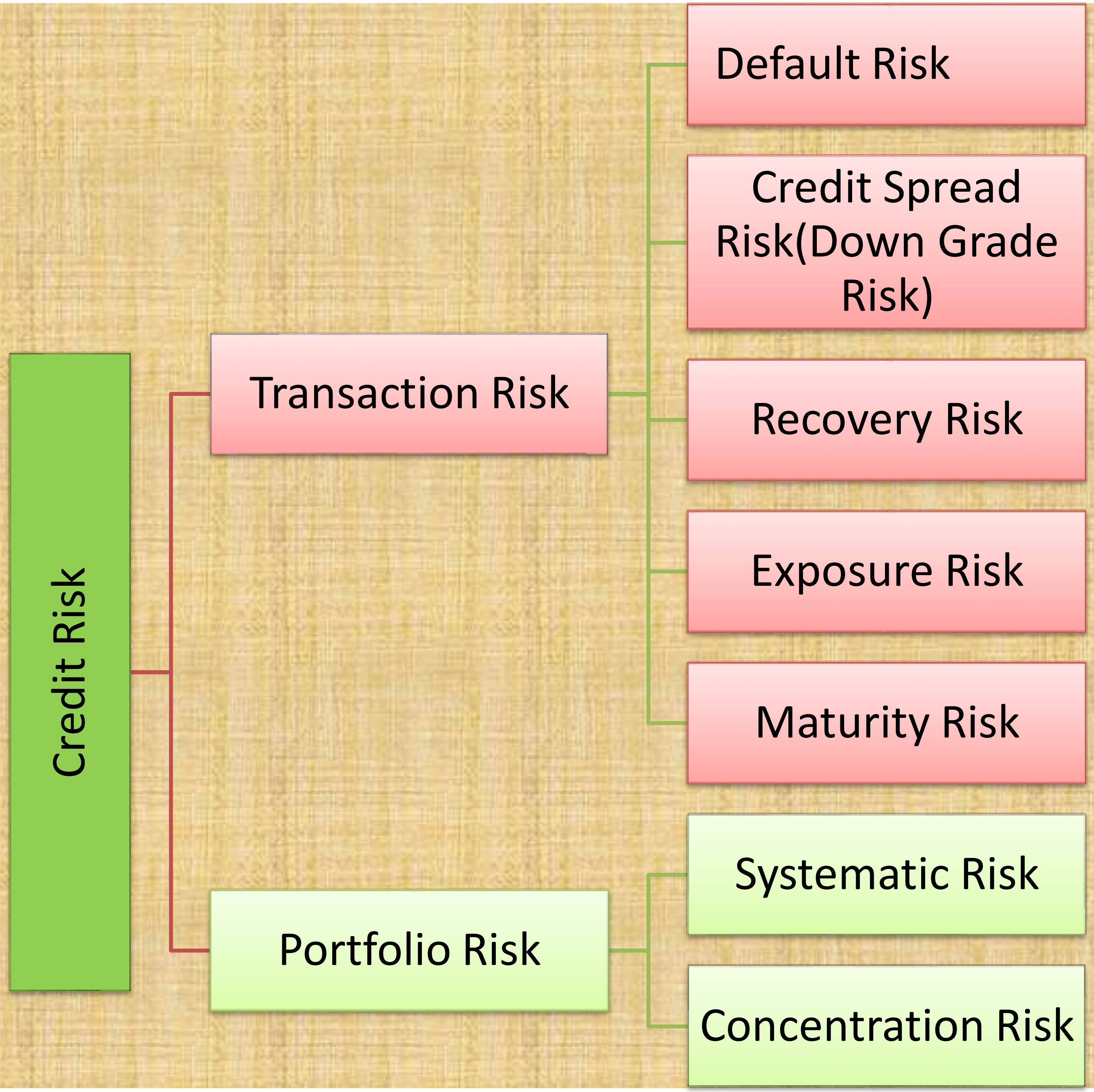
e. Unexpected Loss(UL)-UL is taken care by capital

f. The only measure to recover UL is Capital

g. So we my safely conclude that Capital is the fulcrum of a Bank on which its existence is primarily based upon

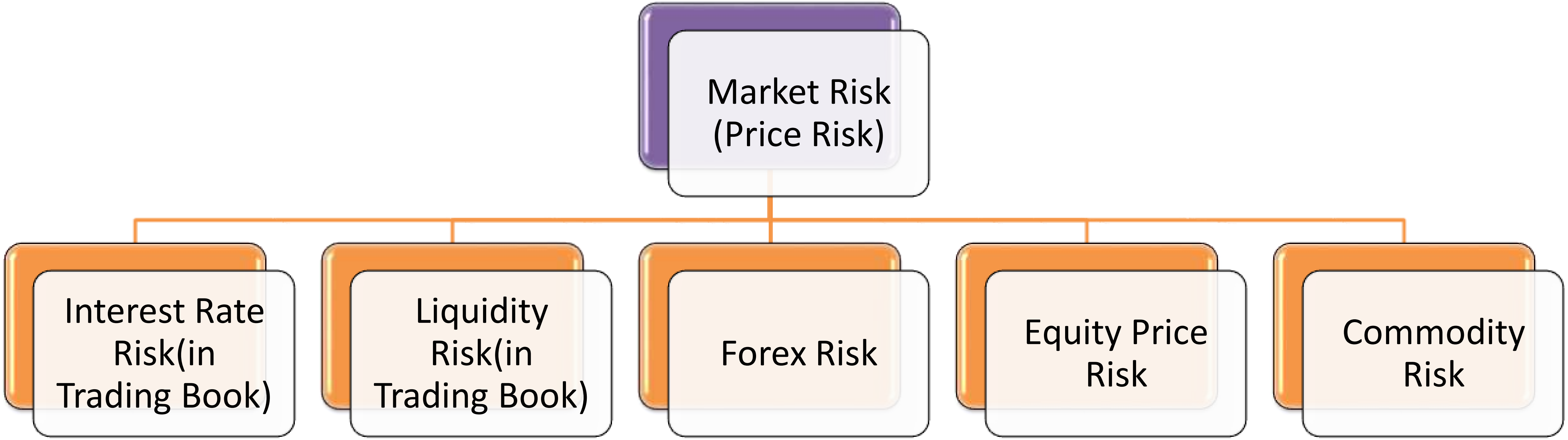
Types of Risks in Banking




Credit Risk
Transaction Risk
Portfolio Risk
Default Risk
Credit Spread Risk(Down Grade Risk)
Recovery Risk
Exposure Risk
Maturity Risk
Systematic Risk
Concentration Risk

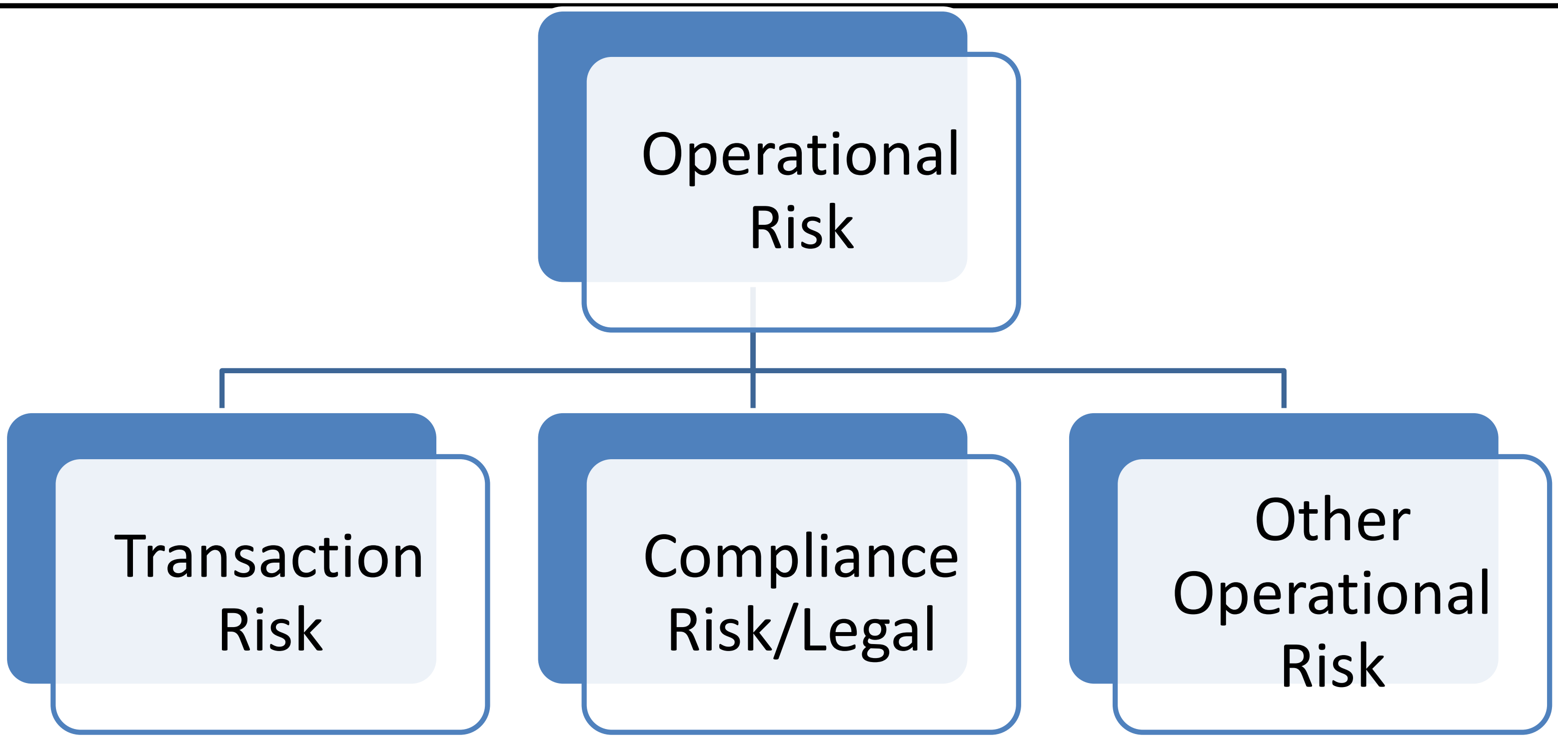
Market Risk (Cont.)

Market Risk can further be divided into undernoted risk categories.



Operational Risk

- The risk of loss resulting from inadequate or failed processes, people and systems or external events.
- ***The definition includes legal risk but excludes strategic and reputational risk.***



Operational Risk(Cont.)

- Other Operational Risk
  - Fraud Risk
  - Communication Risk
  - Documentation Risk
  - Competence Risk
  - Model Risk
  - Cultural Risk
  - External Events Risk
  - System Risk

Other Very Important Risk

1. Liquidity Risk. (Funding Risk, Time Risk and Call Risk)
2. Interest Rate Risk. (Gap Risk , Basis Risk, Embedded Option Risk, Yield Curve Risk, Reinvestment risk, Net interest Position risk).

3. Strategic Risk

4. Reputational Risk

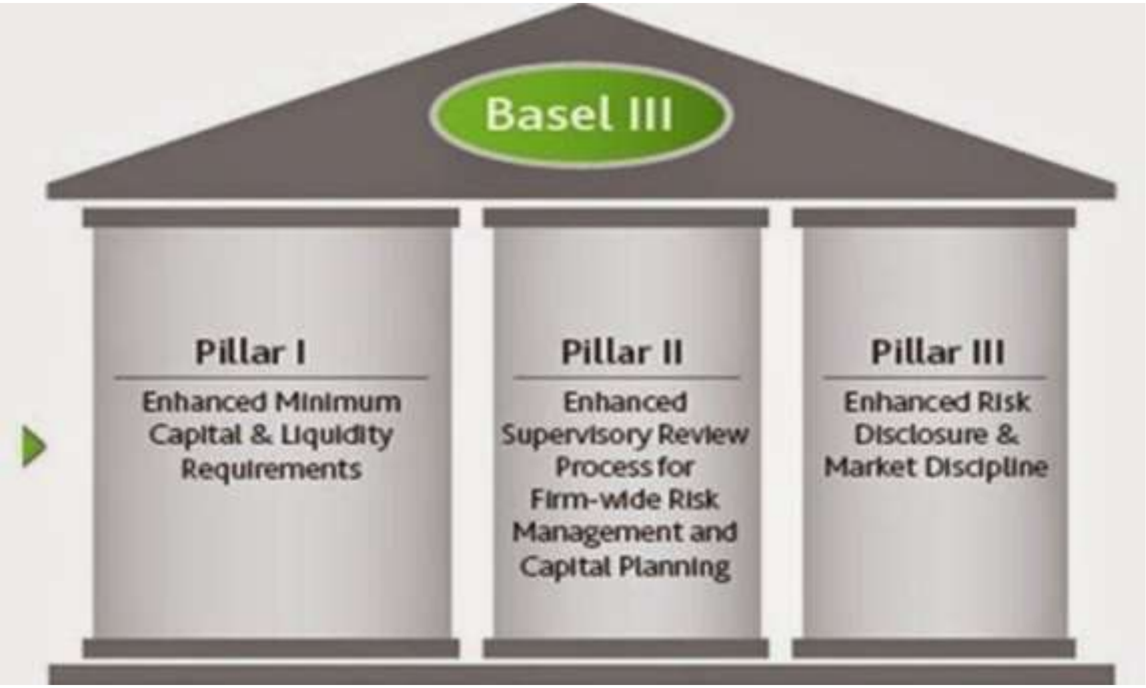
5. Systemic Risk

6. Climate Risk

7. Settlement Risk

BANK FOR

INTERNATIONAL SETTLEMENTS



What are Basel Guidelines?

3. BASEL-I

Back ground, Silent Feature, Inclusion of Market Risk, Achievements of Basel-1 and Weaknesses of Basel-1.

1. Introduced by BCBS in 1988.
2. In India implemented in 1999.

SILENT FEATURES OF BASEL-I

BASEL-I(Cont.)

1) Main Focus on Credit Risk.
2) The minimum capital is 8%(For Indian Banks:9%)
3) CAR= Regulatory Capital Funds/Credit Risk Weighted Assets
4) Credit Risk Weights were divided into five main categories(0%, 10%,20%,50% and 100%). An example of risk weight of three categories is as under:

S.No	Categories	Risk Weight
1	Cash and Investment in Govt Securities	0.00%
2	Inter Bank Exposure	20%
4	Others Debt Exposure	100%

BACKGROUND OF INCLUSION OF MARKET RISK BY BASEL-I ACCORD

Barring Bank failed in 1995(233 years Loss 827 million pounds)


The Guardian

Receivers called in after £500m goes walkabout □ Mayhem feared in markets

Barings Bank goes bust

BARINGS

4. BASEL-II

Background, Silent Features , Three Pillars, Credit Differentiation

Introduced by BCBS in 2004.

In India , Introduced in three phases

- 1st Phase 2008: Implemented by Foreign Banks in India and Indian Banks with presence outside.
- 2nd Phase: 2009-Other Scheduled Commercial Banks.
- 3rd Phase: 2014: Complete implementation

BASEL-II (Cont.)

BASEL-II (Three Pillars)

Minimum Capital Requirement

Supervisory Review Process and Evaluation Process

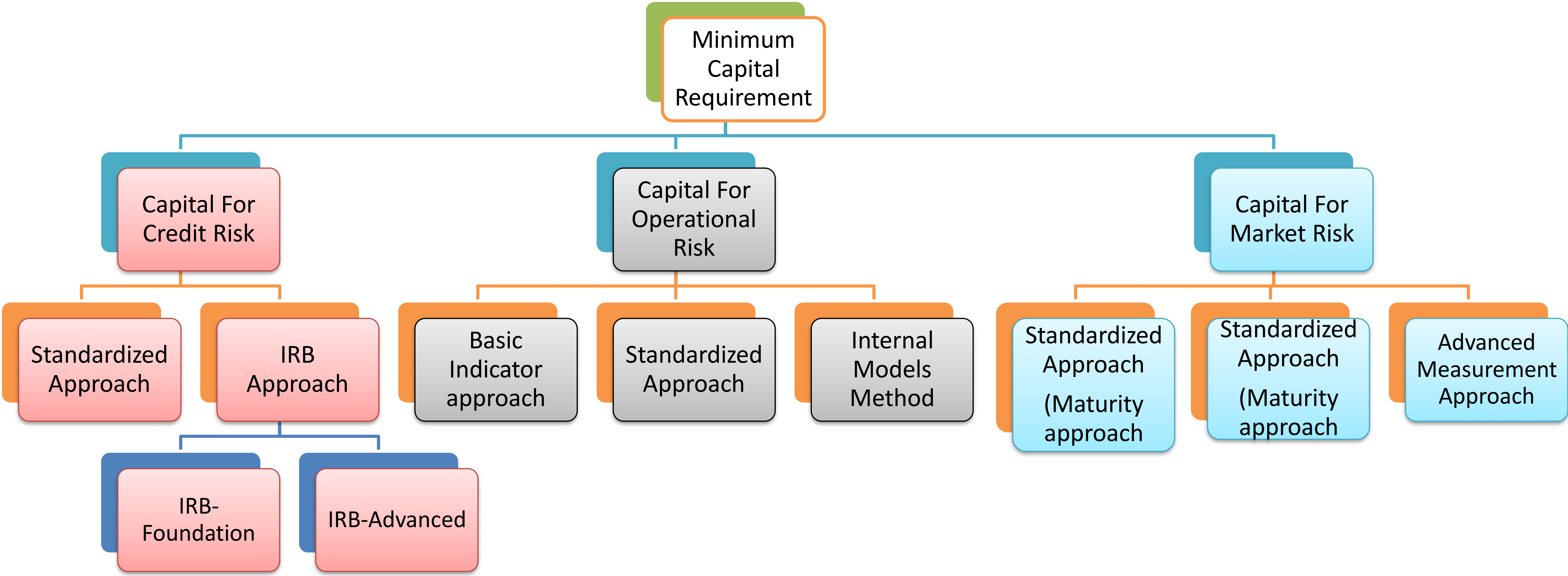
Market Discipline

Pillar 1: Minimum Capital Requirement(For Indian Banks)

As a percentage of RWA	BASEL-III
CET-1 (A) or equity Capital	5.5%
Additional Tier-1	1.50%
Total Tier-1 Capital	7.00%
Total Tier-II capital.	2.00%
Total Capital Ratio(E+F)	9.00%

Pillar 1: Approaches for computing Capital Charge requirement

BASEL-II (Cont.)



BASEL-II (Cont.)

Pillar-II: Supervisory Review process.

1. Supervisory Authority is responsible for evaluation how well Banks are assessing their capital adequacy.

2. Banks are advised to develop an Internal Capital Adequacy Assessment Process(ICAAP) and set targets for capital to commensurate with Bank's risk profile.

Detailed discussion on ICAAP is mentioned in section on BASEL-III

Pillar-III: Market Discipline.

1. Enhance Disclosure.
2. Core Disclosures and supplementary disclosures.
3. Timely-Semi Annual.

Detailed discussion on Market Discipline is mentioned in Section on Basel-III

5. BASEL-III

Background, Pillars under Basel-III vs Basel-II, Three Pillars under Basel-III Norms with focus on ICAAP

Introduced by BCBS in 2010.
In India, last tranche of Capital conservation Buffer(CCB) implemented w.e.f 01.10.2021 i.e. CAR of 11.50%(including CCB) effective from 01.10.2021.
CCCB yet to be implanted.

Even before the Lehman Brothers collapsed in September 2008, the need for a fundamental strengthening of the Basel II framework has become apparent.

Pillars under Basel-II vis-à-vis Basel-III

BASEL-III(Cont.)

BASEL-II (Three Pillars)

Minimum Capital Requirement	Supervisory Review Process	Market Discipline

BASEL-III (Three Pillars)

Enhanced Minimum Capital and liquidity Requirement	Supervisory Review Process for firm wise risk management and capital planning	Enhanced Risk Disclosure and Market Discipline

BASEL-III(Cont.)

1. **Increased Quantity/Quality of Capital**

2. **Capital Conservation Buffer.**: An additional layer of Common Equity.

3. **Counter Cyclical Capital Buffer**: A buffer which places restriction on participation by Banks in system wide credit booms with the aim of reducing their losses in credit busts.

4. **Global Liquidity Standards**: LCR & NSFR.

5. **A Leverage Ratio-** minimum amount of loss absorbing capital relative to all of a Bank's assets and off Balance Sheet exposure regardless of risk weighting.

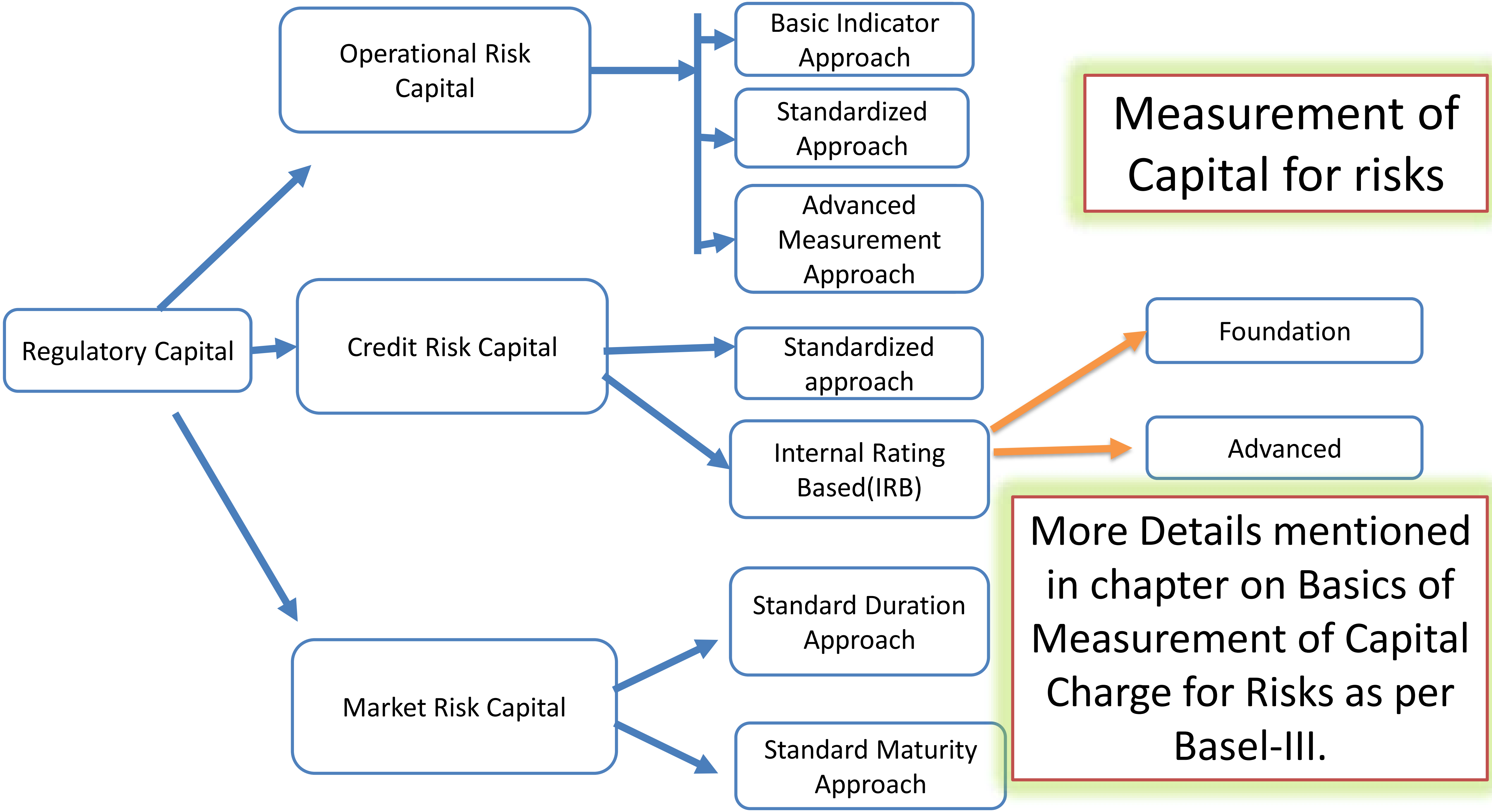
6. **Systematically Important Banks**

Pillar-1: Enhanced Minimum Capital and liquidity Requirement

BASEL-III(Cont.)

1. Quality and Quantity of Capital.

As a percentage of RWA	BASEL-III	BASEL-II
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	7.00
Total Tier-II capital Ratio(F)	2.00%	2.00
Total Capital Ratio(E+F)	11.50%	9.00


Measurement of Capital for risks
Regulatory Capital
Operational Risk Capital
Basic Indicator Approach
Standardized Approach
Advanced Measurement Approach
Credit Risk Capital
Standardized approach
Internal Rating Based(IRB)
Foundation
Advanced
Market Risk Capital
Standard Duration Approach
Standard Maturity Approach
More Details mentioned in chapter on Basics of Measurement of Capital Charge for Risks as per Basel-III.

BASEL-III(Cont.)

1. Banks should have process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.
2. Supervisors should review and evaluate Bank's ICAAP and strategies , as well as their ability to monitor and ensure their compliance with the regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of their process.
3. Supervisor should expect Banks to operate above the minimum regulatory capital ratios and should have the ability to require Banks to hold capital in excess of the minimum.
4. Intervention of supervisor at an early stage to prevent capital from falling below the minimum levels required level and remedial action if capital is not maintained or restored.

Pillar-II(Supervisory Review Process)

12. BASEL-III(Cont.)

Risks not fully captured in CRAR(Cont.)

a) Reputational risk which is equivalent to Operational risk.

b) Strategic Risk

c) Risk of underestimation of credit risk under SA.

d) Model Risk: Risk of underestimation of credit risk under IRB Approach.

e) Risk of weakness in credit risk mitigants.

f) Residual risk

g) Climate risk

h) Payment &Settlement Risk.

12. BASEL-III(Cont.)

Thus the ICAAP and SRP are the two important components of Pillar-II and could be broadly defined as follows:

The ICAAP comprises a Bank's procedures and measures designed to ensure the following:

a. An appropriate identification and measurement of risks.
b. An appropriate level of internal capital in relation to the Bank's risk profile.
c. Application and further development of suitable risk management systems in the Banks.

The SRP consists of a review and evaluation process adopted by the supervisor , which include the review and evaluation of the bank's ICAAP conducting an independent assessment of the Banks risk profile and if necessary , taking appropriate prudential measures and other supervisory actions.

Pillar-III: Market Discipline(Cont):

BASEL-III(Cont.)

Pillar- III Disclosures

1. DF-1 Scope of Application
2. DF-2 Capital Adequacy
3. DF-3 Credit Risk-General disclosure for all the Banks
4. DF-4 Credit Risk: Disclosure for portfolios(subject to Standardized Approach)
5. DF-5 Credit Risk Mitigation: Disclosures for standardised approaches.
6. DF-6 Securitization Exposures: Disclosure for standardised Approach.
7. DF-7 Market Risk in Trading Book
8. DF-8 Operational Risk
9. DF-9 Interest rate Risk in Banking Book
10. DF-10 General Disclosures for exposures related to Counterparty Credit Risk.
11. DF-11 Composition of capital:
12. DF-12 Composition of capital : Reconciliation
13. DF-13 Main Feature of regulatory Capital Instruments
14. DF-14 Full terms and conditions of regulatory Capital Instruments
15. DF-15 Disclosure requirements for remuneration.
16. DF-16 Equities: Disclosure for Banking Book Positions
17. DF-17 Summary Composition of Accounting Assets vs Leverage ratio exposure.
18. DF-18 Leverage ratio

Capital Conservation Buffer(Cont)

The table below shows the minimum capital conservation ratios a bank must meet at various levels of the Common Equity Tier-1 capital ratios.

Minimum Capital Conservation standards for Individual Bank	
Common Equity Tier-1 Ratio after including the current period retained Earnings	Minimum Capital Conservation Ratios (Expressed as a percentage of Earnings)
5.50% to 6.125%	100%
>6.125%-6.75%	80%
>6.75%-7.375%	60%
>7.375-8.00%	40%
>8.00%	0%

For example , a Bank with a CET-1 capital ratio in the range 5.50% to 6.125% is required to conserve 100% of its earning in the subsequent financial year(Nil payout). In case the ratio in the range of more than 6.125% to 6.75%, the Bank is required to conserve 80% of its earning in the subsequent FY(i.e. payout no more than 20%)

Capital Conservation Buffer(Cont)

BASEL-III(Cont.)

Implementation Schedule of Capital Conservation Buffer

RBI has permitted the Banks to create CCB in a phased manner starting from March 2016 at the level of 0.625% of RWAs and increment the same as per details given below	
March-2016	0.625%
March-2017	0.625%
March-2018	0.625%
March-2019	0.625%

However, with the onset of the pandemic , the last tranche of 0.625% which had to be met by March 2019 was deferred by RBI , vide its Circular dated 05 Feb 2021, from April-1, 2021 to Oct-1,2021. This was done to relax the Banks on continuous stress on Capital due to Covid-2019 and to aid the Banks in the recovery process. CCB is fully implemented @ 2.50% w.e.f 01.10.2021

Counter-Cyclical Capital Buffer

Counter Cyclical Capital Buffer-Cont.)

14. BASEL-III(Cont.)

- ✓ Objective of CCCB

To Build up buffer of capital in good times which may be used to maintain flow of credit to the real/needy sector in difficult times.

To achieve the broader macro prudential goal of restricting the Banking sector from indiscriminate lending in the periods of excess credit growth that have often been associated with the building up of system-wide risk.

- ✓ 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
- ✓ 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.

Counter Cyclical Capital Buffer-Cont)

✓ CCCB Decision

- To be pre announced by RBI with a lead time of four quarter.
- However depending upon the CCCB indicator, the Bank may be advised to build up the requisite buffer in a short span of time.

Basel-III Framework on Liquidity Standards

Basel-III Framework on Liquidity Standards(Cont)

BASEL-III(Cont.)

Liquidity Coverage Ratios:

$$\frac{\text{High Quality Liquid Asset(after adjusting haircuts)}}{\text{Total Net Cash Outflows in the next 30 calendar days}}$$

Objective of LCR: The aim of LCR standard aims to ensure that Bank maintains an adequate level of unencumbered HQLAs that can be converted into Cash to meet its liquidity needs for a calendar day time horizon under a significantly sever liquidity stress scenario specified by supervisors. At a minimum, the stock of liquid assets should enable the bank to survive until day 30 of stress scenario, by which time it is assumed that appropriate corrective action can be taken.

As of now LCR tool is applicable for Indian Banks at whole Bank level only i.e. on a stand alone basis including overseas operation through branches.

	Jan-2015	Jan-2016	Jan-2017	Jan-2018	Jan-2019
Minimum LCR	60%	70%	80%	90%	100%

Due to pandemic situation, RBI reinstated the 100% requirement by 01 April 2021.

Basel-III Framework on Liquidity Standards-NSFR(Cont)

BASEL-III(Cont.)

The formulae for NSFR is as under:

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} >= 100\%$$

Available Stable Funding: The portion of capital and liabilities expected to be reliable over the time horizon considered by NSFR which extends to one year,

Required Stable Funding: The RSF 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 exposure.

The NSFR should be at least 100% on an ongoing basis. However, the NSFR would be supplemented by supervisory assessment of the stable funding and liquidity risk profile of a Bank.

RBI Circular on NSFR

NOTIFICATIONS

(279 kb)

Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines

RBI/2017-18/178
DBR.BP.BC.No.106/21.04.098/2017-18

May 17, 2018

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir/Madam,

Basel III Framework on Liquidity Standards –
Net Stable Funding Ratio (NSFR) – Final Guidelines

The Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) are significant components of the Basel III reforms. The LCR guidelines which promote short term resilience of a bank's liquidity profile have been issued vide circular DBOD.BP.BC.No.120/21.04.098/2013-14 dated June 9, 2014. The NSFR guidelines on the other hand ensure reduction in funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

2. The draft guidelines on the NSFR for banks in India were issued on May 28, 2015 for comments. The final guidelines, after considering comments received from various stakeholders, are given in the Annex for implementation from a date to be communicated in due course.

Yours faithfully,

(Prakash Baliarsingh)
Chief General Manager

2023
2022
2021
2020
2019
2018
2017
2016
2015
2014
Archives

Leverage Ratio

BASEL-III(Cont.)

Objective:

Constrains the built up of leverage in the banking system to avoid destabilising deleveraging processes which can damage the broader financial system and the economy and reinforce the risk based requirements with a simple , non risk based back stop measure.

The leverage ratio defines as the capital (Tier-1) to total exposure (On Balance sheet +Off Balance sheet)

Capital : Common Equity Tier-1 as per Basel-III

Leverage Ratio:

$$\frac{\text{Capital Measure (Common Equity Tier-1)}}{\text{Exposure Measure}}$$

- **LR as per Basel –III=>3.00%**
- **As per RBI, for Indian Bank=>3.50**
- **For Domestically Systemic Banks=>4.00%**

Global and Domestic Systemically Important Banks (D-SIBs)- Buckets of Additional Tier-1 Capital

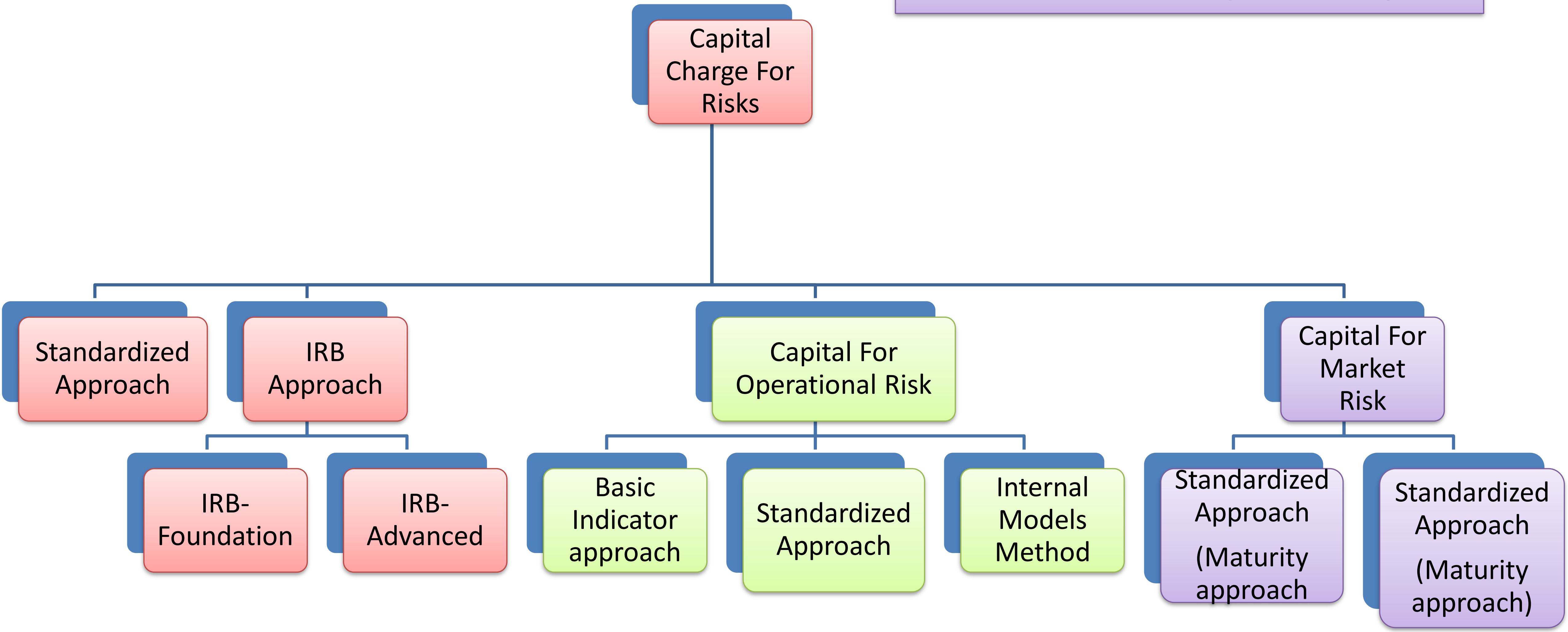
Bucket	Additional CET-1 capital charge
5	1.00%
4	0.80%
3	0.60% (SBI)
2	0.40%
1	0.20 (ICICI & HDFC)

BASEL-III(Cont.)

Basics of Measurement of Capital Charge for Risks as per Basel

- Credit Risk
- Operational Risk
- Market Risk

BASEL-III(Cont.)



BASEL-III(Cont.)

Approaches for Credit Risk Capital Charge

Standardized Approach

Risk weights are based on assessment by external credit assessment institutions

Foundation Internal Ratings Based Approach

Banks use internal estimations of probability of default (PD) to calculate risk weights for exposure classes. Other risk components are standardized.

Advanced Internal Ratings Based Approach

Banks use internal estimations of PD, loss given default (LGD) and exposure at default (EAD) to calculate risk weights for exposure classes

Reduced Capital requirements

BASEL-III(Cont.)

CAPITAL CHARGE UNDER OPERATIONAL RISK

The BASEL Committee suggested three methods for computing operational risk.

1. BASIC INDICATOR APPROACH.
2. STANDARDIZED APPROACH.
3. ADVANCED MEASUREMENT APPROACH.

Most of the banks in India are using Basic Indicator Approach.

BASIC INDICATOR APPROACH.

In this Approach, capital required is to be maintained at a certain percentage of Gross income earned by the Bank

Operational Risk - Basic Indicator Approach

$$K_{BIA} = GI \times \alpha$$

- GI = average annual gross income(three years, excepted the negative amounts)
- α = 15% 15% prescribed by BCBS)

Gross Income is computed from Profit and Loss Account of the Bank(Format of Profit &Loss at Next page)

Capital Charge for Market Risk

BASEL-III(Cont.)

The Trading Book

The trading book includes all the assets that are marketable i.e. they can be traded in Market.

- They are normally not held untill maturity and positions are liquidated in the market after holding the assets for a certain period..
- Mar to Market system is followed on daily or periodical basis and the difference between the market price and the book value is taken to profit and loss account.
- Trading Book is mainly exposed to market risk, including liquidation risk, default or credit risk and operational risk.

BASEL-III(Cont.)

Format for computing Market Risk

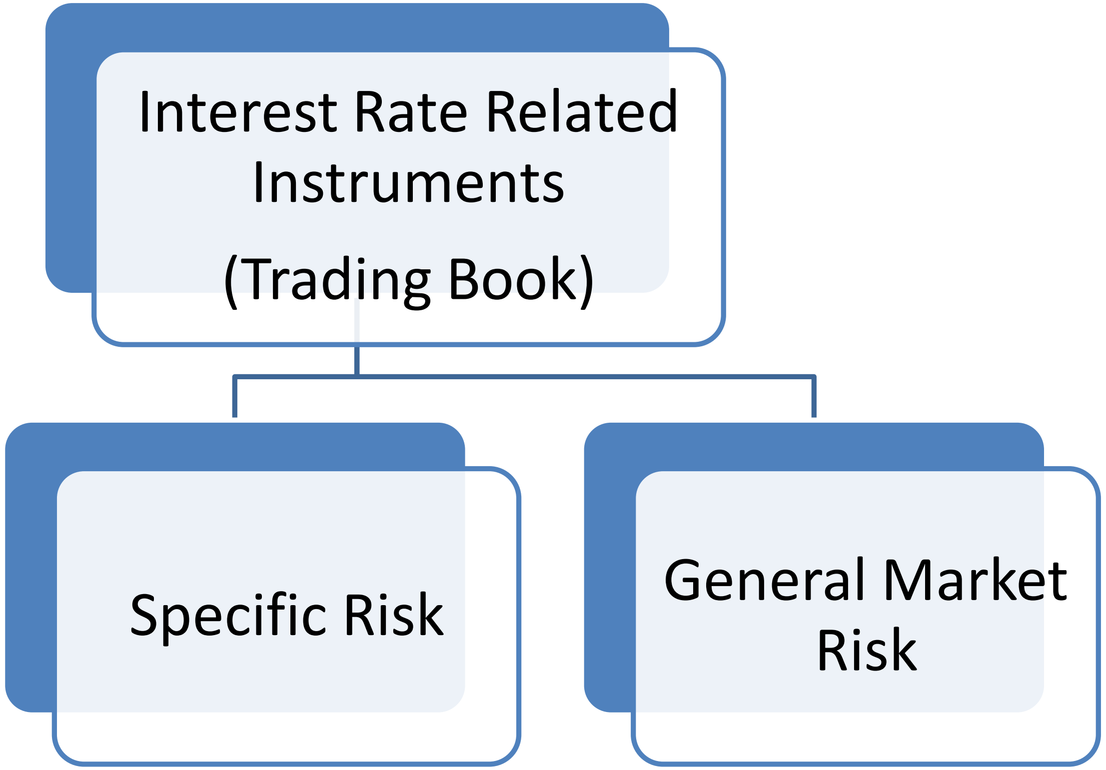
S.No.	Risk Category	Capital Charge
1	a. Interest Rate General Market Risk	
	• Net Position	
	• Vertical Disallowance	
	• Horizontal Allowance	
	• Options	
	b. Specific Risk	
2	Equity	
	a. General Market Risk	
	b. Specific Risk	
3	Foreign Exchange and Gold	
	Total Capital Charge for Market Risk	

Let us discuss the above in detail on next page.

Interest Rate related Instrument

BASEL-III(Cont.)

The capital Charge for interest rate related instruments would apply to current market value of these items in Bank's trading book. Since banks are required to maintain capital for market risks on an ongoing basis, they are required to mark to market their positions on a daily basis. The current market value will be determined as per extent RBI guidelines on valuation of investments.



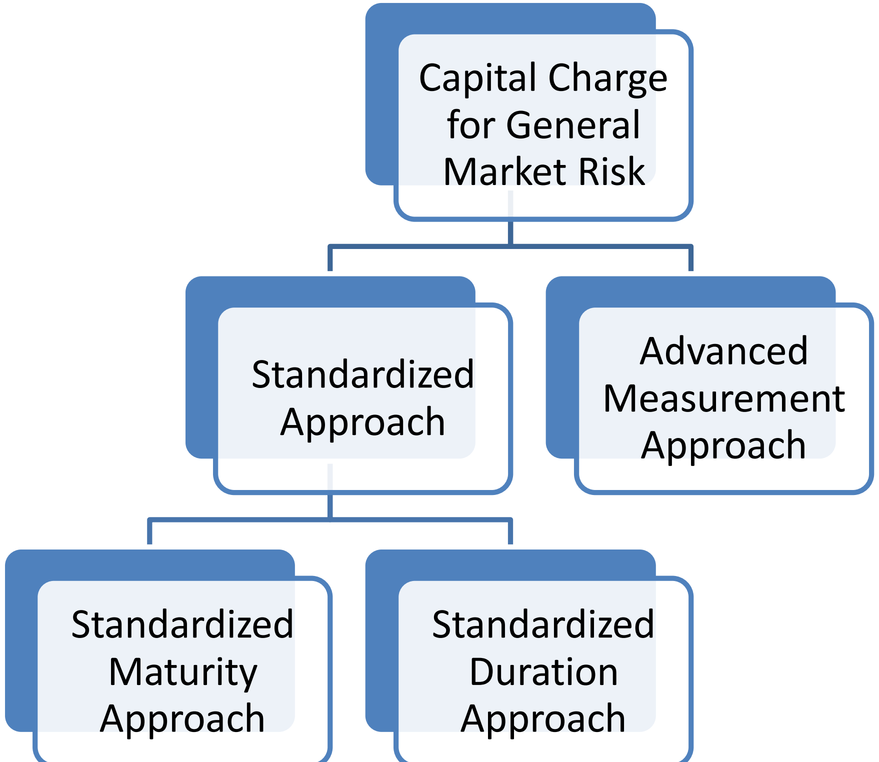
Let's discuss the Specific risk and general Market risk (next page)

Interest Rate related Instrument

BASEL-III(Cont.)

General Market Risk(Interest rate risk in Portfolio)

Charge towards interest rate risk in the portfolio, where long and short positions(which is not allowed in India except in derivatives and Central Govt Securities) in different securities or instruments can be offset.



Interest Rate related Instrument

BASEL-III(Cont.)

General Market Risk(Interest rate risk in Portfolio)

Capital Change for General Market Risk(Interest Rate Risk) of a security

↓

Market Value of Security* Modified Duration*Assumed Change in Yield(0.60 to 1.00)

BASEL-III(Cont.)

Total Capital Charge for Market Risk

S.No.	Risk Category	Capital Charge
1	a. Interest Rate General Market Risk	
	• Net Position	As per formulae mentioned in previous page. Generally given in questions and not required to be computed
	• Vertical Disallowance	For capturing Basis Risk. It is 5% on matched/offset position
	• Horizontal Allowance	For capturing Yield Curve Risk. Taken from table(Next Page)
	• Options	
	b. Specific Risk	As per RBI circular dated 01.04.2022
2	Equity	
	a. General Market Risk	Capital Charge=9.00%
	b. Specific Risk	Capital Charge=9.00%
3	Foreign Exchange and Gold	Capital Charge=9.00% for open positions in forex.
	Total Capital Charge for Market Risk	

Total Capital Charge for market risk can be converted into equivalent risk weighted assets by dividing it by 0.09. This is required to compute total Risk Weight..

CREDIT RISK MANAGEMENT POLICY OF THE BANK

1. Purpose of CRM Policy.
2. Scope.
3. Objective of CRM Policy.
4. Credit Risk Management Framework.
5. Credit Risk Management Governance.
6. Credit Risk Appetite.
7. Credit Risk Identification and Assessment.
8. Credit Monitoring
9. Portfolio Management
10. Limit Framework.
11. Lending to Stressed Sector
12. Risk Based Pricing
13. Risk Mitigation
14. Credit Risk Measurement
15. Capital Charge for credit risk.
16. Stress Testing
17. Credit Risk Reporting Framework.
18. Interaction with internal Auditors
19. Climate Risk& Environmental Social and Corporate Governance.
20. Due Diligence related to PSU.
21. Review of the Policy

CREDIT RISK APPETITE

Particulars	Thresholds
Target Credit rating of the Bank	AA for Tier I Bonds
Capital Market Exposure	40% of Bank Net worth as on previous year
	Of which direct investment should not exceed 20% of the Bank's Net worth as on previous year
	Of Which Financing of Stock Brokers and market makers should not exceed 12% of the Bank's Net worth as on previous year

Particular	Thresh-hold
Exposure Limit in case of a single borrower (excluding gold loan companies)	20% of Bank's Tier 1 capital as per the last audited balance sheet
Exposure Limit in case of a group of connected counterparties	25% of Bank's Tier 1 capital as per the last audited balance sheet
Individual/Prop Firm/Firm/HUF/OPC/Trust/Society/AOP	Rs 25 Crore
LLP	Rs 50Crore

	Particulars	Exposure Ceiling
1	Sum of the exposures to Stock brokers and market makers (both fund based & non fund based i.e. guarantees)	12% of the net worth of the Bank as on the previous year end.
2	Fresh Credit exposure to any single stock broking entity including its associates/ inter-connected companies and single broker	Rs 150 Crore per borrower$

Residential Real Estate	
Residential Mortgages (Home Loan)	250% of Bank's net worth as on previous year end
Indirect Exposure (HFCs & NHB)	Exposure ceiling as fixed under industry wise Ceilings
Commercial Real Estate	50% of Bank's net worth as on previous year end
Of which Land & Building Development	25% of Bank's net worth as on previous year end

Large 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 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. Substantial Exposure Limits are not deemed as caps on further exposures but are intended for closer monitoring

Sum Total of Large Single and Group Exposure	**500% of Tier I Capital funds as per the last audited balance sheet**

	Major Industries/Sectors	Ceiling as a % of total exposure of the bank as on previous year end
1	**Chemicals & Chemical Products**	
1.1	Drugs and Pharmaceuticals	**1.00%**
1.2	Fertilizers	**1.00%**
1.3	Other Chemicals & Chemical Products	**1.00%**
2	**Engineering**	
2.1	General Engineering Machinery and Goods	**3.00%**
2.2	Electrical Machinery and Goods	**1.00%**
2.3	Electronic Machinery, Goods and Software	**1.00%**
3	**Food Manufacturing and Processing**	
3.1	Edible oil and Vanaspati	**1.00%**
3.2	Rice Mills, Flour Mills and Dal Mills	**1.00%**
3.3	Sugar	**1.00%**
3.4	Tea and Coffee	**0.50%**
3.5	Other Food Manufacturing and Processing	**2.00%**

	Major Industries/Sectors	Ceiling as a % of total exposure of the bank as on previous year end
4	**Infrastructure**	
4.1	**Power**	
4.1.1	Power Generation	**5.00%**
4.1.2	Power Transmission and Distribution	**3.00%**
4.1.3	Renewable Energy	**0.50%**
4.2	**Transport**	
4.2.1	Ports and Roads	**3.75%**
4.2.2	Shipping	**0.50%**
4.2.3	Logistics	**1.00%**
4.3	Telecommunication	**1.25%**
4.4	Educational Institution	**1.50%**
4.5	Hospital	**1.00%**
4.6	Hotels (Three Star and above)	**0.50%**
4.7	Other Infrastructure	**9.00%**
5	**Textiles**	
5.1	Cotton Textile	**1.00%**
5.2	Natural Fibre Textile	**0.50%**

	Major Industries/Sectors	Ceiling as a % of total exposure of the bank as on previous year end
6	NBFC/HFC/MFI	
6.1	Non Banking Financial Companies (NBFC)	9.00%
6.2	Micro Finance Institutions (MFI)	1.00%
6.3	Housing Finance Companies (HFC)	7.00%
7	Basic Metal and Metal Products	
7.1	Iron and Steel	4.25%
7.2	Other Metals and Metal Products	1.00%
8	Trade	
8.1	Wholesale Trade	
8.2	Retail Trade	
9	Automobiles	1.00%
10	Aviation	0.50%
11	Beverages and Tobacco	0.50%
12	Cement and Cement Products	1.25%
13	Capital Market Exposure (CME)	
14	Commercial Real Estate (CRE)	

	Major Industries/Sectors	Ceiling as a % of total exposure of the bank as on previous year end
14	Commercial Real Estate (CRE)	
15	Construction Contractors	5.50%
16	Gems and Jewellery	0.75%
17	Glass and Glass Ware	1.00%
18	Leather and Leather Products	0.50%
19	Media and Entertainment	0.75%
20	Mining and Quarrying	1.00%
21	Paper and Paper Products	1.00%
22	Petroleum and Petroleum Products	5.00%
23	Printing and Publishing	1.00%
24	Rubber, Plastic and their Products	2.00%
25	Wood and Wood Products	1.00%
26	Other Industries	

Financing Indian Companies for acquisition of Equity in Foreign Companies

An individual exposure limit of **7.5% of Tier I capital funds** of the Bank as on the previous year end with a ceiling of Rs. 1000 Crore is fixed for this segment subject to the following conditions:

1. The overall exposure on advances against shares (including this segment) shall be within the ceiling as mentioned above.
2. Exposure on individual borrower under this segment shall not exceed the norm as per Sec.19 (2) of the Banking Regulations Act 1949.
3. RBI guidelines and FEMA guidelines in force from time to time are to be complied with.

Exposure to Indian Joint Ventures/Wholly-owned Subsidiaries Abroad and Overseas Step-down Subsidiaries of Indian Corporate:

Bank is allowed to extend credit/non-credit facilities (viz. letters of credit and guarantees) to Indian Joint Ventures/wholly-owned subsidiaries abroad and step-down subsidiaries which are wholly owned by the overseas subsidiaries of Indian Corporate.

Bank is also permitted to provide buyers credit/acceptance finance to overseas parties for facilitating export of goods & services from India. The above exposure will, however, be subject to a limit of **20 percent of bank's unimpaired capital funds (Tier I and Tier II capital)**

Limit on Exposure to Pooled Assets

1. The Bank has fixed a limit of **5% of total exposure of the bank as on previous year** end as exposure limit for portfolio buy out though direct assignment of assets purchased from various originators put together.
2. Bank's exposure under portfolio buy out though direct assignment of assets for a single originator will be lower of the 10% of AUM of the originator as on the last preceding quarter end or Rs 2500 crore. However, for exposure under portfolio buyout exceeding Rs.1500 Cr, our participation in the pool assets shall remain restricted to 25% of the total securitised / sold portfolio of the single originator.
3. Bank's exposure under portfolio buy out though direct assignment of assets for a group of connected originators will be lower of the 10% of sum total of AUM of the group of connected originators as on the last preceding quarter end or Rs 4000 crore.

Limit on Co-Lending Exposure

1. Bank's limit on exposure under Co-lending for a single co-lender(originator NBFC) will be lower of the **10% of AUM of the co-lender as on the last preceding quarter end or Rs 1000 crore.**

2. Bank's limit on exposure under Co-lending for a group of connected co-lenders will be lower of the **10% of sum total of AUM of the group of connected co-lenders as on the last preceding quarter end or Rs 2000 crore.**

Limit on Exposure to Pooled Assets and Co-Lending Exposure

1. Bank's limit on combined exposure under Co-lending and portfolio buy out though direct assignment of assets (Pooled assets) for ***a single originator/co-lender is Rs 3000 crore.***
2. Bank's limit on combined exposure under Co-lending and portfolio buy out though direct assignment of assets for a ***group of connected originators/co-lenders is Rs 5000 crore.***
3. Interchangeability is permitted between pooled assets and co-lending exposure limits for an originator/co-lender within aggregate limit proposed for pooled assets and co- lending
4. Bank will not take any exposure through pooled assets or Co-lending with MFI (not registered as NBFC-MFI)

Term Loan Outstanding Limit

For Term Loans (excluding products under personal banking segment) outstanding Limit is fixed at **70% of the Gross Outstanding Advances as on respective quarter end.**

Limit on Off Balance Sheet Exposure

Total NFB outstanding should not exceed **50% of FB outstanding of the Bank as on previous year.**

Unsecured Outstanding Limits

a) Aggregate Unsecured Outstanding (Funded +Non Funded): 25% of the Gross Credit O/S (Funded + Non Funded) as on respective quarter end.
b) Aggregate Unsecured Term Loan Outstanding: 20% of the Gross Credit O/S (Funded) as on respective quarter end.
c) Aggregate Unsecured Outstanding under Retail: 5% of the Gross Credit O/S (Funded) as on respective quarter end.

For Commercial Banks, incorporated in India and Foreign Banks operating in India:

Banks with level of Common Equity + CCB greater than or equal to 8.00%	Limits per bank as a % of minimum of Our Bank's Tier 1 Capital Fund or Counterparty Bank's Tier 1 Capital fund as on last published annual audited financials	
	Investment	Credit Exposure
External Rating AAA/A1+ to AA/A1	10.00%	5.00%
External Rating A/A2	8.00%	4.00%
External Rating BBB/A3 and Unrated	6.00%	3.00%

Public Sector Banks with level of Common Equity + CCB lesser than 8.00%	Limits per bank as a % of minimum of Our Bank's Tier 1 Capital Fund or Counterparty Bank's Tier 1 Capital fund as on last published annual audited financials	
	Investment	Credit Exposure
External Rating AAA/A1+ to AA/A1	8.00%	4.00%
External Rating A/A2	6.00%	3.00%
External Rating BBB/A3	3.00%	2.00%

Other than Public Sector Banks with level of Common Equity + CCB lesser than 8.00%	Limits per bank as a % of minimum of Our Bank's Tier 1 Capital Fund or Counterparty Bank's Tier 1 Capital fund as on last published annual audited financials	
	Investment	Credit Exposure
External Rating AAA/A1+ to AA/A1	6.00%	3.00%
External Rating A/A2	2.00%	1.00%

For Foreign Banks (other than Singapore based and Sri Lanka based):

Issuer rating	Limits per bank as a % of minimum of Our Bank's Tier 1 Capital Fund or Counterparty Bank's Tier 1 Capital fund as on last published annual audited financials	
	Investment	**Credit Exposure**
Bank Rating AAA to AA/Aaa to Aa	10.00%	5.00%
Bank Rating A	8.00%	4.00%
Bank Rating BBB/ Baa	6.00%	3.00%

For Foreign Banks incorporated in Singapore:

Issuer rating	**Limits per bank as a % of minimum of Our Bank's Tier 1 Capital Fund or Counterparty Bank's Tier 1 Capital fund as on last published annual audited financials**	
	Investment	**Credit Exposure**
Bank Rating AAA to AA/Aaa to Aa	9.00%	3.00%
Bank Rating A	6.00%	2.00%
Bank Rating BBB/ Baa	3.00%	1.00%

For Foreign Banks incorporated in SriLanka:

Issuer rating	**Limits per bank as a % of minimum of Our Bank's Tier 1 Capital Fund or Counterparty Bank's Tier 1 Capital fund as on last published annual audited financials**	
	Investment	**Credit Exposure**
Non G-SIBs:Bank Rating AAA to AA/Aaa to Aa	6.00%	3.00%
G-SIBs:Bank Rating AAA to AA/Aaa to Aa	5.00%	2.00%
Bank Rating A	5.00%	2.00%
Bank Rating BBB/ Baa	4.00%	1.50%

FI/ PD/ Banks	Amount(Rs in Cr)
FIs : -NABARD, EXIM Bank, SIDBI NARCL, NAFID, any other strategic FI promoted by GOI/any other statutory body/ PSU)	20% of Tier I Capital of Bank or Tier I Capital of FIs whichever is lower, subject to maximum ceiling of Rs 2000 Cr
PDs/ other organizations involved in similar activity	20% of Tier I Capital of Bank or Tier I Capital of PDs whichever is lower, subject to maximum ceiling of Rs 1000 Cr
Small Finance Banks meeting regulatory capital requirement	20% of Tier I Capital of Bank or Tier I Capital of SFBs whichever is lower, subject to maximum ceiling of Rs 1000 Cr
Regional Rural Banks, Local Area Banks, Co Operative Banks meeting regulatory capital requirement **Regional Rural Banks- Sponsored by Indian Bank subject to meeting regulatory requirement.**	500 **1000**
Unrated/ Below Investment Grade (Below BBB Rating) Foreign or Domestic Banks up to 1000 ranks as per Banker's Almanac	200
Investment Grade (Up to BBB Rating) Foreign or Domestic Banks from 1001 to 3000 ranks as per Banker's Almanac*	100

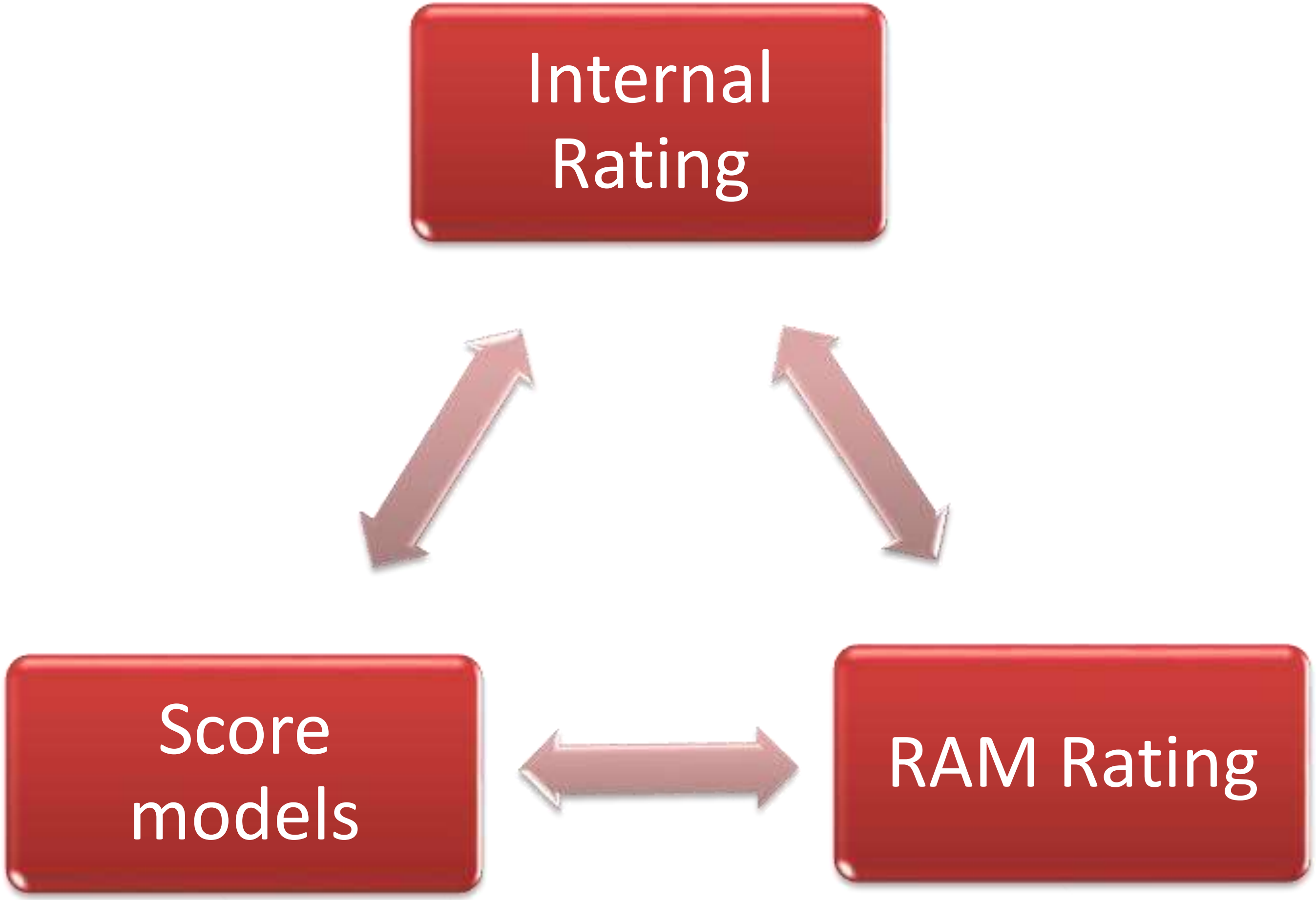
Trigger Limits:

In order to optimize the utilization of permissible exposures and to put in place a system for effective monitoring of the exposures, a trigger limit at 85% of the ceiling is fixed for various industries / sectors. Upon reaching the trigger limit,

1. CO: Risk Management Department has to alert functional credit General Managers at Corporate office and Zonal Managers about crossing the trigger limit and be selective in taking up further exposure
2. Beyond 85% and up to 100% of the ceiling, exposure clearance should be taken from functional credit General Managers at Corporate Office.
3. Upon reaching the trigger limit and up to the prescribed ceiling, further fresh/additional exposure of Rs.10 Crore and above should be accepted for borrowers having external rating of BBB (+ or -) or above from any one of the accredited rating agencies. In case external rating is not available, internal combined rating should be IB- A or above.

EXPOSURE EXEMPTED FROM EXPOSURE

1. Exposures to the Government of India and State Governments which are eligible for zero percent Risk Weight under the Basel III - Capital Regulation framework of the Reserve Bank of India.
2. Exposures to Reserve Bank of India.
3. Exposures where the principal and interest are fully guaranteed by the Government of India.
4. Exposures secured by financial instruments issued by the Government of India, to the extent that the eligibility criteria for recognition of the credit risk mitigation (CRM) are met.
5. Intra-day interbank exposures Intra-group exposures
6. Borrowers, to whom limits are authorized by the Reserve Bank for food credit
7. Bank’s Clearing activities related exposure to Qualifying central Counterparties (QCCPs)
8. Deposits maintained with NABARD on account of shortfall in achievement of targets for priority sector lending.
9. Exposures to foreign sovereigns or their central banks that are subject to a 0% risk weight based on RBI guidelines.


Internal Rating
Score models
RAM Rating

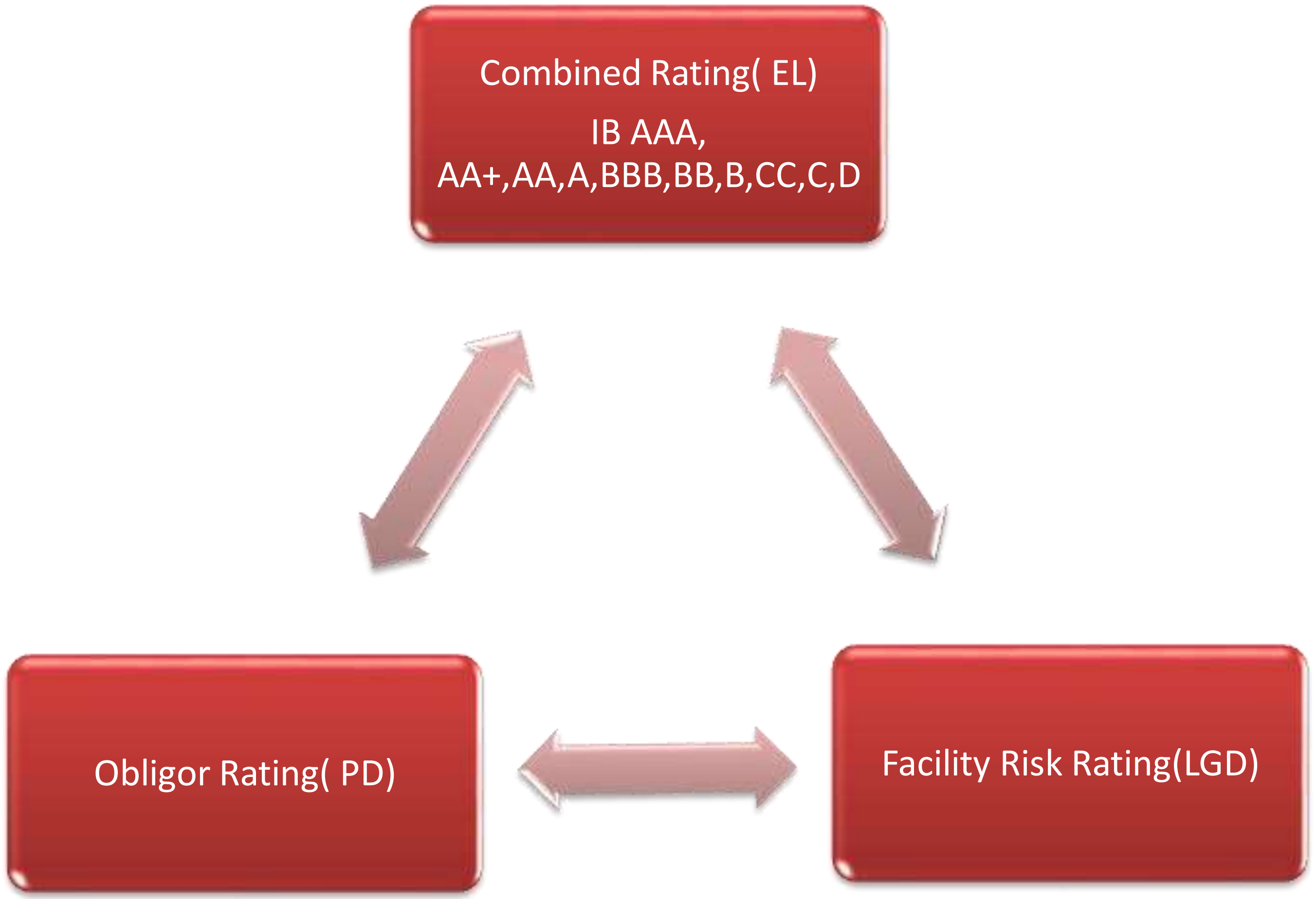
	SCORING MODEL	Applicability
1	Housing loan	Housing Loans of Rs 1 lakh and above
2	Vehicle Loan	Vehicle Loans of Rs 1 lakh and above
3	Personal Clean Loan	Clean Personal Loans of Rs 1 lakh and above
4	Personal Secured Loan	Secured Personal Loans, Consumer Loans of Rs 1lakh and above
5	Bank Property Loan	Loan against Property or Mortgage Loans of Rs 1 lakh to less than Rs 5 Crore.
6	Rent Loan	Rent loan of Rs 1 lakh to less than Rs 5 Crore
7	PMEGP Loan	PMEGP and other Government Sponsored Scheme Loans of Rs 1 lakh and above
8	Agricultural Loan	Agriculture Loan (including Crop Loan) above Rs 3lakh to less than Rs 1 crore
9	Small Business Loan	Business Loans irrespective of Manufacturing, Trade and Services activity of Rs 1 lakh to less than Rs 50 lakh
10	SHG Loan	SHG Loans of Rs 1 lakh and above
11	Credit Card	Credit Cards of Rs 1 lakh and above
12	Education Loan- IBAScheme	Education Loans under IBA Scheme of Rs 1 lakh and above
13	Education Loan- Non IBA Scheme	Education Loans under Non IBA Scheme of Rs 1 lakh and above
14	Generic Model	Any other loans of Rs 1 lakh to less than Rs 50 lakh not covered under any other scoring model
15	Startup Loans	Startup Scoring Model to be used for rating of proposals up to Rs 10 Crore

Process flow for Scoring Model

Sanctioning Authority	Initiator	Approver
Branch Manager of all the branches including specialised branches and Processing Centres	Any officer at Branch/ Processing Centre or Zone level	Any officer other than rating initiator and not involved in credit process at Branch/ Processing Centre or Risk Officer at ZO
Credit sanctioning authorities at the level of Zonal Office	Any officer at Branch/Processing Centre or Zone level	Risk Officer other than rating initiator and not involved in credit process at ZO
Credit sanctioning authorities at the level of FGM Office	Any officer at Branch/ Processing Centre or Zone level	Risk Officer other than rating initiator and not involved in credit process at FGMO
Credit sanctioning authorities at the level of CO irrespective of exposure	Any officer at Branch/ Processing Centre or Zone level	Any officer other than rating initiator and not involved in credit process at concerned Functional Credit department at CO

RAM Rating

All Segment of borrowers with exposure of Rs 1 Crore & above (other than eligible for rating under Score Card models) will be rated under applicable RAM rating Models:Total: 18 models



Exemptions for Ram Rating

Exemptions:

- Advances against security of Banks own Deposit, Advances against, NSC,KVP, LIP & pledge of Gold Jewelry, Advances against government securities including RBI Bonds, Food Credit etc.
- Advances to Staff Members.
- Advances against security of Units, Bonds etc. of UTI and Advance against shares.
- Bills Discounting under LC issued by Prime Banks and negotiated/ discounted after acceptance of issuing banks.
- Bills discounted/negotiated under non-prime banks LC or other bills, exposure is considered on borrower, and rating will as per Borrower category.
- For Customers whose exposure (both fund based and non-fund based-domestic), which are fully secured by100% cash margin at any point of time.
- If the counterparty is central or state sovereign. This kind of exposure includes exposure to RBI, DICGC and CGTMSE and CRGFTLIH.
- Commercial Paper, Asset Reconstruction Companies, Exposures becoming eligible for rating due to application of interest (marginal increase), TREDs Accounts, Non fund based Exposure (viz BG) against counter guarantee of other Bank, Any existing facility becoming eligible for RAM rating due to marginal increase in exposure due to sanction of GECLS/COVID relief loans

Sanctioning Authority	Initiator	Reviewer	Approver
Branch Manager of all the branches including specialized branches and Processing Centres having an exposure less than Rs 2 crore	Any officer at Branch/ Processing Centre or Zone level	--	Any officer other than rating initiator and not involved in credit process at Branch/ Processing Centre or Risk Officer at ZO
Branch Manager of all the branches including Specialized branches and Processing Centres having an exposure Rs 2 cr and above and up to their sanctioning powers	Any officer at Branch/ Processing Centre	Any officer who is not involved in credit process at Zone level	Risk Officer other than rating reviewer and not involved in credit process at Zonal Office
Credit sanctioning authorities up to the level of Zonal Office as per their delegated authority	Any officer at Branch/ Processing Centre or Zone level	Any officer who is not involved in credit process at ZO/FGM level	Risk Officer other than rating reviewer and not involved in credit process at FGMO
Credit sanctioning authorities up to the level of FGM Office as per their delegated authority	Any officer at Branch/ Processing Centre or Zone level	Any officer who is not involved in credit process at FGM level	Any Officer/s in Scale IV or above nominated by GM(RMD) or Department Head (RMD)
Credit sanctioning authorities at the level of Corporate Office irrespective of exposure	Any officer at Branch/ Processing Centre or	Any officer who is not involved in credit process at respective Credit Vertical in CO	Any Officer/s in Scale IV or above Nominated by GM(RMD) or Department Head (RMD)

	RAM rating Model	Applicability
1	SME Manufacturing Model	Manufacturing Segment Borrowers with exposure of Rs 1 Crore to less than Rs 10 crore
2	SME Services Model	Services Segment Borrowers with exposure of Rs 1 Crore to less than Rs 10 crore
3	SME Trader Model	Trading Segment Borrowers with exposure of Rs 1 Crore to less than Rs 10crore
4	MFI Model	MFIs with exposure of Rs 1 Cr to less than Rs 5 cr
5	NBFC Model	NBFCs, HFCs irrespective of exposure and MFIs With exposure of Rs 5 crore & above
6	Bank Model	All Banks and Financial Institutions with exposure of Rs 1 Crore and above
7	Real Estate Developer Model	Borrowers engaged in real estate development with exposure of Rs 1 Crore and above LRD Loans/IND Mortgage-CRE (Rs 5 Cr and above) proposals are be rated under Real Estate Developer Model.

	RAM rating Model	Applicability
8	Contractor Model	Construction contractors and Other Contractors with exposure of Rs 1 Crore and above
9	Broker Model	Share / Stock brokers with exposure of Rs 1 Crore and above
10	State Government Model	State Governments / Departments
11	Singapore Model	Companies incorporated in Singapore
12	Colombo Model	Companies incorporated in Sri Lanka
13	Infrastructure Power	Power Generation/Transmission/ Distribution companies
14	Infrastructure Road	Road Projects
15	Infrastructure Port	Port development projects (including Airport development)
16	Infrastructure Telecom	Unit engaged in providing telecom services
17	Large Trader	Trading Segment Borrowers with exposure of Rs 10 crore and above
18	Large Corporate	Manufacturing, Trading & Services Segment (incl. Rural Banking Segment)

Validity of Internal Rating

Particulars	Validity period
• 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 authorized 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.***
•Rating based on Provisional Company Financial Data	•3 months from the due date of submission of return to income tax authority
•Rating based on Projected Company Financial Data	•6 months from the date of first year of financial projections.
•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.

DYANAMIC RATING

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

- Listed Corporate borrowers(wherever quarterly results /data are available) to be internally rated (mid term) within 90 days of publication of quarterly results.

- 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.

The process flow for Mid-Term Rating/Dynamic rating under Dynamic Internal Rating Model is as under:

Initiator	Approver
a. For accounts where annual rating is finalized at CO:RMD	
Any officer at FGMO level/LCB/ Treasury	Any Officer in Scale IV or above nominated by GM(RMD)/ DGM (RMD)
b. For accounts where annual rating is finalized at FGMO/ZO/Branch	
One notch below (ZO/Branch/ Processing Centre)	Risk Officer at FGMO/ZO

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:

1. The interest rate applicable to such borrowal account shall be refixed based on downgraded rating.
2. 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 for concession in interest rate or other charges.
3. 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.
4. For review/renewal of existing limits, respective sanctioning authority can consider irrespective of any down gradation in internal rating.

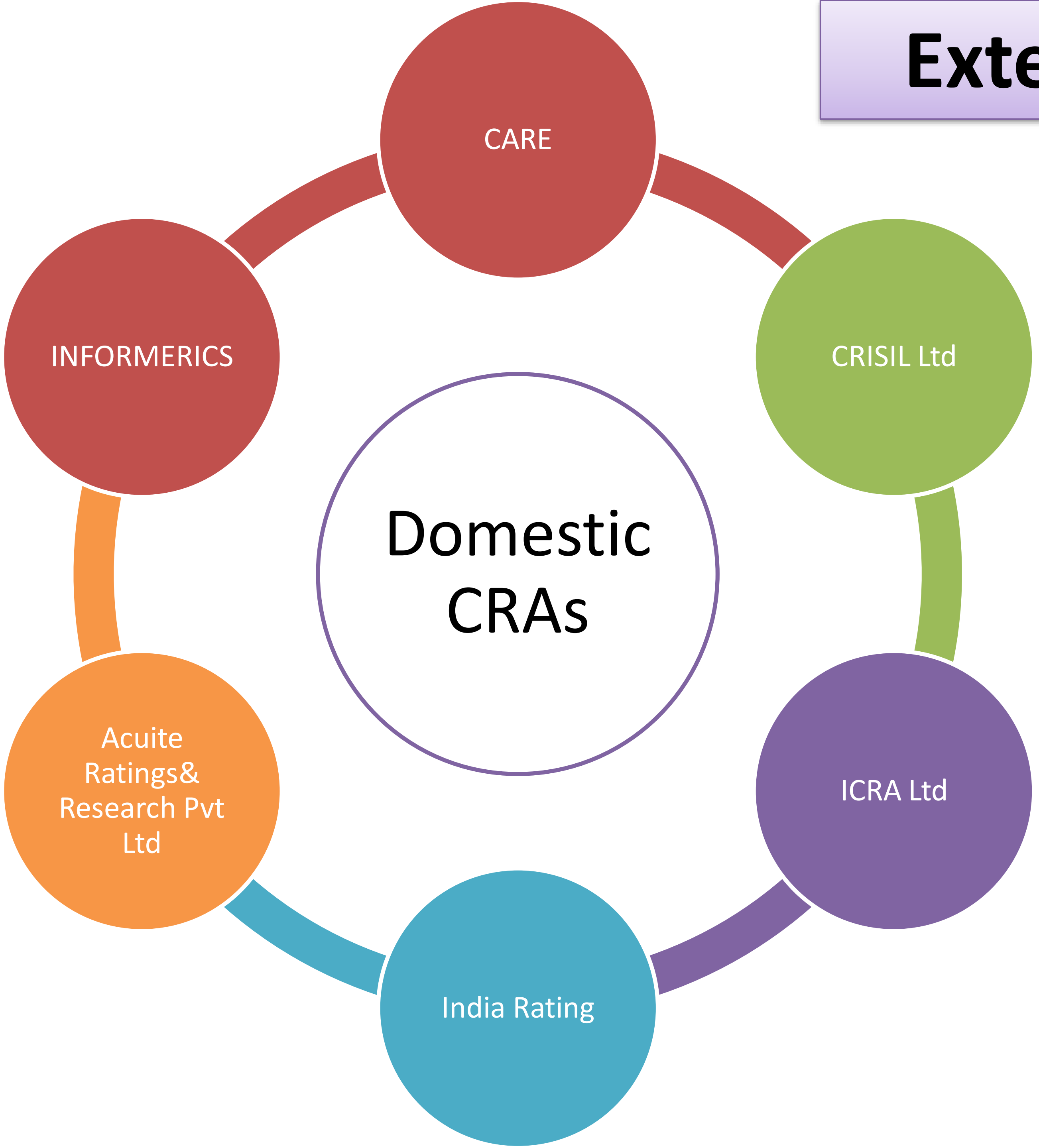
Down gradation in internal rating.

6. Any borrowal account which slips to NPA will be downgraded to D category

7. 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.

8. 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



EXTERNAL CREDIT RATING

1. External rating from any one of the accredited agencies should be obtained for all exposures as below: *CRE, MSME(Including rice mills and agro processing units which are registered under MSME Act): 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).

2. 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.

3. 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.

Entry Hurdle Rating

Segment	Entry Barrier
NBFC, HFC and NBFC-MFI	Combined internal rating IB A (Based on RAM) & External rating A/A2 (+ /-)
MFI	Combined internal rating IB BBB(Based on RAM & 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) & Project rating P3 (Based on RAM)
Exposure where Scoring Model is applicable	Internal rating BBB (Based on Scoring Model) & CIBIL 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)

Entry Hurdle Rating

Internal Rating Grade	Risk Level	Exposure as % of standard credit Exposure eligible for Internal rating
Investment Grade	Low to moderate	Min 70%
Below Investment Grade	High	Max 20%
Limit of Exposure without valid internal rating		Max 10% of total standard credit exposure eligible for Internal rating. Credit Exposure Central and state Govt PSUs are excluded for monitoring of this limit
	Unsecured Outstanding Limit (Gross Credit O/S considered as on respective quarter end)	**Aggregate Unsecured Outstanding (Funded +Non Funded)**: 25% of the Gross Credit O/S (Funded + Non Funded)
		Aggregate Unsecured Term Loan Outstanding: 20% of the Gross Credit O/S (Funded)
		Aggregate Unsecured Outstanding under Retail: 5% of the Gross Credit O/S (Funded)
	Term Loan (excluding Products under Personal Banking segment) Outstanding limit	70% of the Gross Outstanding Advances as on respective quarter end

Entry Hurdle Rating

Internal Rating Grade	Risk Level	Exposure as % of standard credit Exposure eligible for Internal rating
	Project Finance Exposure	Project Finance exposure is fixed at 20% of total exposure excluding investment and derivatives as on respective quarter end
	Ceiling on NFB Outstanding	50% of FB outstanding of the Bank as on Previous year
	Cap/Ceiling on unavailed Exposure(Funded +Non Funded)	Based on risk appetite, Bank to monitor Un-availed Exposure on close of every quarter and will endeavor to keep the Un-availed Exposure (Fund + Non Fund) within 25% of Aggregate Exposure (Fund +Non Fund)

EXEMPTION OF ENTRY BARRIER RATING

1. 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.

2. 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 FGM CAC powers by COLCC(GM) and proposals falling under COLCC(GM) and above can 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 their respective delegated powers.

Rating criterion for takeover of accounts

For takeover of accounts both internal as well as external rating criteria should be complied.

Internal Rating criteria:

Combined Rating of the borrower should be IB A or better as per internal rating system of the Bank.

External Rating criterion:

1. For exposure not eligible for external rating as per Bank's existing guidelines only rating criteria will be applicable internal rating criteria will be applicable.

2. For exposure eligible for external rating as per Bank's existing guideline.

a) External rating shall not be less than BBB irrespective of (+)/(-). In case of MSMEs, Food & Agro processing units and IB Star Agro Mills scheme external rating shall not be less than BB irrespective of (+)/(-).

b) COLCC (GM) and above can consider takeover of MSME accounts & Agricultural advances(registered under MSMED act) having lower rating grade as per rating criteria for takeover of accounts subject to minimum B. Wherever Credit Rating Agency is changed, lower of the ratings assigned by Credit rating agencies is to be considered.

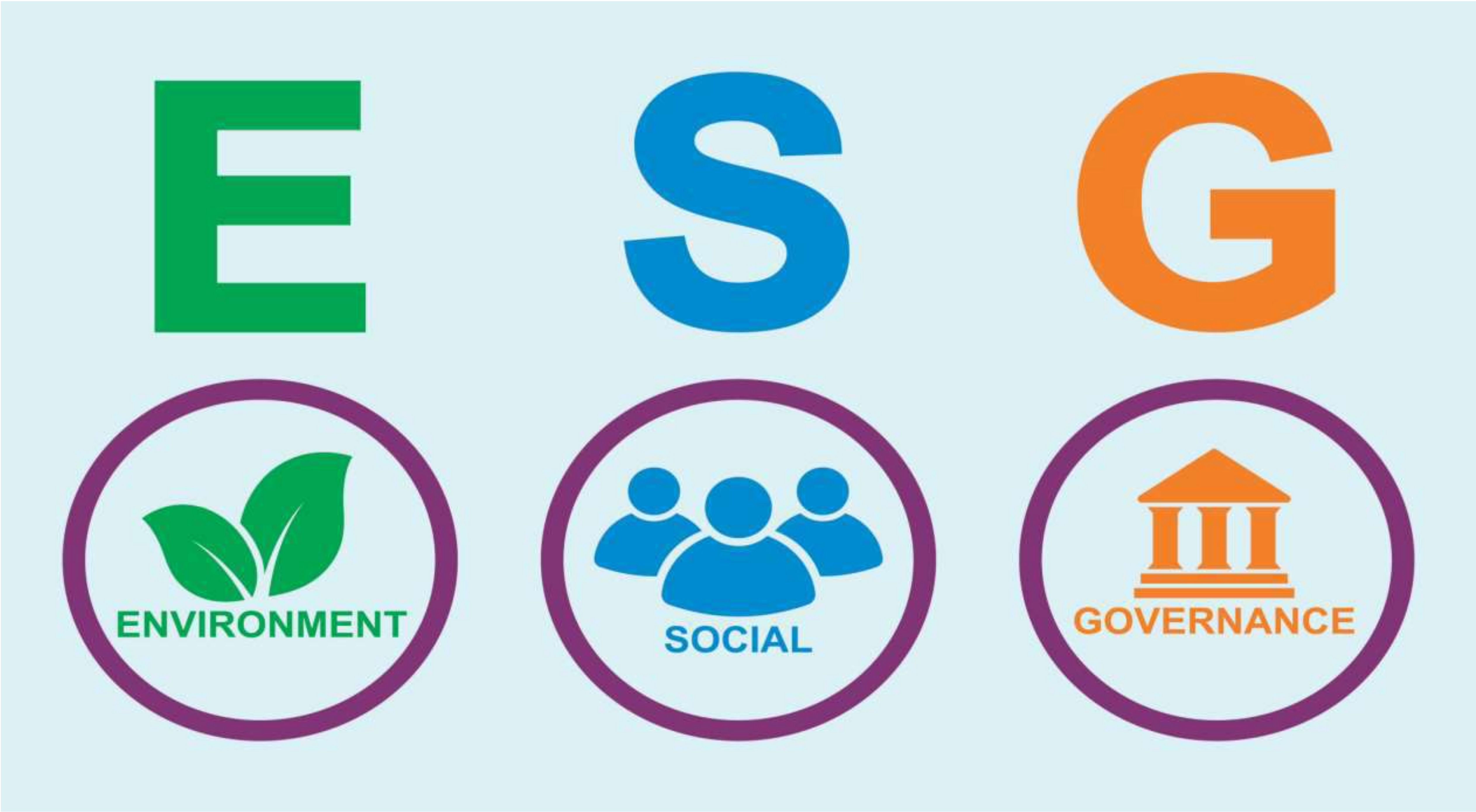
c) Wherever two simultaneous valid external ratings are available, lower of the ratings assigned by Credit rating agencies is to be considered.

- <u>Lending to Stress Sectors to be done on selective basis.</u>

- Fresh/additional exposure to Stressed Sectors can be considered by ZLCC and above. However Corporate having business activity which falls under Stress Sector but having external rating A & above, restrictions of Stress Sector will not apply.

- Identification of Stress Sector based on various factors / Board approved methodology is done separately at CO: RMD level on quarterly basis which is dynamic in nature and the same is placed on Help desk (Risk Management Section) Exclusions under the identified sectors (if any) will be also published for the guidance of field functionaries and prudent decision making.

Industry wise Outlook (presently universe of 268 Industries) is published by RMD as forward looking approach to enable the field functionaries in taking prudent credit decisions. The outlook for a particular industry is to be taken as only an indicative tool forming part of overall risk assessment and as a part of a prudent decision making for additional exposure. Within stress sector, the exempted subsectors as identified and published on a quarterly basis would be outside purview of the guidelines.


E
S
G
ENVIRONMENT
SOCIAL
GOVERNANCE

Environmental

- Renewable fuels
- Greenhouse gas (GHG) emissions
- Energy efficiency
- Climate risk
- Water management
- Recycling processes
- Emergency preparedness

Social

- Health and safety
- Working conditions
- Employee benefits
- Diversity and inclusion
- Human rights
- Impact on local communities

Governance

- Ethical standards
- Board diversity and governance
- Stakeholder engagement
- Shareholder rights
- Pay for performance

- ESG aspect should be commented upon in the Credit appraisal of companies operating for more than 5 years with proposed exposure to our bank >Rs.100 Cr belonging to these polluting sector/Industries. Credit appraisals of such proposals shall have separate chapter on Environmental, Social and Governance risks which are likely to impact the project / operations of the borrower’s Company & offered better pricing.

India’s Commitment to COP-26 Summit-Glassgow i.e Panchmarit

1. India will achieve non fossil energy capacity to 500 Gigawat by 2030.
2. India will meet 50% of energy requirement till 2030 with renewable energy.
3. India will reduce its project carbon emission by 1 Billion Tones by 2030.
4. Indian will reduce Carbon intensity of its economy by 45% by 2030.
5. **India will achieve net Zero emission by 2070**

Guidelines on Climate Risk & Green Financing

1. Green Portfolio constituting lending under Green Products, finances to sectors like Renewable Energy (Solar, Wind, and Hydro- Water), Ethanol Projects will be monitored on regular basis and quarterly portfolio position will be placed to RMC.
2. Disclosure under Basel –III for such portfolio/ Climate Risk mitigation measures taken by Bank will be made.
3. The Bank will engage with its corporate customers in pursuit of decarbonization and to reduce their emission of greenhouse gases. Sustainability Linked Loans (SLLs) to corporate customers will be extended where the interest rate on the loan will be linked to firm’s achievement of certain sustainability benchmarks to incentivize the borrower to achieve certain sustainability performance objectives.
4. Minimum four awareness programme on climate risk and sustainable finance in a FY will be done to help the Bank embed climate risk into their operations and ultimately to move towards carbon neutral position in long term.
5. Branches /DAMC while opening the accounts shall ensure proper mapping of activity code for aggregation to Green Portfolio.

Collection of Scope 1 and 2 Carbon Emission data of borrower

In response to the increasing global focus on climate change and sustainable development, both the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have taken significant steps to address environmental, social, and governance (ESG) risks.

In recent years, climate change concerns and sustainable development have taken centre stage in global and national priorities. There has been a growing recognition of the significant economic impacts of environmental, social and governance (ESG) risks across the globe, with many international bodies and financial regulators examining ESG-related issues including regulation and supervision.

Reserve Bank of India has released a Discussion Paper on Climate Risk and Sustainable Finance. Similarly, SEBI has also introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR) mandatory since FY 2022-23 for top 1000 listed entities (by market capitalization) and voluntary for other entities.

Collection of Scope 1 and 2 Carbon Emission data of borrower

In this context, disclosure of Scope 1 & Scope 2 emissions^ by the entities has gained traction and being considered as an important point measuring contribution of organization towards Climate Risk Management. As such, under EASE 6.0, it has been taken as one of the Actions points for Banks to measure the quality of new advances/ front book with reference to controlling emissions of Green House Gases/ minimizing carbon foot print.

Thus to measure the same, in terms of EASE 6.0 guidelines, data on carbon emissions (including scope 1 & scope 2 emissions) for all borrowers on new loans above Rs.10 Cr for the industries Oil & Gas, Coal mining, Fossil fuel related power generation, Aviation and Petrochemicals is required with in 30.09.2023. ***The carbon emission data is required for every loan above Rs.10 Cr in Bank across all industries by 31.12.2023***

Risk Based Pricing using RAROC Framework

RAROC >Cost of Capital	• The outcome is positive and the bank will have value addition
RAROC < Cost of Capital	• The outcome is negative and the business process has destroyed value
RAROC = Cost of Capital	• In this case the outcome is neutral as the business process has only maintained value

RAROC PRICING

The present card rate mechanism derives interest rates solely based on internal ratings, whereas RBP framework comprehensively assesses the borrower's risk profile by considering both internal and external ratings. In terms of Rate Computation Methodology, the RBP approach effectively reflects the borrower's risk profile through the risk-return trade-off, utilizing Risk-Adjusted Return on Capital (RAROC).

The interest rate is then determined with consideration of the Hurdle Rate (Cost of Capital), which is a notable departure from the current card rate methodology where no such comparison with the Hurdle Rate is made. Furthermore, Facility-Based interest rate in the proposed Risk-Based Pricing model differentiates interest rates for Term Loan and Working Capital/Overdraft facilities based on the varying risks associated with each facility. This stands in contrast to the current methodology, which does not distinguish between different facility types.

RAROC PRICING

The frame work shall be applicable to "All new loans / advances sanctioned / Loans reviewed / RoI reset on or after 03.11.2023".

As per the framework, calculation of RBP is required for the below mentioned category of borrowers at this juncture. ***MSME customers with Exposure greater than Rs .25 crores & Risk Based commission for NFB facilities will be brought under the ambit of RBP framework gradually in due course. To start with, RBP is applicable only for –***

1. Corporate Borrowers (NBFC/PSU/LRD/CRE-NRH/Non-PSU Corporate e.tc)

2. Purchase of Pooled assets (irrespective of amount)

EXEMPTION FOR RAROC PRICING

All other category of borrowers apart from above mentioned will be exempted from RBP framework viz"

1. Exposure to Retail, Agriculture & MSME Borrowers and all accounts linked to EBLR/TBLR.
2. Restructured Accounts(existing/proposed) including WCTL and FITL.
3. Loans with 100% financial security & Fixed rate loans
4. Rate of interest for specific/structured products, as the same will be finalized by the respective departments at corporate office by taking cue from this pricing framework Pricing for Forex structured products and for structured products related to import and export transactions will be finalized by concerned department at corporate office.
5. Exposure with other scheduled Commercial and Cooperative Banks.
6. Exposure at Singapore, Sri Lanka & Gift city

THANK YOU