Lending Policy

1. Preamble

1.1 Objective of the Policy

The objective of this Policy document is to provide a framework, which, will enable the Equitas Small Finance Bank to embody various aspects of Bank's credit policies & process that outlines the guiding principles in respect of formulation of various lending products offered by the Bank from time to time.

1.2 Scope of the Policy

a. This policy will cover the role and responsibilities of the Equitas Small Finance Bank (ESFB or "Bank") to design and to provide some fundamental guidance on lending, exposure norms, Restrictions for financing, pre-sanction appraisal and post sanction monitoring which includes NPA management.

b. The provisions of this policy will be applicable to the entire credit portfolio of the Bank including employee loan scheme, special schemes, related party transactions and priority sector loans.

2. ESFB Policy framework

2.1 Policy Coverage

The policy is designed to provide some fundamental guidance on lending, exposure norms, Restrictions for financing, pre-sanction appraisal and post sanction monitoring which includes NPA management.

The provisions of this policy will be applicable to the entire credit portfolio of the Bank including employee loan scheme, special schemes, related party transactions and priority sector loans too.

The policy provides broad guidelines for lending business of the Bank. The detailed instructions/lending norm, etc. will be governed by the guidelines on each product approved by the competent authorities from time to time.

The Lending policy helps the Bank to ensure the following –

a. Growth under priority sector advances and ensure the overall PSL / sub targets are met.
b. Ensure balanced growth and maintenance of healthy credit portfolio with risk management culture and prudent practices.
c. Ensure diversified loan portfolio spread across various products, industry/sector, customer segment and geography.
d. Strengthen the credit delivery system and ensure discipline in adhering to laid down process.
e. Ensure effective post disbursement monitoring of loans.
f. Comply with all regulatory requirements such as capital adequacy, prudential norms, asset classification guidelines, Risk management guidelines, etc.

This lending policy will be updated as and when the Bank rolls out new products. The amendments in the policy will be made from time to time to meet the market realities and business priorities to help all functionaries of the Bank in discharging their responsibilities for a healthy growth in credit portfolio.

2.1.1 Deployment of Credit / Thrust Areas

a. Business plan

The Bank will deploy the credit as per approved annual business plan / loan disbursement budgets.

b. Customer Segment

The Bank will endeavor to increase the credit exposure to all types of customer segments in particularly will strive to cater the credit needs of small sector and hitherto neglected sectors.

c. Priority Sector

The primary focus / thrust areas of the Bank will be to achieve the Priority Sector Lending (PSL) targets and sub-targets as stipulated by RBI from time to time as part of priority sector guidelines. The Bank's constant endeavor will be to over achieve the sub targets stipulated by RBI for Agriculture, MSME and Weaker sections and these targets will be factored in the annual business plan at product level. The criteria for classifying loans under various category of priority sector will be guided by the PSL policy issued by RBI from time to time.

d. Loan Types

Microfinance loans, Lending under Self Help Group formats, Lending under Joint Liability Groups, Agriculture, Micro and SME finance, Housing and Mortgage finance, Business Loans, Loans with and without security, Loans to individuals, small businessmen, agriculturists and small and mid-corporates will remain the focus areas of the Bank. Lending of these nature will be guided by the product specific guidelines issued from time to time.

e. Loan Ticket-size

In compliance with RBI guidelines applicable for Small Finance Bank, the Bank will deploy minimum 50% of the portfolio in loan ticket size of up to ₹ 25 lakhs or such other amounts as may be fixed by RBI from time to time. The loan ticket size will be arrived based on the original sanctioned value in case of Term loan facility and current sanctioned credit limit in case of Cash Credit / Overdraft facility.

f. Loan Tenure

The loan tenure will be determined based on individual products, the cash flow of the applicants, the nature of underlying security and its durability etc. Details of tenure for each product will be covered under respective product note.

The ALM position of the Bank will be monitored continuously to ensure that the ALM gaps are within defined levels.

2.2 General Lending Guidelines

2.2.1 Credit Approval Authorities

a. Credit exposure proposals will be approved as per the below delegation authority matrix

Approving Authority	At Borrower Level	At Group* Level
Credit Committee of the Board	Exceeding Rs. 50 Crores	Exceeding Rs. 100 Crores
Management Credit Committee comprising of MD & CEO, CFO and respective Business Heads Note: CRO and CCO will submit their views on advisory capacity.	Exceeding Rs. 25 Crores and up to Rs. 50 Crores	Exceeding Rs. 25 Crores and up to Rs. 100 Crores
"Approval Grid" as approved by MD & CEO from time to time	Up to Rs. 25 Crores	Up to Rs. 25 Crores

*The constituents of 'group' has been defined under Para 3.9.3 of the policy;

b. Normally the Bank will start following up with the borrower to obtain requisite documents and information for preparing the renewal proposal, by the expiry of eight months from the date of original sanction/ previous renewal. However, in rare and exceptional circumstances, MD & CEO is authorized to grant short period extension, not more than two times, for an aggregate period of not exceeding 90 days from the date of expiry of sanction/ renewal. In respect of exposure up to Rs. 25 crore which is due for renewal, the aforesaid authorization for short extension can be suitably delegated by MD & CEO.

c. Any such proposals for short extension should always be accompanied with latest risk rating and other such information about the borrower as will be necessary, to enable making an informed decision.

2.2.2 Pre Sanction Scrutiny and Credit Appraisals

a. Customers meeting KYC norms defined by the Bank from time to time will only be eligible for loan

b. Subject to meeting the KYC norms, the Bank will carry out diligence as outline below wherever applicable, as part of Pre sanction scrutiny –

i. Internal de-dupe
ii. Credit Information Report.
iii. Visit of Business place, unit, residence, collateral security, borrower/guarantor place as applicable.
iv. Personal Discussion (PD) by Bank Employee.
v. Income & Repayment capability assessment for loans other than joint liability group.
vi. Scrutiny of financial statements.
vii. Proposed end use of funds.
viii. Market or Trade reference / Neighborhood check.

c. The detailed activity to be carried out as part of above pre sanction scrutiny will be as per respective product guidelines.

d. Close co-ordination with other banks/financial institutions at the time of the appraisal and disbursement and follow up of advances will be ensured in case of consortium / multiple banking arrangements, so that timely exchange of data / information is made for effective monitoring and control of advances.

e. Balance sheet, auditor's report, notes to accounts, cash flow and funds flow statements will be thoroughly examined for higher exposure. The Bank will carry out dynamic financial analysis by scrutinizing the audited accounts for previous years so as to ascertain the trend of growth in sales, profitability, etc. and movement in key ratios.

f. The Bank will endeavor to scan and save all credit proposal related documents electronically to enable on-line loan processing and credit decision.

g. The Bank has implemented Credit Scoring model for all retail loans up to ₹500 lakhs to enable informed credit decision. The scoring model will not be adopted/applied for, Gold loan and Loan against deposits irrespective of loan value. Customer demographic details, repayment history, financials and cash flow of the customer, nature and quality of security, Loan to Value, information gathered as part of field assessment and such other factors will be considered as parameters/key variables for credit scoring. The Bank has developed a Credit Scoring model for individual Microfinance customers based on certain key parameters such as Residential Stability, Income, Age, relationship with the bank, etc.

   For non-investment grade exposures (i.e. below BBB for external rating ; CR6 & below for internal rating), the Bank will put in additional safeguard measures like increase in collateral cover, approval by higher authorities, increase in interest rates or any other suitable measures for risk mitigation, which will be dealt in the respective credit policies.

h. The Bank has put in place Risk rating framework for borrowers with exposure more than ₹ 500 lakhs. The customer financial performance, management background/experience, repayment history, compliance to loan terms, Industry comparison, terms of financing, collateral cover, external rating etc., will be considered as key parameters for Risk rating framework/model.

i. All loan proposals of ₹5 crore or more, either new or additional, with High Risk rating will be approved only at the level of MD & CEO. For all high risk rated cases, the rating will be reviewed on half-yearly basis

j. The Bank will track all the proposals on line from the point of lead generation until the loan disbursement

k. For effective credit appraisal and on-line tracking, all basic details of the proposal including scanned document will be captured in the Loan Origination System (LOS) at the branch for onward processing and the entire summary of proposals in terms of customer background, credit history, financials trend, loan terms, end use of funds, list of documents collected, deviations from the policy, etc., will be made available in Credit Appraisal Memorandum (CAM) as and when the Loan origination system is implemented.

l. The credit facilities will be made available to the constituent only after ensuring complete documentation and compliance with the terms of sanction as stipulated by the approving authority. The field functionaries are prohibited from disbursement of credit limits without complying with terms and conditions of sanction.

m. All credit sanction will be valid for maximum period of 90 days from the date of sanction. If not availed within this period, it requires revalidation by the concerned sanctioning authority.

n. Towards completion of documents at pre-sanctioning and post sanctioning stages, the following formalities will be observed –

   i. Collection of credit information report / opinion about the applicants and guarantor
   ii. Searches at the office of the sub-registrar of assurances or land registry to check the existence or otherwise of prior charge over the immovable property offered as security
   iii. Searches at the office of Registrar of Companies.
   iv. Searches at RTO offices
   v. Visit and Verification of the Security/activity.
   vi. Confidential reports / Credit Opinion Report will be as per the Board approved Take Over Policy.

2.2.3 Collateral Securities & Guarantees

2.2.3.1 General

a. Repayment capacity of the borrower will be one of the prime consideration while evaluating credit proposals. Collateral security and guarantee offered will be considered as secondary source of repayment.

b. Assets acquired out of Bank finance as well as assets against which loan is given, will normally be taken as primary security for the entire exposure.

c. Based on risk perception, the Bank will obtain sufficient and suitable tangible collateral securities wherever required.

d. The collateral securities offered should be in the name of borrower or co-borrower. In case, the ownership is jointly held, all the joint owners should become borrower. Collateral security in the name of any third parties, who are not close relatives can be accepted subject to the same being certified by an external recognized agency such as notary public, gazette officer, etc. and the third party standing as co-borrower or guarantor.

e. Second charge on fixed assets, if available, will be insisted upon for working capital advances. Where the Bank has financed both for fixed and current assets, the residual value of fixed assets will be charged as continuing collateral security for the working capital advances and vice versa

2.2.3.2 Collateral Security for Agricultural Advances

Collateral Security for Agricultural Advances will be governed by RBI guidelines issued from time to time

2.2.3.3 Collateral Security for Micro Small Enterprises

All Micro and Small Enterprises advances aggregating Rs.10 lakhs will be granted without collateral security and third party guarantee as per current RBI guidelines and as and when the

RBI guideline changes in this context, the same will be applicable for loans provided by the bank. These advances will be brought under CGTMSE guarantee cover, wherever possible.

2.2.3.4 Guarantees

a. In addition to the securities – both primary and secondary– the Bank will insist for personal guarantees of partners/directors. In the case of advances to Private Ltd companies – personal guarantee of promoter directors having major shareholding will be insisted upon.

b. The Bank will also insist for Third party guarantee wherever required.

2.2.3.5 Loans under Distressed Asset Fund scheme

If based on the assessment, the borrower is found suitable for sanction of loan under the Distressed Asset Fund – Subordinate Debt for Stressed MSMEs, the bank may consider to sanction the same under the scheme. In such cases, the guidelines issued from time to time by RBI/relevant authority, pertaining to the Distressed Asset Fund, shall be applicable. The fund infused by the promoters in their MSME units through loans availed under the scheme can be considered as equity/quasi equity from the promoter for debt-equity computation.

2.2.4 Empanelment of Independent Valuers

a. The Bank will appoint independent valuers for the valuation of assets and securities accepted for lending, based on a variety of factors such as the loan size, nature of property, LTV etc. Guidelines detailing the procedures will be spelt out in the respective product and process notes.

b. While empaneling external valuers, the following factors to be kept in mind:
   i. Whether the valuer is qualified to assess different classes of assets (e.g., land & building, plant & machinery, agricultural land, vehicles, gold etc.). While prescribing the qualification, Bank will take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957
   ii. His experience/reputation in the financial industry and knowledge of the industry.
   iii. Whether he is rendering similar services to other bank/financial institution
   iv. National Technical Manager or any other designated official will approve the valuers based on the above parameters

2.2.5 Valuation of Collateral Securities

a. The valuation of collateral security will be carried out as per the laid down procedures mentioned in the respective product guidelines.

b. For high value proposals of ₹1 crore or more, the valuation of the collateral will be done by two independent valuers and the lower of the two will be considered as valuation.

c. At the time of valuation of the property along with the present fair market value, distress sale value of the property will also be insisted upon. But normally only the fair market value will be considered as valuation for arriving loan value.

d. In case of securities such as shares, term deposits, LIC policies, NSCs, etc., the latest market value/FDR with interest/Surrender value/NSCs with accrued interest will be considered.

e. Revaluation of collateral securities will be done as mentioned in each product policy and process. For exposure above ₹10 crores, the Bank will carry out revaluation of collateral once in three years.

   i. Initial valuation will not be older than 3 months prior to disbursal of the credit facility. In respect of periodic credit review of facilities and reassessment of collateral value, appraisals older than three months will be used, subject to the approval of the relevant sanctioning authority. In such cases, the appraisal will 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.

   ii. More frequent monitoring of collateral will be undertaken where the market value of the collateral is subject to significant changes. The Credit approving authority will require new collateral value appraisals to be carried out at any time.

   iii. In cases of collaterals like land and building, equipment, plant etc., detailed valuations will be considered. These valuations will be received as written reports and must consider the local guidelines regarding valuation and revaluation.

2.2.6 Loan take over from other Banks/Financial institutions

This will be governed by a separate policy formulated in this regard by the Board

2.2.7 Time frame for disposal of proposals

a. Proposals up to ₹ 25000/- will be disposed of within a period of 2 weeks of the applicant providing all the required information/documents from their side and making themselves available for such appraisal as will be required to be carried out by the staff of the Bank.

b. As per RBI directive, all categories of loan proposals (including priority sector credit) of above ₹ 25000/- for fresh / enhancement / renewal will be disposed of within a period of 30 days from the date of receipt of loan proposal complete in all respect.

c. The Bank will track the disposal of all retail loans as and when the Loan origination system is put in place.

2.2.8 Rejection of Credit Proposals

a. Bank will take due care that proper appraisal is carried out for all eligible loan proposals and suitable reasons for rejections are properly documented for internal purpose.

b. For all loan applications above ₹5 crores, the rejection of proposal will be made by the next higher level to the sanctioning authority. However, this is not applicable for proposals falling under the authority of MD/Management Credit Committee. The rejection of proposal of up to ₹5 crores will be made as per DOA.

c. For all loan applications from persons belonging to Scheduled castes (SCs) and Scheduled Tribes, rejection of proposal will be made by the officials at higher levels to the sanctioning authority. However, this is not applicable for proposals falling under the authority of MD/Management Credit Committee.

d. For all rejection of export finance proposals will be made by the next higher authority.
e. The Bank will not entertain any proposal, which doesn't comply with KYC guidelines.
f. Details of all rejected proposals will be captured in the lending system of the Bank duly recording the date of receipt, reasons for rejections, etc. as and when the loan Origination system is implemented.
g. Bank will communicate the rejection of loan to the applicant.

2.2.9 Documentation Standards

a. The Bank reserves its unilateral and unconditional right to cancel the sanction / credit limits in whole or in part without assigning any reason any time. However, reasons for cancellation of limits will be kept on record for internal purpose.

b. The Bank will have defined systems and procedure for obtaining/completion of documentation formalities in respect of all type of credit facilities to ensure that –

   i. All documentation will be binding on all parties and legally enforceable in all relevant jurisdictions.
   ii. The debt taken by the borrower is clearly established by the documents.
   iii. The charge created on the asset (security) against the debt is maintained and enforceable.
   iv. The Bank's right to enforce the security for recovery is exercised before the documents become time barred as per limitation Act

c. Execution of proper documents, appropriate stamping and compliance as per terms of sanction will be ensured. In case where prescribed documents are not available or amendments are required in the prescribed formats of Bank's documents, the same will be validated by the Bank's legal officer / empaneled lawyer.

d. The formalities in respect of registration of charge with Registrar of Companies / Sub-registrar of Assurances / RTO wherever applicable will be complied within the stipulated timeline.

e. If the formalities are not completed within the stipulated time, Bank will charge penalty as per terms and condition of sanction.

f. All mortgage charges will be registered with Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI).

2.2.10 Fair Practice Code

In terms of Reserve Bank of India's directives and the guidelines of the Banking Codes and Standards Board of India (BCSBI), the Fair Practice Code for lenders will be adhered to:

2.2.10.1 General

i. To provide professional, efficient, courteous, diligent and speedy services.

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

iii. To be fair and honest in disclosures, dissemination of information and presentation while releasing information to public and marketing of loan products.

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

v. To render necessary assistance to customers applying for loans.

vi. To comply with all regulatory requirements

vii. The bank will not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc.

viii. In case of receipt of request for transfer of borrowal account, either from the borrower or from a bank/financial institution, which proposes to take- over the account, the consent or otherwise i.e., objection of the bank, if any, will be conveyed within 21 days from the date of receipt of request.

ix. The Bank will be accountable for inappropriate behavior by its employees or employees of the outsourced agency and will provide timely grievance redressal.

2.2.10.2 Loan processing

i. Information regarding rate of interest, processing fee, service charges, refund of charges, penalty for delayed repayments, Pre-payment options and any other matter which affects the interest of the borrower, changes to be levied/refunded by the Bank will be provided to the applicants while giving loan application form, to enable the customer to calculate the all-in cost and compare the charges with other available sources of finance. Such information will also be displayed on the website of the bank for all categories of loan products. Interest will be charged to the customer only after disbursement.

ii. Acknowledgement of receipt of loan application will be given for all loan applicants

iii. Applications forms complete in all respects will be processed within 14 days from the date of receipt of application form. Wherever additional information/ documentation is required to process the application form, the same shall be intimated to the customer within 14 days from the date of receipt of the application form.

iv. The bank will clearly delineate the procedure for disposal of loan proposals, with appropriate timelines, and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period

v. The main reason / reasons for rejection of loan application by the Bank will be conveyed to the applicants.

2.2.10.3 Loan Documentation

i. The bank will convey to the borrower the credit limit along with the terms and conditions thereof and keep the borrower's acceptance of these terms and conditions given with his full knowledge on record.

Fund Based	1. Term Loan 2. Demand Loan 3. Working Capital Loan – Cash credit / Overdraft facility / Drop Line Overdraft / Bill discounting
Non Fund Based	1. Letter of Credit 2. Bank Guarantee

ii. Bank will provide a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement (either digitally or physically at the option of the borrowers) to all the borrowers after due execution of the documents as per terms of sanction letter even when no specific request in this regard has been made by the borrower.

iii. Utmost care will be taken while giving copy of such documents to the borrower ensuring that the documents are not blank/incomplete. It is implied that handing over of blank/incomplete documents to the borrower and subsequent cutting, corrections, filling up of the blank documents, etc. will not be legally enforceable as such action post facto will be considered as alteration and be treated as "Null and void" and will lead to legal risk for the Bank. Wherever applicable, the legal audit will be completed and amendments in existing documents or fresh/additional documents if so suggested by the legal auditors will be obtained/completed/executed before handing over copies of the documents to the borrowers

iv. The loan agreement will clearly stipulate that credit facilities sanction are solely at the discretion of the bank. These will include approval or disallowance of facilities, such as, drawings beyond the sanctioned limits, honoring cheques issued for the purpose other than specifically agreed to in the credit sanction, and disallowing drawing on a borrowal account on its classification as a non-performing asset or on account of non-compliance with the terms of sanction. The bank will specifically state that it does not have an obligation to meet further requirements of the borrowers on account of growth in business etc. without proper review of credit limits.

The changes in the interest rates and charges will be effected only on prospective basis.

2.2.10.4 Post disbursement

a. Before taking a decision to recall / accelerate payment or performance under the agreement or seeking additional securities, the bank will give notice to borrowers, as specified in the loan agreement or a reasonable period, if no such condition exits in the loan agreement

The bank will release all securities on receiving payment of loan or realization of loan subject to any legitimate right or lien for any other claim the bank will have against borrowers. If such right of set off is to be exercised, borrowers will be given notice about the same with full particulars about the remaining claims and the documents under which the bank is entitled to retain the securities till the relevant claim is settled/ paid.

b. To attempt in good faith to resolve any disputes or differences with customers the bank has set up Grievance Redressal mechanism to redress the complaints of the customer. The Grievance Redressal mechanism will ensure that all disputes are heard and disposed of in the manner stipulated under Grievance Redressal policy of the Bank. A consolidated report of review of the compliance of Fair practice code and functioning of the grievances Redressal mechanism at various levels of controlling offices will be submitted to the Board annually.

With regard to lending, the Bank will ensure to comply with the above codes and standards strictly. The Fair Practice code will also be put in Bank's website

2.2.11 Insurance cover for Securities and Borrowers

a. To protect the securities both movable and immovable from any kind of theft, accident, damage, etc. the Bank will ensure both primary and secondary securities are adequately covered under insurance with lien marked in favor of the Bank.

b. The Bank will also ensure that the borrowers are also covered under various insurance protection scheme to the extent possible.

2.2.12 Solvency Certificate

MD & CEO is authorized to approve Issuance of Solvency Certificate requested by Bank's Borrowers. Further MD & CEO is also authorized to delegate this empowerment to such officials of the bank as he deems fit based on the level of credit exposure the bank has got with its borrowers.

2.2.13 Loans Sourced by the Bank over Digital Lending Platforms

For the loans sourced by the Bank over Digital Lending Platforms, the Bank will ensure the following:

a) Names of digital lending platforms engaged as agents shall be disclosed on the website of the Bank.

b) Digital lending platforms engaged as agents will be directed to disclose upfront to the customer, the name of the bank on whose behalf they are interacting with him.

c) Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the bank.

d) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.

e) Effective oversight and monitoring shall be ensured over the digital lending platforms.

f) Adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

2.3 Types of Credit Facilities and Products

2.3.1 Types of Credit Facilities / Instruments

The Bank will offer the following credit facilities to meet the various credit needs of the Bank targeted customer segment. The Bank will offer credit facilities listed below under various loan products/program.

2.3.2 Types of Products

a. The Bank will offer such products as will be approved from time to time to the targeted customer segments. An illustrative list are:

   i. Micro finance loan
   ii. Vehicle Loan including Tractor financing
   iii. Business instalment Loan - Secured & unsecured
   iv. Housing Loan
   v. Personal / consumer loans
   vi. Loan against property
   vii. Gold Loan
   viii. Loan against FD/LIC Policy etc.
   ix. Working capital Loan, i.e. Overdraft/ Cash credit
   x. Non-fund based facilities like Letter of Credit and Bank Guarantee

b. The detailed product credit norms and processes covering product features & variants, loan eligibility norms, income assessment, margin requirements, loan tenure, repayment terms, collateral security, purpose of the loan, credit approval delegation, deviation matrix, pre and post sanction documentation, post disbursement documents, etc. will be governed by the respective product guidelines duly approved by the competent authority. The instruction relating to margin requirement, collateral, etc. mentioned in this policy will be strictly followed in the respective product policy too.

   Any new product will be launched by the Bank only after obtaining approval from the "Product Approval and Change Management Committee".

2.4 Terms of Finance

2.4.1 Pricing

a. The Bank's comprehensive guidelines on interest rates on loans and advances duly approved by the Board will be complied with.

b. As per RBI guidelines, the loans and advances will be priced based on Base Rate / MCLR plus margin/ External Benchmark rate. However, the following category of loans will be exempted from MCLR framework

   i Loans under Differential rate of interest (DRI) scheme.

ii Loans to the Bank's employees under various schemes, interest for which will be approved by the competent authority.

iii Loans against Term deposits sanctioned to deposit holder/s only

iv Loans for rehabilitation of sick MSE units.

v) Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL), etc. granted as part of the rectification/restructuring package.

vi) Refinance schemes formulated by Government of India or any Government Undertakings where interest is charged at the rates prescribed under the schemes to the extent refinance is available

c. Base Rate / MCLR will be computed in line with RBI guidelines.

d. Margin will be based on the Bank's guidelines issued from time to time which will be decided based on factors such as customer's segmentation, tenure of the loan, value of collaterals, portfolio quality, default rate trends, risk perception etc., as defined in respective Product Note.

e. The Bank will reserve the right to charge additional interest rate in case the borrower doesn't comply with the sanction terms and conditions and the additional interest rate will be as per approved interest rate policy.

f. Any concession/waiver in interest rate and margin can be approved by the competent authority as per "Delegation of authority" matrix.

2.4.2 Penal Interest Rate

a. The Bank will charge penal interest rate in the following cases –

i. When any amount falls due and is not paid on time.

b. No penal interest will be charged on priority sector loans up to ₹ 25000.

c. The penal interest rate to be charged will be as per respective product note. .

d. Waiver/concession for penal interest rate as per Bank discretion will be approved by competent authority as per "Delegation of Authority" matrix.

e. All prepayment charges will be subject to such regulatory guidelines as will be prescribed by RBI from time to time.

2.4.3 Margin Requirement

a. The Bank recognizes margin as the borrower's share in the assets or security and therefore the Bank will endeavor to prescribe a suitable margin in most cases of lending by taking into account various factors like requirement of margin of safety, competition, etc.

b. The margin norms for following product/advances will be covered in the respective product guidelines

    i Loan against Deposits

    ii Vehicle finance
    iii Loan against property / Housing Loan
    iv Business Instalment Loan
    v Loan against Gold Jewellery

c. Sanctioning authorities can prescribe higher margin depending upon the market conditions, customer profile, portfolio behavior, security coverage, etc. as per individual product note. Margin requirement will also be a factor of on risk perception of the borrower.

d. The minimum margin requirements for select product category/types of advances will be as per RBI instruction.

e. In case of housing finance where the cost of the house/dwelling unit exceeds ₹ 10 lakhs, the Bank will not include stamp duty, registration cost and other documentation charges in the cost of the housing property for the purpose of arriving the LTV% to ensure the effectiveness of above prescribed minimum margin is not diluted.

f. The Bank will, subject to such guidelines as will be in force from time to time, at its discretion, prescribe lower margin on a case to case basis based on merits. The discretion for prescribing lower margins will be vested with competent authority as per "Delegation of authority" matrix subject to merits of the case documented during credit appraisal.

2.4.4 Other Charges / Fees

a. The Bank will collect below Fees/Charges as applicable to each product. The quantum of charges / fees will be decided by the Business head in consultation with MD&CEO. No loan related and ad-hoc service charges/inspection charges will be levied on priority sector loans up to 25,000. In case of eligible priority sector loans to SHGs/JLGs, this limit will be applicable per member and not to the group as a whole:

    i Processing Fee
    ii Modification / Revalidation of Sanction
    iii Commitment charges
    iv Mortgage charges
    v Cheque Bounce charges
    vi Collection visit charges
    vii Inspection charges
    viii Charges for not adhering to sanction terms & conditions
    ix Such other charges as will be prescribed from time to time

b. The competent authority as per "Delegation of authority" matrix will waive or provide concessions for the above fees/charges on case-to-case basis on account of competitive reasons.

2.4.5 Hurdle Rate

The Hurdle rate will be prescribed in the Credit Risk Management Policy.

2.5 Restrictions for Financing

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

2.5.1 Statutory Restrictions

2.5.1.1 Advances against Bank's own shares

a. In terms of Section 20 (1) of the Banking regulation Act, 1949, the Bank will not grant any loans and advances on the security of its own shares.

b. Bank will not extend financial assistance to their own employees for acquisition of shares under ESOPs/ IPOs, as banks are not allowed to extend advances including advances to their employees / Employees' Trusts set up by them for the purpose of purchasing their own banks' shares under ESOPs / IPOs or from the secondary market. This prohibition will apply irrespective of whether the advances are secured or unsecured.

2.5.1.2 Holding Shares in Companies

a. In terms of section 19(2) of the Banking Regulation Act, 1949, Bank will not hold shares in any company except as provided in sub-section (1) whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up capital and reserves, whichever is less.

b. Further, in terms of Section 19 (3) of the Banking Regulation Act, 1949, the banks should not hold shares whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or manager of the Bank is any manner concerned or interested.

Accordingly, while granting loans and advances against shares, statutory provision contained in Sections 19 (2) and 19 (3) will be strictly followed by the Bank.

2.5.2 Regulatory Restrictions

2.5.2.1 Commodities covered under Sensitive commodities Selective Credit Control

a. Presently, the following commodities are covered under stipulations of sensitive commodities selective credit control:
   - i food grains i.e. cereals and pulses,
   - ii selected major oil seeds indigenously grown, viz. groundnut, rapeseed/mustard, cottonseed, linseed and castor seed, oils thereof, Vanaspati and all imported oils and vegetable oils,
   - iii raw cotton and kapas,
   - iv sugar/gur/khandsari,

v Cotton textiles which include cotton yarn, man-made fibers and yarn and fabrics made out of man-made fibers and partly out of cotton yarn and partly out of man-made fibers

Margin, rate and Ceiling as per stipulations of selective credit control guidelines will be adhered.

b. Valuation of Sugar stocks

   i. The unreleased stocks of the levy sugar charged to banks as security by the sugar mills will be valued at levy price fixed by Government
   ii. The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the bank as security by sugar mills, will be valued at the average of the price realized in the preceding three months (moving average) or the current market price, whichever is lower. The prices for this purpose will be exclusive of excise duty.

2.5.3 Restrictions on Grant of Financial Assistance to Industries Producing / Consuming Ozone Depleting Substances (ODS)

The Bank will not extend finance for setting up of new units consuming/producing the Ozone Depleting Substances (ODS).

No financial assistance will be extended to small/medium scale units engaged in the manufacture of the aerosol units using chlorofluorocarbons (CFC) and no refinance will be extended to any project assisted in this sector

2.5.4 Restriction on payment of commission to staff members including officers

The bank will not pay commission to staff members and officers for recovery of loans

2.5.5 Restrictions on offering incentives on any banking products

The Bank will not offer any banking products, including online remittance schemes etc., with prizes /lottery/free trips (in India and/or abroad), etc. or any other incentives having an element of chance, except inexpensive gifts costing not more than Rupees two hundred fifty.

2.6 Restrictions on Other Loans and Advances

2.6.1 Loans and advances against shares, debentures and bonds

The Bank will strictly adhere to the regulatory restrictions below on grant of loans and advances against shares, debentures and bonds

a. No loans to be granted against partly paid shares.

b. No loans to be granted to partnership/proprietorship concerns against the primary security of shares and debentures.

c. The bank will not grant loans to individuals against shares, debentures and bonds to meet contingencies and personal needs or for subscribing to new or rights issues of shares / debentures / bonds or for purchase in the secondary market

d. The bank will not provide loans against shares, debentures and bonds to share and stock brokers / commodity brokers against shares and debentures held by them as stock-in-trade.

e. the bank will not issue guarantee on behalf of share and stock brokers/commodity brokers in favour of stock exchanges in lieu of security deposit to the extent it is acceptable in the form of bank guarantee or in lieu of margin requirements

f. Loans/advances to any individual from banking system against security of shares, convertible bonds, convertible debentures, units of equity oriented mutual funds and PSU bonds will not be granted for subscribing to IPOs.

g. The corporate will not be extended credit by the bank for investment in other companies' IPOs. Similarly, bank will not provide finance to NBFCs for further lending to individuals for IPOs

h. The bank will not extend finance to employees for purchasing shares of their own companies under Employees Stock Option Plan (ESOP)/ reserved by way of employees' quota

i. Lending against mutual funds: RBI vide "Master Circular – Loans and Advances – Statutory and Other Restrictions" has specified norms for lending against mutual fund and in specific to debt mutual funds in which Banks have been authorized to lend in accordance to the lending policy. While institutionalizing the product, all critical aspects of these products as per regulatory guidelines including purpose of loan, amount of advance, margin requirements, etc. will be covered in the product note, which will be approved, by the Product Approval and Change Management Committee.

j. The bank will not grant loans for market makers or will extend finance to stockbrokers for margin trading.

k. The question of granting advances against Primary Security (the asset created out of the credit facility extended to the borrower) of shares and debenture including promoters' shares to industrial, corporate or other borrowers will not normally arise. However, such securities, in Demat form, will be accepted as collateral for secured loans granted as working capital or for other productive purposes from borrowers other than NBFCs. In the course of setting up new projects or expansion of existing business or for the purpose of raising additional working capital required by units other than NBFCs, there will be situations where such borrowers are not able to find the required funds towards margin, pending mobilization of long term resources. In such cases, the Bank will obtain collateral security of shares and debentures by way of margin. Such arrangements will be of a temporary nature and will not be continued beyond a period of one year.

l. Shares / debentures / bonds will be valued at prevailing market prices when they are lodged as security for advances

m. The bank will ensure that the scrips lodged with as security are not stolen / duplicate / fake / benami. Any irregularities coming to their notice will be immediately reported to RBI

2.6.2 Advances against fixed deposit receipts issued by other banks

The Bank will not offer advances against FDRs, or other term deposits of other banks.

2.6.3 Advances to Non-resident Indians / Person of Indian Origin

No loan, advance, or overdraft (other than loan / overdraft against term deposit in their names as permitted by RBI for SFB) will be sanctioned to a person resident outside India (NRIs/PIOs/foreign nationals). Bank will also not finance to resident individuals and non-individuals where NRI/Person of Indian origin is a guarantor to the loan.

2.6.4 Advances to Agents/Intermediaries based on Consideration of Deposit Mobilization

Bank will desist from granting loans to intermediaries, based on the consideration of deposit mobilization, who will not require the funds for their genuine business requirements.

Accordingly, the Bank will not offer any advances to Business Correspondence (BC) other than small credit limit to manage their working capital requirements to meet the deposit customer's cash withdrawal needs. However, where such BCs have some other businesses or source of income and apply for loan for such purposes or against such income sources, the same can be considered separately.

2.6.5 Loans against Certificate of Deposits (CDs)

Bank will not grant loans against Certificate of Deposits.

2.6.6 Indian Depository Receipts (IDR)

Bank will not grant any loan/advances for subscription to IDRs. Bank also will not grant any advance against security (either as primary or secondary) of IDRs issued in India.

2.6.7 NBFCs in Partnership Firm

Bank will not grant any advance to partnership firms in which any NBFC is a partner.

2.6.8 Restrictions on Inter-Institutional Guarantees

2.6.8.1 Issue of Bank Guarantees covering inter-company deposits / loans

a. Bank will not issue guarantees covering inter-company deposits / loans, which includes indirectly enabling the placement of deposits with non-banking institutions.
b. Issue of Bank guarantees in favor of financial institutions

2.6.8.2 The bank can consider issuing Bank guarantees in favor of financial institutions / other banks / other lending agencies for the loans extended by the later.

Further, there is no restriction in issuing bank guarantees of the below nature

a. Issuance of Bank Guarantee/Counter guarantee favoring another bank towards further issuance of local guarantee by that bank (this will be at the request of our client whose beneficiary requires guarantee from a specific nationalized or another scheduled bank)
b. Issuance of Bank guarantee/counter guarantee favoring another bank towards takeover of the guarantees issued in their book onto the books of Equitas

2.6.9 Framework for Inter-Institutional Guarantees (IIGs)

Ensuring strong oversight and control over the process of sanctioning and issuance of Inter Institutional Guarantees is a pre-requisite for a healthy IIG portfolio. In this regard, Bank will adhere to the following key stipulations pertaining to issuance of these guarantees

a. The Inter Institutional Guarantees will not be allowed to customers who do not enjoy credit facilities with the Bank. Fund based limit should constitute at least 10per cent of the overall exposure, including bank guarantee.
b. The Bank will not issue guarantee on behalf of its directors or on behalf of any firm or company in which any of their director is a partner or shareholder or guarantor.
c. Bank will issue only secured IIGs.
d. The Bank will not provide guarantee for issuance of bonds or debentures of any kind.
e. Guarantees executed on behalf of any individual constituent, or a group of constituents, will be subject to the prescribed exposure norms.
f. The Bank will satisfy itself that the guarantee relates to bonafide transaction.
g. The amount of guarantee should be definite and not be an ambiguous amount.
h. Tenure of guarantee (including claim period, if any) should be definite.
i. In line with the lending policy, Bank will issue Guarantee for a maximum tenure of 10 years. The outer limit of 10 years specified for guarantees should include both the guarantee period as well as the claim period, if any (i.e., sum of both the tenures cannot exceed 10 years).
j. The guarantee issued by the bank will be an exposure on the borrowing entity on whose behalf the guarantee has been issued and will attract appropriate risk weight, as per the regulatory guidelines.

2.6.9.1 Prudential Limits for IIG (linked to Bank’s Tier I capital)

a. As per the directions of Reserve Bank of India, total volume of guarantee obligations of the Bank outstanding at any time will not exceed 10 per cent of the total owned resources of the bank comprising paid up capital, reserves and deposits. Within the overall ceiling, proportion of unsecured guarantees outstanding at any time will be limited to an amount equivalent to 25% of the owned funds (paid up capital + reserves) of the bank or 25% of the total amount of guarantees, whichever is less.
b. Given the regulatory background and taking cognizance of the fact that ESFB’s guarantee business is in initial stages of ramp up, total volume of IIGs issued by the Bank favoring other banks / FIs/ other lending agencies will be capped at 10% of Bank’s Net worth.

2.6.9.2 Credit Appraisal Mechanism

a. The IIG facility will be extended only after conducting credit appraisal and due diligence similar to the one conducted for fund based facility. Credit proposal will be prepared for IIG limit and duly approved by the respective Approval Authority as per delegation matrix referred in section 3.6.
b. ESFB, when approached to issue guarantees in favour of other banks for grant of credit facilities by another bank, will examine thoroughly the reasons for approaching another bank for grant of credit facilities and satisfy itself of the need for doing so. This will be recorded in the credit proposal.
c. Facility can be extended to corporates with an external credit rating from any of the approved credit rating agencies, equivalent of BBB+ and above only. Internal rating should be CR 5 or better.

2.6.9.3 Nature and extent of security and margin

a. Any IIG issued by the Bank should have a minimum of 30per cent cash collateral.
b. Total value of all the security (cash collateral, receivables) held for the purpose of IIG should be at least 50 per cent of the Guarantee amount, cash collateral will be a minimum of 30 per cent of the guaranteed amount.
c. Personal guarantees from the promoters of companies (on whose behalf the guarantees are being issued) will also be explored. Further, an undertaking is to be taken from the borrowing company as well as the guarantors that no consideration whether by way of commission, brokerage fees or any other form, will be paid by the former or received by the latter, directly or indirectly in relation to extension of guarantee.

2.6.9.4 Financial delegation of powers

a. Any proposal for sanction of IIG limits (on a standalone basis / along with other fund based lines) will follow the same approval matrix currently in force. Current delegation matrix is provided below for easy reference.

Approval Authority	At Borrower Level	At Group* Level
Credit Committee of the Board	Exceeding Rs. 50 Crores	Exceeding Rs. 100 Crores
Management Credit Committee comprising of MD & CEO, CFO and respective Business Heads Note: CRO and CCO will submit their views on advisory capacity.	Exceeding Rs. 25 Crores and up to Rs. 50 Crores	Exceeding Rs. 25 Crores and up to Rs. 100 Crores
“Approval Grid” as approved by MD & CEO from time to time	Up to Rs. 25 Crores	Up to Rs. 25 Crores

2.6.9.5 Periodical Reviews

a. In the event of no irregularities with the account, annual review of the entities in relation to whom IIG has been sanctioned will be carried out by authority one level below the sanctioning authority.

b. In case of any irregularities, the review needs to be placed before the sanctioning authority.

2.6.9.6 Ghosh Committee Recommendation – Key operational controls

a. In order to prevent unaccounted issue of guarantees as well as fake guarantees, Guarantees will be issued in serially numbered security forms.
b. Bank will, while forwarding guarantees, will caution the beneficiaries that they should, in their own interest, verify the genuineness of the guarantee.
c. IIGs should be signed by two officials jointly. In order to speed up the process of verification of the genuineness of the bank guarantee, the name, designation and code numbers of the officer/officers signing the guarantees should be incorporated under the signature(s) of officials signing the bank guarantee.

2.6.9.7 Reporting process

a. All the outstanding guarantees issued by the Bank are to be reported to Finance on a monthly basis
b. Central Processing Centre (CPC) will have the responsibility to report the same no later than 2nd of the succeeding month.

2.6.9.8 Summary of key terms for issuance of IIG

Key Terms	Stipulations
Cash Margin	Minimum of 30 per cent of Guarantee Amount
Value of Security	Minimum of 50 per cent of Guarantee Amount (inclusive of cash margin)
Tenure	Maximum of 10 years (inclusive of claim period)
Guarantee Commission	Minimum of 0.5% per annum
Processing Fees	Minimum of 0.1% of Guarantee Limit
External Rating	Equivalent to BBB+ or better
Internal Rating	CR-5 or better

2.6.9.9 Payment of invoked guarantees

a. On receipt of original guarantee invocation notice, the Bank will honor the same and make payment to the claimant on satisfaction of the following conditions:
b. The claim should be legitimate and relates to the purpose of guarantee
c. The claim should have been received during the tenure of guarantee (including the claim period)
d. There exists no legal ruling prohibiting the payment
e. On operational front, when a guarantee is invoked, senior management of the Bank (MD / Business Head) should be informed immediately.
f. The Bank will then adhere to operational guidelines, if any, as prescribed by Reserve Bank of India from time to time in relation to payment of invoked guarantees.
g. Further, before making payment to the claimant, the Bank will inform the customer about the invocation.
h. The Bank will honor the obligation under invocation notice without any undue delay. Any decision not to honor the obligation under the guarantee invoked will be taken after careful consideration, by the senior management, under the circumstances where the bank is satisfied that any such payment to the beneficiary will not be deemed a rightful payment in accordance with the terms and conditions of the guarantee under the Indian Contract Act.

i. When complaints are made for not honoring the guarantees issued, the top management of the Bank, including its Chief Executive Officer, should personally look into such complaints.

2.6.9.10 Advances against bullion / primary gold

a. Bank will not grant any advance against bullion/primary gold except gold coins purchased from banks. With respect to granting finance against gold coins, the Bank will be guided by the policy on Loans against gold jewellery / ornaments.

b. Bank will not grant advances to the silver bullion dealers which are likely to be utilized for speculative purposes

2.6.9.11 Finance for purchase of Gold

No advances will be granted by the Bank for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold exchange traded funds (ETF) and units of gold mutual funds. However, finance will be extended for genuine working capital requirements of jewelers based on product guidelines for such segment.

2.6.9.12 Gold (Metal) Loans

The Bank will not extend Gold Metal loan for Jewelers

2.6.9.13 Loan system for delivery of bank credit

In the case of borrowers enjoying working capital credit limit of less than ₹10 crore, the bank will persuade them to go in for the ‘Loan System’ by offering an incentive in the form of lower rate of interest on the loan component, as compared to the cash credit component. The actual percentage of ‘loan component’ will be discussed and finalized by the bank with its borrowers

In the case of borrowers enjoying working capital credit limits of ₹10 crore and above from the banking system, the Bank will be flexible in offering the composition of working capital by increasing the cash credit component beyond 20 percent or to increase the ‘Loan Component’ beyond 80 percent. The bank will also appropriately price each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management.

The sanctioning authority will exercise discretion on a case to case basis while keeping the loan delivery system directive in mind.

2.6.9.14 Bank finance for PSU disinvestments of Government of India

The bank will not extend finance for PSU disinvestments of GOI

2.6.9.15 Granting of loans for acquisition of Kisan Vikas Patras (KVPs)

No loans will be sanctioned for acquisition of/investing in small savings instruments including Kisan Vikas Patras as per RBI guidelines.

2.6.9.16 7% Savings Bonds 2002, 6.5% Savings Bonds 2003 (Non-taxable) & 8% Savings (Taxable) Bonds 2003-Collateral facility

The bank will not extend loans against the pledge or hypothecation or lien of the bonds issued under the captioned schemes as collateral either to the holders of the bonds or to the third parties.

2.6.9.17 Project Finance Portfolio of Banks

The bank will not extend loans to projects of intensive capital requirement that is projects, which are allowed to entity on B.O.O or B.O.T basis.

2.6.9.18 Bridge loans against receivables from government

The Bank will not offer bridge loans against any receivables from central / State governments by way of subsidies, refunds, reimbursements, capital contributions, etc.

Also, the Bank will not extend bridge loans against the expected proceeds of Non-Convertible debentures, External Commercial Borrowings, Global Depository receipts and/or funds in the nature of Foreign Direct Investments.

2.6.9.19Fund/Non-Fund based credit Facilities to Overseas Joint Ventures/Wholly –owned Subsidiaries Abroad and overseas Step- down Subsidiaries of Indian Companies

The Bank will not extend credit facilities to Overseas Joint Ventures/Wholly –owned Subsidiaries Abroad and overseas Step- down Subsidiaries of Indian Companies

2.6.9.20 Bank's Loan for financing promoter's contribution / Financing for acquisition of equity in overseas companies

The Bank will not extend loan for the captioned purpose

2.6.9.21 Financing to Non-Customers

As per RBIs instructions, Banks will not, extend fund-based like purchase / discount / negotiation of bills under LC including bills financing, or non-fund based facilities like opening of LCs, providing guarantees and acceptances to non-customer borrower or / and non-constituent member of a consortium / multiple banking arrangement. Wherever the customer does not have any lending relationship with any Bank identified through the Credit bureau check, CRILC database check and self-declaration, Bank will extend non-fund based facility to non-constituent borrower. The facility will be extended only after conducting credit appraisal and due diligence conducted similar to fund based facility. Reporting to Credit Information Companies will be carried out.

2.6.9.22 Non-Fund based facility

a. Guarantees

   The Bank will issue Bank guarantee up to a maximum tenure of 10 years. For guarantees beyond 10 years, a separate Board approved policy will be institutionalized. The Bank Guarantee will be issued as a part of the overall working capital credit limit or against a fixed deposit under lien (cash collateral) to the extent of 100% of the exposure or more as stipulated in the credit proposals.

   Domestic Financial &Performance Bank Guarantees can be extended by the bank with proper credit assessment

   Precautions for issuing guarantees

   Bank will adopt the following precautions while issuing guarantees on behalf of their customers.

   i. Bank will not issue unsecured guarantees

ii. Bank will not issue deferred payment guarantees on an unsecured basis

iii. Guarantees executed on behalf of any individual constituent, or a group of constituents, will be subject to the prescribed exposure norms.

iv. Bank will ensure not to encourage parties to over-extend their commitments and embark upon enterprises solely relying on the easy availability of guarantee facilities.

v. In order to prevent unaccounted issue of guarantees, as well as fake guarantees, as suggested by IBA, Bank guarantees will be issued in serially numbered security forms.

vi. Bank will, while forwarding guarantees, will caution the beneficiaries that they should, in their own interest, verify the genuineness of the guarantee with the issuing bank.

vii. The operational process with respect to precautions for averting frauds as prescribed by RBI will be adhered.

viii. Bank will adhere to the guidelines prescribed by RBI for obtaining of personal guarantees of directors and other managerial personnel of borrowing concerns under circumstances stipulated by RBI.

ix. Irrevocable Payment Commitments – Financial Guarantees, and performance guarantees for export and unconditional guarantees in favour of Overseas Employers/Importers on behalf of Indian Exporters, will not be extended by the Bank

x. The operational guidelines including the format with respect to Bank Guarantee Scheme and its Invocation as prescribed by RBI will be adhered.

xi. Letter of Credit (LC)

a. As a non-fund based facility, Bank is in the process of introduction of issuance of domestic letter of credit to its customers. Bank will open LCs only in respect of genuine commercial and trade transactions. Other caveats as stipulated by RBI under its Master Circular – Loans and Advances - Statutory and Other Restrictions and any other guidelines as issued by RBI from time to time will be adhered. Product note covering the regulatory stipulations and product parameters will be placed to the Product Approval and Change Management Committee prior to roll out. The Letter of Credit Facility will be extended either as a part of the overall working capital credit limit or against a fixed deposit under Lien (cash collateral) to the extent of 100% or more as decided in the credit appraisal.

2.6.9.23 Finance against banned article

No finance will be made for dealing in/against security of any banned article including articles, possession/production of which, are banned under Wild life Protection Act, 1972

2.6.9.24 Lending to Prohibited categories of borrowers

a. Borrowers/directors/partners/proprietors/guarantors who is/are included in the Wilful Defaulters list issued by RBI will be debarred from Bank finance.

b. Borrowers/guarantors who have defrauded the Bank / other Banks / institutions will not be considered for any advances.

2.7 Loans and Advances against specific sector / Industry / projects

2.7.1 Lending to Non-banking Financial companies (NBFCs)

Lending to NBFCs will be governed by a separate policy approved by Board from time to time

Bridge loans of any nature, or interim finance against capital/debenture issues and / or in the form of loans of a bridging nature will not be granted pending raising of long-term funds from the market by way of capital, deposits, etc. to any category of NBFC's and also residuary Non-Banking company.

2.7.2 Financing Housing Projects

The Bank will be guided by a separate policy approved by the Board on Exposure to Real Estate Sector which covers the financing to Housing Projects.

2.7.3 Guidelines for Financing Infrastructure Projects

The Bank will extend credit facilities to projects under Infrastructure sub-sectors that are notified by RBI from time to time.

The Bank will extend credit facility by way of working capital finance and term loan.

The Bank will not enter into take-out financing and will not issue Inter-institutional bank guarantees favoring other lending institutions in respect of infrastructure projects. The bank will also not finance for the acquisition of the promoters' shares in an existing company, which is engaged in implementing or operating an infrastructure project

The Bank will finance technically feasible, financially viable and bankable projects undertaken by both public sector and private sector undertakings subject to the following conditions:

a. The amount sanctioned will be within the overall ceiling of the prudential exposure norms prescribed by RBI for infrastructure financing
b. The Bank will have the requisite expertise for appraising technical feasibility, financial viability and bankability of projects, with particular reference to the risk analysis and sensitivity analysis.
c. The Bank will lend to SPVs (Special purpose vehicle) in the private sector, registered under the Companies Act for directly undertaking infrastructure projects which are financially viable. The Bank will ensure that the bankruptcy or financial difficulties of the parent / sponsor should not affect the financial health of the SPV
d. The Bank will fund projects undertaken by public sector units by way of Term loan only for corporate entities (i.e. public sector undertakings registered under Companies Act or a Corporation established under the relevant statute) or to SPVs registered under the Companies Act set up for financing infrastructure projects. The bank will ensure that loans are not used for financing the budget of the state governments

e. The Bank will undertake due diligence on the viability and bankability of such projects to ensure that revenue stream from the project is sufficient to take care of the debt servicing obligations. The Bank will appraise the proposals on various key parameters include identification of various project risks, evaluation of risk mitigation through appraisal of project contracts and evaluation of creditworthiness of the contracting entities and their abilities to fulfil contractual obligations

f. The Bank will exercise due vigil on its asset-liability position to ensure that it do not run into liquidity mismatches on account of lending to such projects
g. The Bank will be guided by the Exposure Norms prescribed by RBI under “Guidelines for Licensing of “Small Finance Banks” in the Private sector dated November 27, 2014.

The exposure ceiling limit will be 10% of capital funds in case of single borrower and 15% of capital funds in case of group borrower. The capital funds for the purpose will comprise of Tier I and Tier II capital as defined under capital adequacy standards.

2.7.4 Discounting and rediscounting of bills

As a fund based facility, Bank will introduce Discounting and Rediscounting of domestic bills including invoice financing to its customers. Such transactions will only be in respect of genuine commercial and trade transactions.
The Bank will adhere to all other regulatory stipulations denoted by RBI under its Master Circular – Loans and Advances - Statutory and Other Restrictions and any other guidelines as issued by RBI from time to time.
The following framework will be put in place

a. The mandatory conditions like amount of limits, security, rate of interest / pricing, repayment terms and tenor of the facilities will be stipulated under the product note approved by Product Approval and Change Management Committee. Any deviations will be approved only with the approval of MD&CEO.
b. Any other conditions like prepayment, insurance clauses, validity of sanction, etc. will be decided by the Business Head in consultation with MD.
c. Operating conditions like sub limits, documentation (other than KYC and regulator stipulated documents if any), penal interest, etc. which do not alter the exposure of the risk profile will be part of product note approved by Product Approval and Change Management Committee. Any deviations will be approved only with the approval of the MD/Head(s).If the bill discounting/re-discounting limits are a part of overall working capital limits of the borrower, then regular delegation of power for working capital will apply. In case standalone limits for discounting/rediscounting of bills are availed by a current account customer, then the framework as mentioned under clause 9.4 (i) will apply.

2.7.5 Channel Financing

The Bank will endeavor to finance the B2B trade transactions by the following channel finance facilities

a. Financing of Dealer or Distributor or Franchisee or Stockist/C&F agent (hereinafter called channel partner) under a formal arrangement with a Corporate Anchor captured by acceptance of facility letter by Corporate or an executed agreement without recourse on Corporate

b. Vendor financing to the suppliers of a Corporate Anchor under acceptance of invoices by Corporate Anchor with or without acceptance of bill of exchange.

The nature of facility will be in the form of an overdraft or a drop line overdraft or invoice discounting for funding underlying trade transactions viz.
i) Supply of goods/services from a Corporate to a channel partner
ii) Supply of goods/services from a vendor to a Corporate Anchor.

The Bank's borrower will be either a channel partner or a vendor under a formal arrangement with the Corporate Anchor that could involve taking a recommendation letter including a Stop Supply Arrangement or undertaking for severance of commercial relationship between a Corporate and a Channel partner in the event of default in case of a channel partner financing scheme. The scheme will operate in the form of an unsecured facility with a recommendation/comfort letter from the corporate indicating stop supply to a channel partner or a partial or full first loss default guarantee from the corporate. In case of vendor financing the credit comfort can be in the form of an accepted bill of exchange or an accepted invoice with a formal agreement with a Corporate. The recourse in case of channel finance facilities is on the borrower (channel partner/vendor) and not a Corporate.

The Business team will cover arrangement in the form of a separate channel finance scheme note that could vary from corporate to corporate depending on the structure of the deal and get it approved as per the laid down delegation of powers wherein the total scheme limit will be considered as an aggregate exposure limit for the purpose of approval and will be within the framework of the lending policy norms of the Bank. The Bank will endeavor to digitize the transactions through an appropriate software to make the channel finance operationally efficient.

2.7.6 Advances against Gold Ornaments & Jewellery

The Bank will finance against Gold ornaments & Jewellery and will be guided by separate policy approved by Board.

2.7.7 Loans and advances to Real estate sector

The Bank will be guided by a separate detailed policy approved by the Board on loans and advances to Real estate sector. It will be noted that the loan approval process will include the following:

While appraising loan proposals involving real estate, the bank will ensure that the borrowers have obtained prior permission from government / local governments / other statutory authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements will be made only after the borrower has obtained requisite clearances from the government authorities

2.7.8 Loans and advances to Micro & Small Enterprises (MSEs)

A separate policy is put in place governing extension of credit facilities to MSE

2.7.9 Lending under Consortium Arrangement/Multiple Banking Arrangement

While lending under multiple banking arrangement, the bank will adhere to the following

The Bank will obtain declaration from borrowers about the credit facilities already enjoyed by them from other banks at the time of granting fresh facilities. The format for information to be declared will be prescribed by the bank and will be incorporated as part of application for both Individuals and corporate customers. The declaration format will be in line with the RBI prescribed format.

a. Information sharing

When the bank extends credit facilities to a borrower who already enjoys credit facilities with other banks, the bank will duly inform such other banks, the details of the credit facility extended by the Bank.

b. Information exchange about the conduct of borrowers' accounts

Wherever a borrower has working capital limit with multiple banks including us, the bank will share information with such other banks about the conduct of borrowers' accounts as per the format prescribed by RBI at least at quarterly intervals

c. General

The Bank will incorporate suitable clauses in the loan agreement regarding exchange of credit information so as to address confidentiality issues.

The information that is being shared will also cover information relating to borrowers' derivative transactions and unhedged foreign currency exposures

Wherever the bank has extended working capital limit on multiple banking basis, the Bank will endeavor to obtain regular certification by a professional, preferably a company secretary, Chartered Accountant or Cost Accountant regarding compliance of various statutory prescriptions that are in vogue as per the format prescribed by RBI.

2.7.10 Working Capital Finance to Information Technology and Software Industry

The Bank will consider sanction of working capital limits based on the track record of the promoters, group affiliation, composition of the management team and their work experience as well as the infrastructure.

a. Assessment
   i. In the case of the borrowers with working capital limits of up to Rs 2 crore, assessment will be made at 20 percent of the projected turnover.
   ii. However, in other cases, the bank will consider assessment of MPBF on the basis of the monthly cash budget system.
   iii. For the borrowers enjoying working capital limits of Rs 10 crore and above from the banking system the guidelines regarding the loan system will be applicable.

The bank will stipulate reasonable amount as promoters' contribution towards margin

The bank will obtain collateral security wherever available. First/ second charge on current assets, if available, will be obtained.

The rate of interest as prescribed for general category of borrowers will be levied. Concessional rate of interest as applicable to pre-shipment/post-shipment credit will be levied

The Bank will obtain periodic (quarterly) statements of cash flows to monitor the operations.

2.8 Advances to Bank's Directors/Employees of the Bank

2.8.1 Advances to Bank's Directors

In compliance with Section 20 (1) of the Banking Regulation Act 1949, the Bank will refrain from entering into any commitment for granting any loans or advances to or on behalf of-

a. Any of its Directors or,

b. Any firm in which any of its Director is interested as partner, manager, employee or guarantor or,

c. Any company (not being a subsidiary of the Banking Company or a Company registered under section 25 of the Companies Act 1956 or a Government Company) of which, or the subsidiary or the holding company of which any of the Directors of the Bank is a Director, managing agent, manager, employee or guarantor or in which he holds any substantial interest or,

d. Any individual, in respect of whom any of its Directors is a partner or guarantor.

e. Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is also prohibited as it is reckoned as 'loans and advances' for the purpose of Section 20 of the Banking Regulation Act, 1949

f. In addition to the above as a small finance bank the following prohibition on sanctioning of fund based and non-fund based facility will also apply

   i. exposure to its promoters,

   ii. major shareholders (who have shareholding of 10 per cent of paid-up equity shares in the bank),

   iii. the relatives [as defined in Section 2 (77) of the Companies Act, 2013 and Rules made there under] of the promoters as also the entities in which they have significant influence or control (as defined under Accounting Standards AS 21 and AS 23).

g. The above restrictions, however, will not be applicable to loans and advances exempted by RBI from time to time. As per the latest master circular dated. 1.7.2015, the following will not be included for the purpose of loans and advances

   i. loans or advances against Government securities, life insurance policies or fixed deposit
   ii. loans or advances to the Agricultural Finance Corporation Ltd
   iii. call loans made by banking companies to one another
   iv. a credit limit granted under credit card facility (as and when the product is launched by ESFB) provided by a bank to its directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.
   v. Such loans or advances as are granted by a banking company to its Chief Executive Officer / Whole-time Director for the purpose of purchasing furniture, car, Personal Computer or constructing/acquiring house for personal use, festival advance subject to approval from Board under Compensation / remuneration policy and other guidelines as stipulated by RBI from time to time.
   vi. such loans or advances as are granted by the banking company to its Chairman and Chief Executive Officer, who was not an employee of the banking company immediately prior

to his appointment as Chairman/ Managing Director/CEO, for the purpose of purchasing a car, personal computer, furniture or constructing/ acquiring a house for his personal use and festival advance, with the prior approval of the RBI

The Directors of the bank will not be extended any non-fund based facility

2.8.2 Lending to Directors and their relatives on reciprocal basis

a. The Bank will grant loans and advances aggregating ₹ 5 Crores and above to the following borrowers only with due approval by the Board of Directors of the Bank.

i. Directors (including Chairman / Managing Director) of other banks*.

ii. Any firm in which any of the directors of other banks* is interested as a partner or guarantor.

iii. Any Company in which any of the directors of other banks* holds substantial interest or is interested as a director or as a guarantor.

iv. relatives of the bank's Chairman/Managing Director or other Directors,

* including directors of Scheduled Co-operative Banks, directors of subsidiaries/trustees of mutual funds/venture capital funds

b. The restrictions as contained in section 20 of the Banking Regulation Act, 1949 will apply to grant of loans and advances to spouse and minor / dependent children of the Directors of Banks. However, Bank will grant loan or advance to or on behalf of spouses of their Directors in cases where the spouse has his / her own independent source of income arising out of his / her employment or profession and the facility so granted is based on credit worthiness of the borrower. Such facility will be extended on commercial terms only. All credit proposals for ₹ 25 lakhs and above, will be sanctioned by the Bank's Board of Directors/ Management Committee of the Board.

c. Unless sanctioned by the Board of Directors / Management Committee, the Bank will also not grant loans and advances aggregating ₹ 5 crores and above to –

i. Any relative other than spouse and minor / dependent children of Bank Chairman / Managing Director or other Directors.

ii. Any relative other than spouse and minor / dependent children of the Chairman/Managing Director or other directors of other banks (including directors of Scheduled Commercial Banks, Directors of subsidiaries/trustees of mutual funds/venture capital funds).

iii. Any firm in which any of the relatives other than spouse and minor / dependent children as mentioned in (i) & (ii) above is interested as a partner or guarantor.

iv. Any company in which any of the relatives other than spouse and minor / dependent children as mentioned in (i) & (ii) above hold substantial interest or is interested as a Director or as a guarantor or is in control.

v. The proposals for credit facilities of an amount of less than ₹ 5 crores to these borrowers will be sanctioned by the appropriate authority under their powers and such sanctions will be reported to the Board on a quarterly basis.

vi. The review / renewal of such facilities will also be reported to the Board on a quarterly basis.

vii. The Chairman/Managing Director or other director who is directly or indirectly concerned or interested in any proposal will disclose the nature of his/her interest to the Board when any such proposal is discussed. He/she will not be present in the meeting unless his/her presence is required by the other directors for the purpose of eliciting information and the director so required to be present will not vote on any such proposal.

viii. Lending to relatives of promoters is prohibited for the Bank

2.8.3 Loans and Advances to Employees of Bank and their relatives

a. No loan approval authority or any committee comprising inter alia, an approval authority as member, will, while exercising their power, sanction any credit facility to himself or to his / her relative. Such facility will be sanctioned only by the next higher sanctioning authority.

b. Credit facilities sanctioned to Senior Management of the Bank, as mandated to be reported under extant RBI norms will be reported to the Board on an annual basis. The term “Senior Management” for this purpose will refer to any employee who is a direct reportee to the MD of the Bank.

c. Proposals for such credit facilities sanctioned to the relatives of Senior Management, as mandated to be reported under extant RBI norms will be reported to the Board on an annual basis.

d. Further, the credit facility sanctioned to the following constituents by an authority other than the Board will be reported to the Board on an annual basis–

   i. Any firm in which any of the relatives of the Senior Management of the Bank holds substantial interest or is interested as a partner or guarantor, or

   ii. Any company in which any of the relatives of the Senior Management of the Bank holds substantial interest or is interested as a director or as a guarantor.

e. The employee of the Bank can avail Gold loan from the same branch where he / she is located or from the nearest branch.

2.8.4 Scope of the Term “Credit facility” and “Relative”

a. In the case of Lending to Directors and their relatives, the term “Credit facility” will not include loans or advances against

    i. Government Securities
    ii. Life Insurance Policies
    iii. Fixed or other deposits
    iv. Stocks and shares
    v. Temporary overdrafts for small amount ie up to ₹ 25000/-
    vi. Casual purchase of cheques up to ₹ 5000/- at a time
    vii. Housing loans, car advances, etc. granted to an employee of the bank under any scheme applicable generally to employees.

b. In the case of advances to Employees of the Bank and their relatives, the term “Credit facility” will not include loans or advances against

    i. Government Securities
    ii. Life Insurance Policies
    iii. Fixed or other deposits
    iv. Temporary overdrafts for small amount i.e. up to ₹ 25000/-
    v. Casual purchase of cheques up to ₹ 5000/- at a time.
    vi. Loans and advances such as housing loans, car advances, consumption loans, etc. granted under employee loan scheme prevailing from time to time.

c. In both the above categories, the scope of the term “Relative” will include the following

    i. Spouse
    ii. Father
    iii. Mother (including step-mother)
    iv. Son (Including step son)
    v. Daughter-in-law
    vi. Daughter (Including step-daughter)
    vii. Son-in-law
    viii. Brother (Including step-brother)
    ix. Brother’s wife
    x. Sister (Including step-sister)
    xi. Sister’s husband
    xii. Son’s wife
    xiii. Daughter’s husband
    xiv. Brother of the spouse
    xv. Sister of the spouse

2.8.5 Self-Declaration by Loan applicant

a. To ensure compliance of above mentioned policy stipulations, the Bank will obtain declaration from every borrower specifying the details as stipulated by RBI.
b. Wherever possible the Bank will maintain such list i.e. List of directors, employees, etc. and the same will be circulated to the credit team for de-dupe.

In order to ensure compliance with the instructions, banks should forthwith recall the loan when it transpires that the borrower has given a false declaration

2.9 Prudential Norms & Exposure Management

2.9.1 Prudential Norms

Bank will adhere to the prudential ceiling norms prescribed by RBI on single and group borrower exposures. Besides, Single/Group borrower limits, the Bank will adhere to the exposure ceilings fixed internally for various categories and sectors as covered below in this chapter.

2.9.2 Explanation for Credit Exposure

a. Exposure will include credit exposure (funded and non-funded credit limits) and investment exposure etc.

b. The sanctioned limits or outstanding, whichever are higher, will be reckoned for arriving at the exposure limit.

c. However, in the case of fully drawn term loan, where there is no scope for redrawal of any portion of the sanctioned limit, the Bank will reckon the outstandings in the account.

2.9.3 Definition of Group

a. As per RBI guidelines, the concept of "Group" and the task of identification of the borrowers belonging to specific groups is left to the discretion of banks. The group to which a particular borrower belongs will be decided on the basis of relevant information available with the Bank.

b. A group is defined by invoking associate/sister concept and based on blood relatives.

c. Where a proprietor or partner of a firm/director of one company is proprietor or partner of another firm/director of another company, they will be called as associates and will fall under the purview of group concept.

d. The exposure to partnership firm or partners of the same firm / company and directors of the same company will fall under the group concept.

e. Where a proprietor or partner of a firm/ director of one company is a guarantor for another partnership firm / company where the guarantor has no financial stake or exercise effective control, then they are not to be treated as associates falling under the purview of group concept.

f. The exposure to blood-relatives wherein the close family members stand as co-applicant or guarantor will fall under the purview of group concept.

2.9.4 Exposure Limits

a. Exposure limit for single / group borrower will be calculated based on capital funds as on 31st March of preceding year.

b. Capital funds for computing ceiling on exposures will comprise of Tier I and Tier II capital as defined under capital adequacy standards and as per the published accounts as on 31st March of the previous year. The infusion of capital under Tier I and Tier II, after the published balance sheet date will also be taken into account for determining the exposure ceiling. However, other accretions to capital funds by way of quarterly profits, etc. will not eligible to be reckoned for determining the exposure ceiling.

c. The Bank will not take exposure in excess of the ceiling in anticipation of infusion of capital at a future date.

d. Aggregate exposure ceiling for each industry / sector / segment will be calculated on the gross domestic exposure i.e. total credit - both funded on non-funded, as at the end of previous quarter.

2.9.5 Ceiling for Single / Group Borrower

a. As per RBI guidelines, the maximum permissible prudential exposure of Bank will be 10 percent of the Bank's capital fund in case of single borrower and 15 percent of the Bank's capital fund in case of a borrower group.

b. Exemptions to Exposure ceiling – The ceilings on single / group exposure limits will however, not be applicable to activities mentioned below –

    i. Rehabilitation of sick / weak units – Existing / additional credit facilities granted to weak / sick units under rehabilitation packages.

    ii. Food credit – Borrowers to whom limits are allocated directly by RBI towards food credit.

    iii. Loan against own term deposits – Loans and advances (both funded and non-funded) granted against the security of the Banks' own term deposits to the extent that the Bank has a lien on such deposits.

    iv. Guarantee by Government of India – Where principal and interest are fully guaranteed by Government of India.

    v. Exposure to NABARD.

c. Subject to not exceeding the ceiling limit prescribed for Single /group borrower exposure by RBI, the maximum limit for individuals/Proprietorships/firms/Companies/Trust/societies will be fixed by the appropriate authority as per the "Delegation of authority" matrix approved by Board from time to time.

2.9.6 Ceiling norms for Industry / Sector

a. The Bank will have a well-diversified credit portfolio under different sectors / Industries. The Bank will not exceed ceiling / cap, if any fixed by RBI for any particular industry / sector.

b. The industry / sectoral exposure (funded and non-funded facilities, limit or outstanding whichever is higher) will be calculated with reference to total credit, which is defined as gross credit (funded) and non-fund credit based on previous quarter.

c. The Bank will be principally lending to small and marginal businesses; the loans are likely to be widely distributed amongst large number of borrowers. The exposure to any Industry / Sector wise exposure will not exceed max 15% of total credit exposure of the Bank. However, the loans to individual retail borrowers will not be counted for the exposure limit of industry/sector. This will be subject to review for modification by the Risk Management Committee of the Board based on the recommendation of the Risk Management Committee.

d. In a particular industry or sector where Bank's exposure has exceeded the max ceiling fixed, the appropriate authority as per Board approved "Delegation of Authority" matrix is authorized to permit for exceeding overall exposure for each industry/sector by 10% of the cap fixed. This is subject to ensuring the PSL exposure prescribed for sectors / sub-sectors for a Small Finance Bank

2.9.7 Exposure limit for NBFCs

a. The exposure of the Bank to a single NBFC / HFC, which is not predominantly engaged in lending against collateral of gold jewellery, will not exceed 10 per cent, of the Bank's capital funds as per its last audited balance sheet.

b. The exposure of the Bank to a single NBFC which is predominantly engaged in lending against collateral of gold jewellery (i.e. such loans comprising 50 per cent or more of their financial assets), will not exceed 7.5 per cent of Banks' capital funds.

c. The aggregate exposure to all NBFCs (including HFCs) will not exceed 15% of gross credit includes investment exposure as at end of previous quarter. The aggregate exposure to all NBFCs having gold loan portfolio in excess of 50% of their overall loan portfolio will not exceed 5% of gross credit as at end of previous quarter.

d. Such ceiling for NBFCs will also include NBFCs established by the government of India and state government or under special statue for specific purpose like infrastructure development etc.

2.9.8 Capital Market Exposure

In line with RBI guidelines, the Bank's overall exposure to capital market will not exceed 40 percent of its net worth as on 31st March of the previous year. For this purpose, the investment in capital market will also be considered. The components of capital market exposure as defined by RBI will be ensured.

2.9.9 Unsecured Exposure

a. Unsecured exposure is defined as an exposure where the realizable value of security, as assessed by the Bank/Approved valuers/RBI Inspecting officers, is not more than 10 percent of the outstanding exposure.

b. "Security" will mean tangible security properly charged to the Bank and will not include intangible securities like guarantees, second charge on movable assets, comfort letters, etc.

c. The exposure of the Bank to the unsecured loans will not exceed 30% of the total credit as at the end of previous quarter. The rationale for setting such limit is reckoning the fact that the Bank has transformed itself from Micro finance to Small Finance Bank, where the proportion of unsecured loan will be high. The Bank will endeavor to reduce exposure to unsecured loans gradually.

d. The Bank will aim to increase the secured loan portfolio in its total credit portfolio and hence reduce the contribution of unsecured loans.

2.9.10 Intra-group exposures

A separate policy has been formulated w.r.t to Intra-group exposure and bank will be governed as per the policy.

2.9.11 Exposure to infrastructure

Lending to infrastructure (exposure) will be limited to 5% of total Bank Credit

2.9.12 Exposure in off balance sheet items

The Bank, in the ordinary course of business, is required to extend non fund based credit facilities to customers. Non fund based facilities include letters of credit, Bank guarantees, deferred payment guarantees etc. Such facilities when get converted into funded exposure the Bank are exposed to credit risk. Off balance sheet exposure also carry risk and attract capital adequacy norms. Accordingly, the total gross exposure in letters of credits and Bank guarantee will not exceed 2 times of capital funds, in view of higher risk element in the non-fund based limits being a new Bank.

2.9.13 Exposure to Real Estate Sector

2.9.13.1 Definition of Exposure to Real Estate Sector

Exposure to Real estate sector as per RBI Circular DBR.BP.BC No.23/21.04.018/2015-16" dated July 1, 2015 will comprise of the following:

a. Residential Mortgages: Exposure to Home Loans, Loan against property against Residential mortgages other than classified under CRE-RH.

b. Commercial Real Estate: Exposure to Real Estate Builders/ Developers and exposures where the primary source of cash flow, i.e. more than 50% of cash flows, for repayment / recovery is from lease or rental payments and such assets are taken as security

c. Indirect exposures to NBFC-HFCs

Mortgages secured by commercial property (LAP) which are not classified as CRE are not considered as part of the above definition.

Other aspects like collaterals to be considered, single or group exposure, sanctioning authority / level in terms of delegation of powers will be guided through the individual product guidelines / lending policy.

2.9.13.2 Limit for Real Estate Exposure

The limit for aggregate exposure to Real Estate sector will not exceed 60% of gross credit as at end of previous quarter, of which the exposure to Housing sector will not exceed 15% of gross credit as at end of previous quarter and Exposure to CRE / IPRE will not exceed 5% of gross credit as at end of previous quarter

2.10 Monitoring of Loan Assets

2.10.1 Scope of Monitoring

Effective and efficient credit management practices will be followed to ensure maintenance of credit portfolio quality at the desired level. The monitoring mechanism with respect to sanctions, review/renewal of credit facility, credit audit, physical verifications of assets, end use of funds, etc. will be strictly adhered to as per RBI laid down norms and product guidelines

2.10.2 Review of Credit Sanction by next higher authority

For all secured exposures above ₹1cr and unsecured above ₹50 lacs, credit sanctions made by each sanctioning authority will be placed before the next higher authority for review in such format as applicable from time to time. The respective units are required to place the review before the next higher authority on a monthly basis not later than end of the month immediately succeeding the month in which credit was sanctioned. Observations, if any keeping in view various guidelines of the Bank/regulator will be conveyed to the sanctioning authority within max 15 days from the date of receipt of report for review

2.10.3 Credit Audit

Credit audit is a key monitoring system to examine the compliance with the extant sanction and post-sanction processes/procedures laid down from time to time. Credit audit will be carried out as per the detailed guidelines laid down in the Internal Audit Policy of the Bank and the basic purpose of credit audit will be –

a. To improve the quality of credit portfolio
b. To review the sanction process and compliance status with covenants of sanction
c. To conduct independent review of credit risk assessment
d. To pick up early warning signals and suggest remedial measures
e. To recommend corrective measures to improve credit quality and credit administration

2.10.4 Renewal / Review of Accounts

For term loans above Rs. 5 crores, rated CR 6 to CR 9 (high risk) review to be carried out on half yearly basis by sanctioning authority.

For term loans above Rs.5 crores, rated CR 1 to CR 5 (low and medium risk), the review to be carried out on annual basis by authority one level below the sanctioning authority if the repayment conduct is regular. If there is any irregularity in repayment the review needs to be placed before the sanctioning authority.

All cash credit and overdraft facilities will be renewed on an annual basis.

A review of cash credit and overdraft accounts will be done at a portfolio level on a quarterly basis and presented to the Risk Management Committee of Executives. For accounts that have been reported in the SMA-1 or SMA-2 status and the exposure is above Rs.2 crores, a separate review note will be put up to MD &CEO and if the exposure is up to Rs. 2 crores, the review note will be put up to one level above the sanctioning authority starting from the Regional Credit Manager level. Review will not be construed as Renewal as renewal is not required for term loan accounts.

2.10.5 Stock audit / Unit visit

Stock audit / Unit visit of borrowal accounts will be carried out as per the product guidelines.

2.10.6 End-Use Verification

End-use verification will be carried out on an ongoing basis wherever Working Capital facility is extended. For Term loans made to borrowers, end use will be done within 180 days for loans up to 25 lakhs, within 90 days for loans greater than 25 lakhs and up to 1 crore and within 60 days for loans greater than 1 crore. As far possible, it should be our endeavor to make direct payments to the seller

2.10.7 Credit Portfolio monitoring

The Bank will monitor its credit portfolio regularly with particular reference to exposures, industry-wise and sector wise. Such monitoring will also focus on exposure by way of unsecured advances. As part of portfolio monitoring and to initiate necessary corrective measures, the Bank will track the portfolio behavior on a monthly basis and the trending of portfolio quality over a period of time. The tracking and behavioral study be placed to the RMC of the Board on a Quarterly basis as an Information Note.

2.10.8 Loan Fraud Framework

Loan fraud framework stipulated by RBI under Master Directions on Frauds – Classification and Reporting by commercial banks will be adhered for exposures of Rs.3crores and above

2.10.9 Identification of Early Warning Signals

The Early warning signals will enable the Bank and branches to take timely preventive measures to avoid any further slippages in portfolio quality. As part of early warning signals, the Bank will track the infant delinquency level very closely and below measures will be followed for all such infant delinquent borrowal accounts

a. Visit by an official to understand the reason for default and ensure whether all the sanction terms & conditions are complied with or not.

b. Initiate necessary corrective measures to secure the Bank exposure.
c. Factor the learnings while underwriting for similar borrowal accounts.
d. Review of credit underwriting process for such accounts by next higher authority and initiate necessary steps in case of any deficiencies in the credit assessment and approval process.

2.10.10 Legal Entity Identifier for large corporate borrowers

As per the RBI direction, Bank will obtain LEI code for all non-individual borrowers having total fund based and non-fund based exposure of ₹ 5 crores and above as per the timelines prescribed by RBI.

The bank will not grant renewal / enhancement of credit facilities for the borrowers who do not obtain LEI. The bank will encourage large borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.

The bank will also ensure, after obtaining LEI code, borrowers renew the codes as per GLEIF guidelines.

2.11 Lending by Corporate Banking Group

2.11.1 Lending to Corporates are categorized into three segments as follows

a. Financial Institutions, which includes Micro Finance, Asset Finance & Housing Finance companies
b. Emerging Corporates
c. Trust & Societies.

The major guidelines are as follows. Exposure to any of the segments will be guided by Single /Group exposure norms.

2.11.2 Financial Institutions (FI's)

a. Lending to this segment will be with a minimum vintage of 3 years (vintage of 2 years, to be approved by MD & CEO as an exception), Minimum Advances of Rs. 500 Crores (over Rs.300 Crores to be approved by MD & CEO) and a Minimum Credit rating of BBB Minus.
b. Lending to the above segment will be in line with NBFC lending Policy of the Bank.
c. Tenor of credit facility – Max of 5 years. In the case of HFC's tenor will be not more than 10 years.

2.11.3 Emerging Corporates

a. Lending to this segment will include Companies with a minimum vintage of 5 years (vintage of 4 years, to be approved by MD & CEO as an exception) and Corporates with a Minimum Top-line of Rs.50 Crores and above.
b. Rating
c. Bank Takeover cases (BT), will be guided by the Takeover policy of the Bank.
d. Business sector – All business sectors other than the negative sectors, as identified by the Bank, from time to time.
e. Tenor of credit facility – Max of 5 years. In exceptional cases the same can be 10 years.

<table>
<tr><th>Business Segment</th><th>Exposure</th><th>External rating</th><th>Internal Rating</th></tr>
<tr><td rowspan="4">Emerging Corporates</td><td rowspan="2">Upto Rs 15 crores</td><td rowspan="2">Not Mandatory</td><td>> Mandatory, if exposure is Rs 5 crores and above</td></tr>
<tr><td>> Rating - CR 6 or better</td></tr>
<tr><td rowspan="2">Over Rs 15 Crores</td><td>>Mandatory</td><td>> Mandatory</td></tr>
<tr><td>>Minimum Investment Grade from one of the approved Credit rating agencies</td><td>> Rating - CR 5 or better</td></tr>
</table>

2.11.4 Trust & Societies

a. Lending to this segment will be with a minimum vintage of 3 years & Minimum Top-line of Rs.5 Crores and above (any exceptions to be approved by MD & CEO)
b. Rating

<table>
<tr><th>Business Segment *</th><th>Exposure</th><th>External rating</th><th>Internal Rating</th></tr>
<tr><td rowspan="2">Education Institution funding & Health Care – Trusts & Societies</td><td>Up to Rs 5 crores</td><td>Not Mandatory</td><td>Not Mandatory</td></tr>
<tr><td>Over Rs 5 crores</td><td>>Mandatory

>Minimum Investment Grade from one of the approved Credit rating agencies</td><td>> Mandatory

> Rating - CR 5 or better</td></tr>
</table>

Note - * At times, the constitution of the Business segment will not only be a Trust & Societies but also could be a Corporate entity. Such borrowers will also be included as part of this policy.

c. Bank Takeover cases (BT), will be guided by the Takeover policy of the Bank.
d. Business Sector – Educational Institutions & Health Care Segment
e. Tenor of credit facility – Max of 10 years.

2.12 NPA Management, Provisioning, Recovery, Re Schedulement and Write-off's

The Bank has a board approved policy on NPA Management and same will be adhered.

2.13 Collateral Management

This aims at outlining the Bank's collateral management framework and establishing the principles for recognition, classification, valuation and treatment of collateral for internal credit risk mitigation purposes.

Definition: Assets or rights provided to the Bank by the counterparty or a third party to secure a credit facility. The Bank has a priority claim on the sale proceeds of collateralized assets or rights in the case of default of the counterparty or in case of occurrence of other credit events specified in the related facility documents. For the purpose of this policy, collateral includes both primary and secondary securities provided to the Bank.

2.13.1 Classification and recognition of collaterals

a. The Bank will accept, recognize and attribute value to collateral, both for internal sanctioning and/or regulatory capital relief purposes, only when the following conditions are fulfilled
b. There is a legal certainty of enforceability and effectiveness of claim on collateral in all relevant jurisdictions;
c. All contractual and statutory requirements with respect to the loan and collateral documentation are fulfilled;
d. The Bank has obtained a legal charge to the said collateral (including second/subordinate or pari passu charges, relative to first legal charge);
e. The legal mechanism by which the collateral is pledged or transferred ensures that the Bank has the right to liquidate or take possession of it in a timely manner, in the event of a default, insolvency or bankruptcy on the part of the counterparty or any third party; and
f. The Bank has clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are fulfilled and collateral can be liquidated promptly.

2.13.1.1 Valuation

For valuation of properties, Bank will adhere to the RBI guidelines stipulated under "Valuation of Properties - Empanelment of Valuers" dated January 04, 2007

The Empanelment of independent valuers and valuation of collateral securities are detailed in the sections 3.2.4 and 3.2.5 of this policy.

2.13.1.2 Documentation

All documentation used in collateralized transactions must be binding on all Parties and legally enforceable in all relevant jurisdictions. Banks must have conducted sufficient legal review, which should be well documented, to verify this. Such verification should have a well -founded legal basis for reaching the conclusion about the binding nature and enforceability of the documents. Banks should also undertake such further review as necessary to ensure continuing enforceability.'

Proper documentation enables identification of the obligor(s) and security (ies) which will serve as a documentary evidence for the creation of charge over the security (ies) and enables the Bank to enforce its right in a court of law or administrative authority for recovery of the dues.

Credit facilities will be made available to the constituent after ensuring complete documentation for charging of securities for the limits. Before the establishment of any facilities, the Bank will ensure that all terms of sanction/pre-conditions relating to creation of collateral, stipulated at the time of credit approval, are complied with and documented.

Business units will follow defined standards of legal documentation contained in the Credit Policy/Manual and as per the guidelines issued by the Bank from time to time for defect-free documentation to ensure that:

a. Standardized loan and collateral documentation which is legally binding (in all jurisdictions) on all parties (borrower, guarantors, third parties, etc.).

b. Sufficient examination and legal review by internal and/or external legal experts is undertaken to ensure continuing enforceability and defect-free documentation. Secured assets will be appropriately insured.

c. Legal conditions required for declaring the borrower's default and timely collection of collateral are observed such that in the event of default or financial distress, the Bank has the legal authority to sell or assign receivables from the collateral to other parties without the borrower's consent.

d. Where the charge over securities is required to be registered with authorities (e.g. registrar of companies, revenue authorities, regional transport officer, issuer / registrar for financial securities), all such requirements will be complied within the prescribed manner and within the stipulated period, if any.

2.13.1.3 Specific documentation requirements for enforcement of securities as required under relevant State/ Central/Foreign country laws or stipulations by the trustees for such securities, where applicable are complied with, in addition to the document forms stipulated by the Bank.

a. All the documents be executed in the presence of an authorized officer of the Bank
b. The documents be completely filled up in all respects including the Schedules and the execution, to the extent possible, at a stretch duly authenticating the corrections, if any, with full signatures of the obligors. The security charged to the Bank must be clearly detailed in the security documents.
c. All documents bear the date and place of execution and be adequately stamped as required under the Central/ respective States‟ Stamp Act(s), as the case will be, duly cancelling the same in the required manner.
d. The documents be attested by witnesses (only if required as per the prevailing law).
e. The documents be examined / verified for Correctness and Completeness in all respects vis-à-vis the Securities stipulated and; the terms and conditions on which such Credit has been approved.

f. All the documents be kept safely under the custody of the officers as decided by the Bank. The storage of the documents will be arranged in properly secured storage of the Bank or an external agency as will be felt necessary.
g. The official/custodian of the documents will ensure that the documents obtained are kept in force during the currency of the credit limit(s) by obtaining periodic acknowledgement of debts. The business units will also obtain supplementary documents, wherever required, (e.g. search reports, encumbrance certificates, tax and duties paid receipts / challans, etc.) to ensure that the securities obtained continue to be exclusively charged to the Bank and are enforceable.

Documentation will be complete in all respects and properly executed prior to permitting utilization of credit facilities (unless approved by an authorized individual or committee and reasons for the same documented).

2.13.2 General Requirements on Collateral

Property/ Title documents obtained for creation of security/mortgage will be scrutinized and verified through the Bank's Panel Advocate.

To prevent instances of fake documents, genuineness of the documents will be verified with the help of legal experts and if necessary investigation will be conducted in the office of the Registrar, Existence (including boundaries) and possession of the property will be verified before accepting it as a security.

Date of limitation (if any, applicable in respect of the documents) will be properly maintained and appropriate Revival letter/ acknowledgement will be obtained well before the expiry of period of limitation to ensure that no document gets time-barred

Periodic meetings with the Panel Advocates will be conducted in coordination with the Bank's legal department/Law officer, to review the progress in respect of pending court cases.

The value of the collateral pledged will not be materially dependent on the performance of the borrower. However, this requirement is not intended to preclude situations where purely macro-economic factors affect both the value of collateral and performance of the borrower

2.13.3 Custody of Collateral

a. The documents protecting the Bank's interest in the collateral securities to reduce the risk of losses associated with its exposures and the collateral securities (if applicable as in case of registered securities such as shares) will be stored in the safe custody of the Bank or an external agency/duly authorized custodian as will be felt necessary. The decision on Bank/custodian is determined depends on the type of the collateral.

b. Where collateral is kept with a custodian, the Bank will enter into a contractual agreement (outlining the terms and conditions) and fees chargeable. The Bank will ensure that the custodian segregates the collateral from its own assets. Collateral in custody of the Bank will be adequately insured.

c. Where collaterals in the form of securities are concerned, the Bank will ensure that such securities are duly segregated and separately stored in a Store Room. Such securities will be assigned proper codes and maintained in a security register, duly updated with adequate details. In case, the security is in the form of property/vehicle, the Bank will ensure that a copy of the agreement is lodged with the Bank. If another branch or institution holds custody of the securities, a periodic confirmation will be obtained by the Bank about the securities held. The Bank will maintain record of all collaterals/securities of interest (whether held by it or by an external agent).

d. Business units will follow procedures with respect to the storage, control reporting and due release of collaterals upon fulfilment of all contractual conditions as laid down by the Bank in its guidelines.

2.13.4 Insurance for Collateral

a. All tangible assets provided as collateral will be covered by a fire and extended insurance policy with an approved insurance company for an amount not less than the value of the secured assets. If the insurer has stipulated specific conditions that have to be maintained to keep the policy valid, it will be ensured that these conditions are adhered to by the relevant party during the tenor of the exposure.

b. All Insurance Policies will have endorsement in favour of the Bank for payment in case of any loss or damage except in case of hypothecation of receivables which are floating and book-debts.

c. All requirements regarding the value and validity of the collateral Insurance will be a contractual obligation of the counter-party; laid down in the legal documentation of the credit facility. Adequate measures will be taken to ensure insurance policies‟ timely renewals to avoid claim rejection by insurance company. If the Bank is aware that the counter-party has failed to pay the insurance premium, the Bank will advance the amount and pay the premium in order to avoid the existence of any uninsured risks. The Bank will obtain standing instructions from the counter-party to debit its account for all premiums due under the Policy.

2.13.5 Security Perfection

Bank's secured borrowings are secured by way of creation of mortgage over immovable property or hypothecation of vehicles in case of vehicle loans, hypothecation created over fixed assets, book debts and receivables and pledge of shares in case of other loans especially to corporates. A mere creation of contractual security interest through execution of documents is not sufficient to secure the interests of secured creditors in financing interests. Bank needs to ensure that security interest created is enforceable against any third parties with a competing claim (including, without limitation, any other creditors of the company or the official liquidator). To ensure the same, the Bank is required to make certain filings with statutory authorities. This process is known as perfection of security.

The Bank will perform such filings as required under different legislations to register the security interests, an illustrative list of which is given below:

a. Registration of charge with the registrar of companies under Section 77 of the Companies Act, 2013

b. Registration of security interest with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (“CERSAI”) under Section 26D of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002 (“SARFAESI Act”).
c. Filing of pledge slip in case of loan secured by shares with the Depository Participant.
d. Registration under state-specific statutes viz., Registrar of Assurances (Immovable property), Road Transport Authorities (vehicles),

The Bank will make the necessary filings within the timelines prescribed in the respective statute/ regulations. The internal timelines for the filings within the statutory and regulatory timelines and escalation matrix for non-adherence to the same would be covered under the respective product-specific process note.

2.14 Data and Technology Requirements

The Bank will keep all information with respect to collateral management, analysis, monitoring, reporting and its use in regulatory capital computation in a centralized manner. Information related to collateral provider / issuer, assets, amount / valuation, inspection, insurance, custody, their allocation to the relevant exposures, maturity etc. will also be maintained in highly secured manner.

Required data / information will be maintained in a structured and auditable manner such as with identification of source system, data flow, validation, accuracy, reconciliation, audit-trail, internal controls etc.