INTRODUCTION

1. 1. Government of India has enacted 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which brings in a paradigm shift from Small Scale Industry (SSI) to Micro, Small and Medium Enterprises (MSME). Accordingly, Reserve Bank of India has issued necessary guidelines in this regard. As per these guidelines, Micro Enterprises and Small Enterprises are classified under Priority Sectors for lending and targets have been stipulated for the same.

1. 2.

Owing to the national priority and its inherent ability for faster employment generation in rural and under developed areas, the Bank lays special emphasis on Micro and Small Enterprises (MSEs) and hence has included them in the Bank's focus areas for accelerated lending. Various types of credit products generally offered by the Bank viz. term loans, working capital limits, non-funded facilities etc. will be made available to MSEs, based on the specific needs of each such unit, after proper appraisal of their credit needs.

1. 3.

Scope and coverage

Realising the need for a well-documented policy on flow of credit to MSEs, this Micro and Small Enterprises Policy (MSE Policy) is introduced. The MSE Policy contains policy guidelines specific to Bank's lending operations to micro and small enterprises. This policy is part of the Bank's Credit Policy which covers the macro level policy guidelines with regard to all credit exposures (both funded and non-funded) expected to be complied by all functionaries of the Bank. All norms and guidelines generally applicable to various credit operations as stipulated in the Credit Policy will be applicable to MSEs also, even though not specifically stated in this policy.

Contents of this policy should be read and complied with in conjunction with that of other policies of the Bank viz. KYC and AML Policy, Risk Management Policy, Recovery Policy, Investments Policy etc.

Exclusions:

1. 4. As non-performing assets are covered by Recovery Policy of the Bank, loans and advances classified as NPAs as per the Prudential Norms on Income Recognition and Asset Classification of Reserve Bank of India are treated outside the purview of this Policy.

DEFINITIONS

2. **Enterprises engaged in the manufacture or production, processing or preservation of goods** as specified below:

2. 1. A **micro enterprise** is an enterprise where investment in plant and machinery **does not exceed Rs. 25 lakh** and

2. 2. A **small enterprise** is an enterprise where the investment in plant and machinery is **more than Rs. 25 lakh but does not exceed Rs. 5 crore.**

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006 as follows:

i. equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumables stores;
ii. installation of plant and machinery;

iii. research and development equipment and pollution controlled equipment
iv. power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
v. bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
vi. procurement or installation of cables, wiring, bus bars, electrical control panels (not mounded on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
vii gas producers plants;
viii. transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of the manufacture to the site of the enterprise;
ix. charges paid for technical know-how for erection of plant and machinery;
x. such storage tanks which store raw material and finished produces and are not linked with the manufacturing process; and
xi. fire fighting equipment.
2. While calculating the investment in plant and machinery refer to paragraph 1, the original price thereof, irrespective of whether the plant and machinery are new or second handed, shall be taken into account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;
i. Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
ii. Shipping charges;
iii. Customs clearance charges; and
iv. Sales tax or value added tax.

3. **Enterprises engaged in providing or rendering of services** and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.20 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).

A **micro enterprise** is an enterprise where the investment in equipment **does not exceed Rs. 10 lakh** and

A **small enterprise** is an enterprise where the investment in equipment is **more than Rs.10 lakh but does not exceed Rs. 2 crore**

3. 1.

Khadi and Village Industries Sector (KVI)

3. 2. All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery will be covered under priority sector advances and will be eligible for consideration under the sub-target (60 per cent) of the small enterprises segment within the priority sector stated in paragraph 7.

4.

5. 1. **Indirect Finance to MSEs**

Persons involved in assisting the decentralised sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

Advances to cooperatives of producers in the decentralised sector viz. artisans, village and cottage industries

Loans granted by banks to NBFCs for on-lending to small and micro enterprises (manufacturing as well as service)

6. 1. **Wind Electric Generators (WEGs):** Investment in establishing of windmill(s) to generate electricity for captive consumption or partly for captive consumption and sale of remaining power is to be included in the investment in plant and machinery for the purpose of classification under MSMED Act, 2006, which can be treated as **Service Sector.**

7. TARGETS FOR LENDING TO MSEs

The Bank endeavours to attain/ maintain lending to MSEs at the minimum of the following levels or the targets fixed by RBI from time to time, for these sectors:

Category	**Target**
Priority sectors (total)	40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Small Enterprises	Advances to small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off- Balance Sheet Exposure, whichever is higher.
Micro Enterprises within Small Enterprises sector	(i) 40 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs 2 lakh; (ii) 20 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs 25 lakh, and micro (service) enterprises with investment in equipment above Rs 2 lakh and up to Rs 10 lakh. (Thus, 60 per cent of small enterprises advances should go to the micro enterprises).

SELECTION OF BORROWERS

8. 1. **General selection norms**

- Activity of the borrower should be legally permissible.
- Financial strength of the borrower client shall be adequate vis-a-vis the project size/volume of

operations proposed to be undertaken and risks involved therein.

- Information should be gathered through discreet enquiries about the applicant, promoter(s), and proposed guarantor(s) regarding their financial strength, banking behavior, antecedents etc.
- Applicants and proposed guarantors are required to disclose details of litigation, if any, in which they are involved.
- In the case of applications under consortium or multiple banking arrangement or existing borrowers with other banks, satisfactory status/credit report should be obtained from other banks/financial institutions participating in the lending arrangement, before granting any credit facility.

8. 2. **Adherence to KYC and AML norms**

As in the case of all banking transactions, credit operations are also subject to strict adherence to directives on **K**now **Y**our **C**ustomer and **A**nti **M**oney **L**aundering norms issued by Reserve Bank of India and Government of India. Beginning with proper identification of the prospective borrowers, these norms stipulate various procedures to be followed while allowing transactions in the account. All concerned shall comply with the requirements as laid down in the Bank's 'KYC and AML Policy', in the case of credit related functions as well.

8. 3. **Reference to Defaulters List etc.**

As required under Credit Information Companies (Regulation) Act, 2005 the Bank has enrolled itself as a member of Credit Information Bureau of India Ltd (CIBIL). Till the functions of Credit information companies are fully operationalised in India, the Bank will continue to make reference to Defaulters' List and Willful Defaulters' List provided by RBI from time to time, wherever required.

Reference should be made to the latest of such lists provided by RBI, at the time of processing of credit proposals (fresh, enhancement and review/renewal) of all applicants/ borrowers for aggregate amount above Rs 25 lakh and observations thereof should be recorded in the process note.

No new or additional credit facilities shall be sanctioned to an applicant/ borrower if:

(a) the name of applicant/ any partner/ any promoter director or any other person having management control of the applicant entity is included in the Defaulters' List or Willful Defaulters List
(b) the applicant/ any partner/ any promoter director/ any other person having management control of the applicant entity is also a promoter director of a defaulting firm/company and/or
(c) one or more partner(s)/ director(s) of a defaulting firm/ company has/have significant role in the management of the applicant entity.

This restriction will remain in force till the name(s) of the person(s), firm(s), company(ies) or other borrower entities concerned, as the case may be, is/are removed by RBI from the respective lists.

In case the performance and conduct of the accounts of the borrower are otherwise satisfactory, renewal / continuance of the facility(ies) at the existing levels may be considered by Chief Executive Officer on valid justifications. However, if the partner/director of the borrower firm/company is also a partner/director in a firm/company classified as 'Willful Defaulter' by RBI, the competent authority to consider any renewal / enhancement is Board of Directors.

No credit facilities shall be sanctioned to an applicant classified as 'willful defaulter', for a minimum period of 5 years from the date of inclusion of the name in the list concerned, even if removed at a later stage.

In cases where the name of a borrower / guarantor or the name(s) of the partner(s) / director(s) of a borrower firm / company is / are appearing in the Defaulters' List / Caution Advice / Special Approval List circulated by the RBI / ECGC from time to time, the fact shall be clearly brought out in the appraisal note with complete details such as name(s) of the person(s) and/or defaulting firm/ company and the nature of relationship of such person(s) with the defaulting firm/ company as well as applicant firm/ company in order to enable the sanctioning authority to arrive at the appropriate credit decision.

Branches should obtain consent letters from the borrowers and guarantors to disclose their names in the event of default.

While mere appearance of the name of the borrower entity / its partners / directors / guarantors in the Defaulters' List / Caution Advice / Special Approval list circulated by RBI / ECGC from time to time shall not be the sole reason to decline any credit proposal (provided it otherwise conforms to the stipulated norms), the correct reason for inclusion of their name in the list, their exact role (financial and non financial) in the defaulter company, etc should be furnished in detail and proper justification for recommending the proposed credit facilities despite such an adverse remarks should be given in the appraisal note.

9.

Eligibility in terms of credit rating

The Bank has a comprehensive risk rating system that serves as a single point indicator of diverse risk factors of a borrower / counter party, for taking credit decisions in a consistent manner. The risk rating system reveals the overall risk of lending, necessary in-puts for pricing the loan and setting non-price terms and conditions and provide meaningful information for review and management of the loan portfolio. It provides necessary indications to the credit sanctioning authority as to the asset quality.

All borrower accounts of Rs 25 lakh and more should be rated internally. The following entry level eligibility norms are prescribed with respect to CRA rating:

(a) Rating should be CSB 3 or better and
(b) Marks awarded for financial parameters should be 60% or more, of that applied.

In the case of applicants whose debt instruments are rated by external rating agencies accredited with RBI, fresh credit facilities shall normally be considered only if the rating of such debt instruments is not worse than the following:

Long term claims: **'A'**

Short term claims:

Rating Agency	CARE	CRISIL	Fitch	ICRA
Rating	PR2	P2	F2(Ind)	A2

10.

Geographical proximity

In order to ensure proper post lending supervision, certain eligibility norms are stipulated with respect to geographical proximity of the borrowers. Accordingly, credit facilities shall be sanctioned only if the factory/ shop/ other business premise of the borrower is situated within the upper limit of distance from the branch, as follows:

Aggregate amount of credit facility	Maximum permissible distance from the branch
Below Rs 10 lakh	10 (ten) KMs
Rs 10 lakh and above	50 (fifty) KMs

However, relaxation in the above norm can be permitted in unavoidable cases. In such cases, due and adequate care shall be taken to ensure effective supervision and monitoring of the borrowal account.

CREDIT APPRAISAL, SANCTION AND DISBURSAL NORMS

11. **General**

All credit proposals should be appraised using the appropriate appraisal formats, prescribed based on amount and nature of credit facility. In the case of facilities for trade, industry and other businesses and applicants other than individuals, financial position should be analysed based on Balance Sheet and Profit & Loss Account/ Income & Expenditure Account/ Receipts & Payments Account (based on the constitution/legal status of the applicant) for the immediate past three years, estimates for the year during which the analysis is done and projections for the next year. In case the applicant entity is in existence for less than three years, financials for all the completed years should be furnished and analysed. Audited financials should be analysed, if so warranted, as stipulated below:

11. 1.

Borrowers Required to Furnish Audited Financial Statements

Aggregate of Credit Limit (Funded and Non-funded)	Norms
1. Up to Rs 10 lakh	Audited financials not compulsory
2. Above Rs 10 lakh and less than Rs 25 lakh	(a) Audited financials are compulsory in the case of facilities sanctioned under branch discretionary power. (b) Audited financials, at the discretion of the sanctioning authority concerned in respect of advances beyond the branch discretionary powers. Borrowers who are otherwise required to get their accounts audited for any reason should submit audited financials.
3. Rs 25 lakh and above	Audited financials in the RBI prescribed format and audited as per I.T. Rules, are compulsory

Note: Private and Public Ltd. Companies and Institutions registered u/s 25 of Companies Act 1956, whose financials are required to be audited in terms of the Companies Act, should submit financials audited by a Chartered Accountant with certificates in the prescribed formats.

Stipulation regarding analysis of audited financials may be waived in the case of immediate previous year, for which unaudited or provisional accounts shall be relied upon, if deemed necessary, till a reasonable time before the audited financials are ready.

12. **Term Loans**

All loans with original contracted tenure in excess of one year are termed as term loans. Loans for acquisition of fixed assets (outright purchase, construction and/or repairs/renovation of building(s), purchase of machinery and equipments, commercial vehicles etc) shall be normally sanctioned by way of term loans only. At the same time, loans for purchase of private vehicles are treated as under specialized schemes and the lending norms specific for such schemes shall be applicable for those loans.

In the case of fresh term loans applied for, repayment capacity should be assessed from projected financial statements/cash flow statements for the period covering the proposed repayment period and Debt Service Coverage Ratio (DSCR) should be estimated therefrom. The following norms are prescribed for term loans:

(a) In consonance with our Credit Risk Management Policy, Debt Equity Ratio (Ratio of total outside liabilities to tangible net worth) shall not exceed 3 (three), if interest free unsecured loans are considered as quasi equity and 4 (four), if no such loans are treated as quasi equity. Relaxation in this regard can be allowed by General Managers and higher level functionaries in special circumstances, provided the loan is secured with not less than 200% security coverage as defined paragraph 10.5.

(b) DSCR should be used as a tool for analyzing the repayment period and fixing installments. Minimum average DSCR for the entire tenure of the loan shall be 1.50 and the desirable DSCR for any year shall be 1.25

(c) Minimum borrowers' contribution (margin) shall be as follows:

12. 1.

	Category of asset financed	**Margin (as % of the cost)**	
	Land and building	50%	
	Plant & Machinery (new)	25%	
	Second hand machinery (on the value ascertained by the approved valuer or purchase consideration of the applicant, whichever is less. Residual life of the asset should be discretely ascertained and got certified)	40%	
	Commercial vehicles (new)	Chassis	Body building
(a)	With collateral security of not less than equal value	20%	30%
(b)	Without collateral security and guarantee	25%	40%

12. 2.

Commercial vehicles (second hand)

12. 3.

Age of vehicle	Maximum amount of loan*
Not more than 6 months	60%
More than 6 months but not more than 12 months	50%
More than 12 months but not more than 24 months (max.)	40%

*As percentage of depreciated value or market value ascertained by independent valuation, whichever is less. Rate of depreciation: 15% p.a. or part thereof on the invoice cost of chassis and body building.

(d) Repayment period shall normally be six years and shall not to exceed eight years (including repayment holiday) except for House Loans, Educational Loans and loans for infrastructure projects. However, longer repayment will be considered in exceptional circumstances where restructuring / rephasement is involved, on a case-to-case basis.

(e) In the case of purchase of second hand vehicles, maximum age of the vehicle and tenure of the loan shall be as follows:

Type of vehicle	Age of vehicle (maximum)	Total of age of vehicle and tenure of the loan
Commercial vehicles	24 months	48 months

(f) Repayment should normally be in equated monthly installments together with interest (EMIs) or quarterly installments (EQIs), based on the projected cash flows. Wherever required, repayment of principal in equal monthly installments may be permitted, subject to servicing of interest separately. Repayment may also be fixed with varying installments to match cash flows, wherever deemed necessary (balloon repayment, lump sum repayment etc).

(g) Repayment holiday period should be determined based on realistic assessments considering the time required for project implementation and commencement of commercial production.

(h) Date of commencement of repayment depends on the repayment schedule fixed and holiday period allowed. Normally, repayment should commence on the next day of completion of one month (if repayable in EMIs) or three months (if repayable in EQIs) after first disbursal plus repayment holiday, if applicable. This schedule is equally valid if the principal is to be repaid in installments separately. In such cases, interest should be serviced as per the terms of sanction. In the case of loans repayable in lump sum, the amount will become due immediately on completion of the tenure.

(i) EMIs should be refixed in the event of revision in rate of interest with due intimation to the borrowers concerned.
(j) Borrowers' contribution with respect to each asset to be acquired should be brought upfront, before disbursal of the loan component by the Bank.
(k) Cost of assets financed/ expenses incurred should normally be paid by the Bank direct to the supplier/ authority concerned, after collecting the borrower's contribution. However, disbursal of the loan on reimbursement basis may be permitted by the sanctioning authority of the loan concerned (not below the rank of General Manager), in exceptional circumstances, provided the assets acquired/ expense incurred are not more than 12 months old. In such cases, proof of payment of cost/ expenses should be obtained and verified before seeking permission from the sanctioning authority.
(l) All guidelines regarding term loans are applicable to Deferred Payment Guarantees also.

13. **Working Capital**

A significant portion of our credit portfolio is in the form of various types of working capital facilities to industries, trade etc. The following types of facilities/ credit instruments are normally offered, depending on the nature of activity:

(a) Overdrafts/ Cash credit / Key loans etc.
(b) Cheques/ bills purchasing/ discounting
(c) Loans against warehouse receipts
(d) Foreign Currency Loans
(e) Pre shipment credit in Indian Rupee or Foreign Currency (PCL or PCFC)
(f) Post shipment credit in the form of purchase of sight bills (FDBP), discounting of usance bills (FUBD) and/or advance against export bills.
(g) Non funded facilities like Bank Guarantees (BG) and Letters of Credit (LC) (inland or import) for procurement of raw materials, getting mobilization advances for execution contracts etc.

13. 1. The following norms are generally applied while appraising working capital requirements:

(i) Working capital facilities shall be sanctioned normally for a period of one year only, unless otherwise permitted in this policy. Continued operations in the accounts beyond the date of expiry of sanction requires renewal to be sanctioned by the competent authority.
(ii) Desirable level of current ratio is 1.33 and the minimum required for fresh proposals is 1.1. In the case of renewal, proposals with current ratio less than 1.1 shall also be considered in special circumstances, with proper justifications.

(iii) Maximum Permissible Bank Finance (MPBF) in respect of funded working capital limits should be assessed in the following manner:

Fund based working capital requirement (from the banking system as a whole)	**Method of assessment**
Rs 500 lakh or less	Projected Turnover Method (as suggested by Nayak Committee for SSI units)
More than Rs 500 lakh	II Method of lending (as per Tandon-Chore Committee recommendations)

Note: Interchangeability between the two methods shall be permitted by the sanctioning authority (not below the rank of Zonal Manager), for valid reasons.

(iv) Advance against warehouse receipts shall be granted as individual loans of not more than three months tenure. However, limits shall be sanctioned to the borrowers on yearly basis, as in the case of other working capital facilities.
(v) In the case of seasonal industries like textiles, cashew and trade advances etc, seasonal/peak level requirements should be assessed and separate limits may be considered if required.
(vi) Build-up of current assets and liabilities will be carefully examined while assessing working capital requirements.
(vii) Deviation/relaxation in the above norms (except tenure), if required, shall be permitted by General Managers and higher level functionaries in exceptional cases.

13. 2. **Non funded credit facilities**

Sanctioning of non funded facilities like Bank Guarantees (BGs), Letters of Credit (LCs), Deferred Payment Guarantees (DPGs) etc require appraisal as in the case of other credit facilities. Policy prescriptions specifically applicable to non funded facilities are as follows:

(i) We shall normally refrain from issuing guarantees on behalf of customers who do not enjoy credit facilities with us nor extent any non-funded facilities to parties who are not our regular customers. However, in exceptional circumstances, the sanctioning authority concerned can sanction such facilities to non-borrower constituents who are otherwise customers of the Bank. Such facilities sanctioned to non-borrower constituents shall not exceed 5 (five) times of the tangible net worth (TNW) of the applicant. Relaxation in this regard shall be permitted by General Managers and higher level functionaries provided the facility is otherwise within their lending powers.

(ii) In the case of BG and LC limits for working capital purposes, requirement should be assessed based on projected purchases per year, usance period required and lead time anticipated for delivery. These facilities are exempted from the purview of MPBF otherwise applicable to funded facilities.

(iii) BG and LC limits for working capital purpose shall be sanctioned normally for a period not exceeding one year. Continued issue/opening of the instruments beyond the date of expiry of sanction requires renewal to be sanctioned by the competent authority. However, this stipulation is not applicable to BGs and LCs issued/ opened during the sanctioned period, for tenure/ usance stretching beyond the date of expiry of sanction.

(iv) DPGs, BGs and LCs for procurement of capital goods shall be normally sanctioned as one-time facilities only, for period/tenure/usance in accordance with the underlying contract, terms of supply etc.

(v) As a general rule, the bank prefers to issue BGs for shorter maturities. Further, no bank guarantee shall normally be issued for a maturity of more than 10 years.

(vi) Minimum cash margin (other than on financial guarantees) shall normally be 15%. In the case of financial guarantees, 100% cash margin would be required. However, higher margin should be stipulated wherever minimum margin, higher than the above, is stipulated by RBI

(vi) BGs and inland LCs shall normally be issued only in the specified format (model guarantee bond in the case of BGs). Further, in order to prevent unaccounted issue and fake guarantees and LCs, as suggested by IBA, BGs and inland LCs should be issued in serially numbered security forms.

(vii) Bank guarantees and inland LCs should be signed by two officials jointly.

(viii) Interchangeability between non-funded and funded facilities shall be permitted in the following circumstances:

(a) For working capital purposes, within a prescribed overall limit based on MPBF, for operational convenience and to adapt according to market conditions.

(b) One-time non-funded facilities for procurement of capital goods, to be converted as term loans, forming part of project cost.

In both the above circumstances, sanctions shall be accorded on a case to case basis by the delegated authority.

(ix) No guarantee shall be issued covering inter-company deposits/ loans. Guarantees should not, also, be issued for the purpose of indirectly enabling the placement of deposits with non-banking institutions. This stipulation will apply to all types of deposits/loans irrespective of their source, e.g. deposits/ loans received by non-banking companies from trusts and other institutions.

(x) Notwithstanding the restrictions contained under item (x) above, guarantees shall be issued, with the specific approval of the sanctioning authority, favouring other banks, financial institutions (FIs) or other lending institutions, for the following purposes:
  (a) For availing Gold (Metal) Loans
  (b) For take over of borrowal accounts from other banks or FIs retaining the BGs and LCs already issued by the latter but remain unexpired.

  Guarantees may also be issued favouring other banks, FIs and other lending institutions, if deemed necessary, with the specific approval of the Board of Directors of our bank.

14. **Validity of sanctions**

All credit facilities (fresh and enhancements) are sanctioned, initially, on 'in principle' basis. The branch may disburse the same on compliance of the terms and conditions stipulated and fulfillment of all pre-requisites. The applicant/ borrower is not entitled to draw the amount sanctioned, until and unless the terms and conditions are complied and all pre-requisites are fulfilled, including execution of documents and creation of charge on security assets prescribed.

Any sanction conveyed but not availed by the customers shall lapse after 6 (six) months from the date of sanction. However, it can be revalidated by the sanctioning authority concerned, if valid reasons for delay are furnished, after ensuring that there are no material changes warranting denial of revalidation. Details of revalidations permitted should be reported to higher authorities as stipulated in paragraph 6.5. Credit sanctions accorded by Credit Committee or Board can be revalidated by Chief Executive Officer for a further period of six months.

CREDIT EXPOSURE CEILING

15.1. **Definitions-** The following definitions shall be applicable for determining various credit exposure ceilings/ threshold limits prescribed in this policy and compliance thereof:

(i) 'Single borrower' is a single entity, irrespective of constitution or legal status, on which the Bank has exposure, as defined in sub paragraph 9.1.4. (iv) below

(ii) 'Group of borrowers' denotes companies/ directors/ partners/ proprietors/ individuals that have controlling interest at more than 30% of equity in managing other firms/ companies/ proprietary concerns/ individuals or have guaranteed facilities to other firms/companies/proprietary concerns /individuals or have offered securities to any other borrower. Spouse and children of the borrower and the firms/ companies in which they have controlling interest as above also shall be treated as part of the group.

(iii) 'Capital funds' for this purpose will comprise of Tier I and Tier II capital as defined under capital adequacy standards and as per the published accounts as on March 31 of the previous year.

(iv) Exposure shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at the exposure limit.

However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, amount outstanding shall be reckoned as the exposure. Derivative products such as Forward Rate Agreements and Interest Rate Swaps are also captured for computing exposure by applying the conversion factors stipulated by RBI to notional principal amounts. Also, Forward Contracts in foreign exchange and other derivative products like Currency Swaps, Options etc. are to be included at their replacement cost value.

15.2. **Exemptions-** The following types of borrowers and credit facilities do not come under the purview of credit exposure ceilings:

(i) Borrowers, to whom limits are allocated directly by RBI for food credit

(ii) Loans and advances (funded and non-funded) granted against security of bank's own term deposit and those advances guaranteed by Govt. of India

(iii) Existing/additional credit facilities (including funding of interest and instalments) granted to weak/sick industrial units under rehabilitation package.

Prudential exposure ceiling (single borrower and group of borrowers)

16.1. Credit exposure per borrower and group of borrowers will be restricted to the prudential ceilings stipulated by RBI from time to time, with respect to Bank's capital funds. The rates, ruling as of now, are as follows:

Single borrower: 15%
Group of borrowers: 20%

Constitution-wise threshold limits

16.2. Constitution of the borrower has a significant bearing on its financial stability and capacity to withstand unexpected losses, if any, in the course of its operation. Hence it is prudent to fix constitution-wise threshold limits for credit exposure to new customers. Such entry level limits are fixed as follows:

Constitution of borrower	**Threshold limit as % to prudential exposure ceiling referred to in para.9.4.1**
Individual(s), Proprietorship concern, HUF and Association of Persons	10
Partnership, Trust, Charitable Society etc	20
Companies, Corporations (registered under the relevant statutes), Banks and other corporate bodies	100

Industry/ activity-wise credit exposure ceiling

16.3. Concentration of credit to any or a few segments may prove fatal, given the cyclical nature of fortunes of various industries and activities. In order to achieve the desired level of risk dispersion, the Bank has fixed credit exposure ceiling to various industries and activities in general at 10% of its aggregate credit. However, owing to the satisfactory track record, expertise gathered and geographical reach of branch net work, a higher exposure ceiling of 15% is fixed for cotton textile industry covering ginning, spinning and weaving. This is in addition to the separate ceiling of 10% fixed for dyeing, knitting, hosiery, garmenting and fabric painting. Actual exposure vis-à-vis ceiling fixed for these two segments will be monitored on monthly basis.

Credit exposure ceiling to various industries, activities, purposes and types of advances is as follows:

Sl. no.	Industry/ activity/purpose/ category		Credit Exposure ceiling (as % to aggregate advances)
1	Cotton textiles (ginning, spinning and weaving)		15
2	Dyeing, knitting, hosiery, garmenting and fabric painting		10
3	NBFCs (including HFCs and NBFC-AFCs)		10
4	Infrastructure-	(a) Wind Electric Generators	5
		(b) Other infrastructure (each sub-sector)	10
		(c) Total for infrastructure	30
5	Sensitive sectors	(a) Commercial real estate	6
		(b) Capital market exposure	4*
		(c) Total for sensitive sectors	6
6	House Loans		12
7	Service sector [IT, educational institutions, health care, tourism (excluding hotels) etc] aggregate		15
8	Unsecured exposure (aggregate)		12
9	Any other industry/ activity (separately)		10

* Ceiling on aggregate exposure to capital market is further subject to the regulatory limit fixed by Reserve Bank of India, currently 40% of the Bank's net worth as on March 31 of previous year computed in the prescribed manner.

SECURITY STANDARDS

17. **Charge on assets acquired out of bank finance**

As a matter of rule, all tangible assets acquired out of bank finance to MSEs should be charged to the Bank as primary security.

17.1. **Charge on current assets and drawing power**

In the case of funded working capital finance current assets in the form of inventory and receivables should normally be charged to the Bank by way of hypothecation or pledge. Drawing power of such facilities should be arrived at based on the level of current assets after deducting margin at appropriate rate as decided by the sanctioning authority. Normally, margin shall not be less than 25% on inventory and 40% on receivables. Inventory, for this purpose, shall be fully paid and reckoned at cost or market value, whichever is less. Obsolete items of inventory and receivables beyond stipulated maximum age shall not be considered for arriving at drawing power. Stipulated maximum age, for this purpose, shall be as determined by the sanctioning authority, on a case to case basis, but not more than 120 days.

17.2. **Collateral security**

While lending operations will continue to have focus on purpose and repayment capacity, as a risk mitigant and effective tool for financial discipline, the Bank shall insist on collateral security in the form of liquid financial assets or land and/or building(s) of adequate value, as far as possible. However, loans to MSEs not exceeding Rs 5 lakh are exempted from this general norm.

17.3. **Guarantee**

All credit facilities to individuals, HUF, Association of persons and proprietorship concerns shall be normally guaranteed by at least one unrelated person, in addition to the spouse of the borrower (wherever available) except in the case of loans under such schemes wherein explicit exemption is provided as per Govt./ RBI norms.

In the case of partnerships, documents should be executed by all the partners both in the capacity as the partner as well as in their individual capacity.

Credit facilities extended to companies (private and public) shall normally be supported by the personal guarantee of all promoter directors. In the case of closely held companies personal/ corporate guarantee of share holders holding more than 10% of the total capital of the company should be taken as additional security. Further, Directors extending personal guarantee shall not be paid any consideration by the borrower company by way of commission, brokerage, fees or any other form directly or indirectly for the guarantee extended.

In the case of credit facilities secured by immovable properties, the mortgagor(s) [owner(s) of the property] must guarantee the credit facilities secured by such mortgages, if he/she/they is/are not borrower(s)/ partner(s) of the borrower firm. Because, equitable mortgage can be created only in favour of a creditor.

Exemption/ relaxation in the norms regarding personal guarantee (other than that of property owners discussed in paragraph …. above) can be permitted, in exceptional cases, by functionaries not below the rank of General Manager provided the facilities are otherwise within the lending powers one step below. It should be ensured that the exemptions/ relaxations thus permitted are properly justified and do not materially affect the safety of money lent.

PRICING OF CREDIT FACILITIES

18. **Policy and Procedures for Fixing Interest Rates on Loans and Advances**

The Bank has formulated objective and transparent policy and procedures for fixing interest rates on loans and advances, as follows:

(a) Benchmark Prime Lending Rate (BPLR) of the Bank will be determined, from time to time, after taking into account of the following:
   (i) actual cost of funds,
   (ii) operating expenses and
   (iii) minimum margin to cover regulatory requirement of provisioning / capital charge and profit margin

   BPLR of the Bank will be announced with the approval of the Board and will be uniform for the Bank as a whole.

(b) Rate of interest on all loans and advances, except those under the following categories, will be floating in nature, pegged to Bank's BPLR, unless otherwise specifically sanctioned by the sanctioning authority.
   Exemptions: Gold Loan, DRI loans, Housing Loan, Discount of Usance Bills, Advances in Foreign

Currency and Advance against term deposits.

(c) No authority, other than the Board of Directors, shall have the power to sanction credit facilities/ approve schemes that involve charging interest at fixed rates.

(d) Loans not exceeding Rs 2 lakh will be normally charged at a rate not exceeding BPLR. Exceptions in this regard are:
(i) Loans for purchase of consumer durables;
(ii) Loans to individuals against shares and debentures / bonds; and
(iii) Other non-priority sector personal loans.

(e) Rate of interest on loans and advances (other than those under specified schemes) of Rs 25 lakh and above to individual borrowers shall be based on the internal credit rating assigned by the Bank to that borrower periodically. Accordingly, rate of interest chargeable to the borrower will be on a graduated scale starting from BPLR for CSB-1 rating, to be progressively stepped up with deterioration in rating by one notch each, with step value of 50 basis points. The threshold limit for compulsory credit rating and fixation of rate of interest thereupon is subject to change from time to time, at the discretion of the Bank.

(f) Rate of interest on Education Loans and export credit in rupee will be within the upper ceiling, in relation to the BPLR, as per the directives of RBI from time to time. Accordingly, export credit will remain exempted from the norms based on credit rating stated in sub paragraph (e) above.

(g) Term premium at the appropriate rate (currently, 50 basis points) shall be levied in the case of all loans with originally contracted tenure of one year or more. Term premium will be added to the rate of interest otherwise applicable and levied along with interest at the stipulated intervals.

(h) Industries/ activities and the category of borrowers, as the case may be, that attract additional provisioning or capital requirement, as decided by Reserve Bank of India from time to time, will be levied additional charge as compensation for capital charge, at the rate as decided by the Bank commensurate with the additional provisioning/ capital requirement. As in the case of term premium, this additional charge will be added to the rate of interest (together with term premium, wherever applicable).

(i) The total cost to the borrower, including interest and other service charges levied on the funded credit facility(ies) operated without irregularities shall not exceed 550 basis points over and above the Bank's BPLR. However, accounts with irregularities will attract penal provisions including additional interest at appropriate rates.

(j) Interest will be charged at monthly rests and rounded off to the nearest Rupee, unless otherwise instructed by Reserve Bank of India.

18.1. **Non interest charges**
Commission on non-funded credit facilities

Unless otherwise permitted by the sanctioning authority for the credit facility concerned, commission on non-funded facilities (LC and BG) should normally be levied, upfront, at the appropriate rates, for the entire tenure of the instrument issued. However, in the case of BGs issued for tenure exceeding three years and where commission for the entire tenure is more than Rs 5 lakh, the sanctioning authority concerned (not below the rank of Zonal Manager) shall permit levy of commission at the frequency of not less than one year, based on the value of connection with the borrower. Rates of commission for non-funded facilities will be determined from time to time and communicated by way of circulars. In the case of LCs, pricing shall comprise commitment charges and usance charges. Further, amount of commission on both BG and LC will be *ad-valorem*, on the amount of such instrument issued. Concessions, if any, in the rate of commission on non-funded credit facilities shall be sanctioned only with the permission of Chief Executive Officer.

Processing Fee (PF) and other service charges

18.2. PF shall be levied on sanctioning all new credit facilities (except those specifically exempted as stated below) and renewal/ enhancement of working capital facilities. Rate of PF to be charged shall be determined from time to time. However, total cost to the borrower, including PF, shall not exceed the upper ceiling stipulated in paragraph 12.1 (i) above.

Credit facilities exempted from levying PF:

(a) All credit facilities up to Rs 25,000/- and
(b) Loans/ overdrafts against pledge of gold ornaments and term deposits with the Bank.

Other service charges like documentation charges, folio charges, property valuation charges, legal scrutiny charges etc. shall also be levied, according to the nature of credit facilities sanctioned, at the rate(s) determined from time to time.

FAIR PRACTICES CODE

19. **All branches shall follow the below mentioned procedures while receiving, processing and sanctioning/declining of proposals for loans up to Rs 2 lakh:**

1. Branches should acknowledge receipt of loan applications that are received complete in all respects. If additional details are required, the applicants should be intimated immediately and receipt of application should be acknowledged as and when all the requirements are complied with.

2. Applications for credit facilities should be disposed of within the period stipulated below:

(A) Applications for loans under Priority Sector (other than Micro and Small Enterprises) up to Rs 25000 should be disposed of within a fortnight and those for more than Rs 25000, within 8 weeks.

(B) In the case of Micro and Small Enterprises:-

- (i) Application for loans up to Rs 200000 should be disposed of within 2 weeks.
- (ii) Application for loans above Rs 200000 and up to Rs 5 lakh should be disposed of within 4 weeks.
- (iii) Applications for loans above Rs 5 lakh should be disposed of within 8 weeks.
- (iv) Time schedule as applicable to Micro and Small Enterprises shall be adhered to for other loans also.

Loan application, appraisal and terms and conditions

19. 1. 1. Comprehensive information regarding processing fee, service charges, penalties, penal interest etc,

as amended up to date, from time to time, should be supplied along with application forms for all credit facilities.

2. The loan proposal shall be analyzed in a comprehensive manner. Security and margin shall not be considered as a substitute for due diligence on credit worthiness of the borrower.

3. Full particulars of the credit facilities sanctioned along with the terms and conditions thereof shall be conveyed to the applicant(s) and the borrower’s acceptance thereof given with his/her/their full knowledge shall be kept on record.

4. Terms and conditions and other caveats governing credit facilities given, arrived at after negotiating by the Bank and the borrower will be reduced in writing and duly certified by authorized official. Principal Officers of branches and document verifying authorities shall ensure that documents are complete in all respects.

5. The loan agreement should clearly stipulate that the credit facilities that are extended are solely at the discretion of the Bank. These will include approval or disallowance of facilities such as drawing beyond the sanctioned limits, honoring of cheques issued for purpose other than those specified agreed to in the credit sanction, and disallowing of drawing in a borrowal account on its classification as a non-performing asset or on account of non-compliance with the terms of sanction. We will also specifically state that the Bank 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.

6. In the case of lending under consortium arrangement, branches should complete appraisal of proposal in a time bound manner to the extent feasible, and communicate our decision on financing or otherwise within a period of eight weeks.

7. In the case of rejection of loan application, the main reason/reasons which, in the opinion of the bank have led to rejection of the applications should be conveyed in writing in the case of all categories of loans irrespective of any threshold limits

Disbursal and post disbursal supervision

1. Branches should ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction. Branches should give notice of any change in the terms and conditions including interest rates, service charges, etc and also ensure that changes in interest rate
19. 2. and charges are effected only prospectively.

2. Post disbursement supervision by branches should be constructive with a view to taking care of any “lender-related’ genuine difficulty that the borrower may face.

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

4. Branches should release all securities on receiving payment of loan immediately and in any case not later than one week subject to any legitimate right or lien for any other claim the Bank may have

against borrowers. If such right to set off is to be exercised, borrowers shall be given notice about the same with full particulars about the remaining claims and the documents under which bank is entitled to retain the securities till the relevant claim is settled/paid.

General

a) Branches should refrain from interference in the affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents, unless new information, not earlier disclosed by the borrower, comes to the notice of the bank.

b) Branches should not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not prelude bank from participating in credit-linked schemes framed specifically for weaker sections of the society.

20.

c) In the matter of recovery of loans, 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.

d) 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 should be conveyed within two weeks from the date of receipt of request.

e) The Bank has put in place the following mechanism for redressal of grievances. All disputes arising out of the decision of a bank's functionary shall be heard and disposed of at the next higher level.

   (i) All complaints received at Branch, Zonal Office, Circle Office or Head Office shall be given an interim acknowledgement.
   (ii) Complaints against the decisions of branches shall be enquired into by Zonal offices and appropriate steps to redress the grievances, if found legitimate, shall be initiated by ZOs and communicated to the complainant within a reasonable time.
   (iii) Complaints against the decisions of the Zonal Offices and Head Office shall be attended to by the respective Departments at HO within a reasonable time.
   (iv) All complaints received at Head Office shall, irrespective of whether it is against branch, ZO or HO shall be disposed of by the respective departments at HO, after ascertaining the views of the branch and ZO, if found necessary, within a reasonable period.

A consolidated review report of the compliance of the Fair Practice Code and the functioning of the grievances redressal mechanism at the various levels of controlling offices shall be submitted to the Board at half yearly intervals as on 31st December and 30th June by Planning Development Dept, which will function as nodal department.

RESTRICTED AND PROHIBITED INDUSTRIES/ACTIVITIES FOR LENDING

21. 1. **Restricted industries and activities**

Owing to the inherent risks involved, it has been decided that no additional exposure shall be assumed, in normal course, on account of the following industries/ activities, except in the manner stipulated in paragraph 16.1.3:

(i) Production/distribution of films/TV serials

(ii) Leasing and hire purchase activities run by individuals, partnership and Private Limited Companies.
(iii) Cinema Theaters
(iv) Mini cement plants
(v) Mini paper plants
(vi) Mini steel plants
(vii) Fertilizer plants
(viii) Manufacture and/or distribution of HDPE woven sacks
(ix) Manufacture and/or distribution of LPG gas cylinders/valves
(x) Sugar companies with capacity less than 10,000 tpa
(xi) Aqua culture and marine goods (excluding inland pisciculture) (However the facility shall be considered at Head Office level only.)

The above list is not exhaustive. The Board may make necessary additions or modifications to the same, as and when deemed necessary.

Additional exposure on the industries/ activities included in the restricted list from time to time shall be assumed only in exceptional cases, if so deemed worth, based on the other business relations with the applicant, alternate sources of cash flow enabling repayment in case of necessity, security coverage etc. Such exposure shall be sanctioned by Chief General Manager and higher level functionaries only, subject to lending powers otherwise vested on them.

21. 2. **Prohibited industries and activities**

This credit policy prohibits any exposure to the following categories:

(i) Loans and advances and bills discounting for speculative purposes;
(ii) Loans against commodities, possession / production thereof is prohibited by the law of the land;
(iii) Loans and advances against a company's shares to the promoters of such companies, during the lock in period beyond the norms of RBI/HO guidelines;
(iv) Purchase and discount of bills which are accommodative in nature;
(v) Loans and advances to industries producing/consuming Ozone Depleting Substances (ODS);
(vi) Loans and advances to industries where application for clearance from Pollution Control Board has been turned down or is under disputes/litigation;
(vii) Advances against deposits with other banks;
(viii) Loans against Certificate of Deposits (CDs);
(ix) Credit limits for import / export of conflict diamonds; and
(x) Other types of advances specifically prohibited by RBI or other regulators.

3. Lists of restricted and prohibited industries/ activities are subject to periodic review based on changes in rules and regulations, industry outlook etc. Such reviews will be undertaken by the Board and modifications, if deemed necessary, will be brought about.