CREDIT POLICY

I. Introduction

A) Andhra Pradesh Grameena Vikas Bank aims to accomplish pre-eminence in rural banking with commitment to excellence in customer satisfaction, profit maximization and continued emphasis on developmental banking through a skilled and dedicated work force, by providing training facilities and technological up-gradation. The Bank has set its mission for loaning as “providing timely and adequate credit to carefully selected borrowing community for carrying out lawful economic activities for common betterment”.

2. The Loan Policy of the Bank will be amended from time to time to withstand the test of time with in-built flexibilities and to meet the challenges in the market place. The policy exists and operates at both formal and informal levels. The formal policy is well documented in the form of circular instructions and periodic guidelines, where the procedural aspects are covered in detail.

3. The Policy, at a holistic level, is an embodiment of the Bank’s approach to sanctioning, managing, monitoring credit risk and aims at making the systems and controls effective. All branches, Regional offices and sanctioning authorities should be guided additionally by circular instructions and communications issued from time to time.

B) Basic Tenets of the Loan Policy

- It aims at spotting and seizing opportunities and revamping Bank’s products and delivery mechanism as well as innovating new products ahead of competition.
- The policy establishes a commonality of approach regarding credit basics, appraisal skills, documentation standards and awareness of Bank’s concerns and strategies, while leaving enough room for flexibility and innovation.
- Computerization, management information system based on a reliable database and development of faster communication as tools for better overall credit risk management are accorded due priority in the policy.
- Optimum exposure levels are set out in the policy in order to ensure growth of assets in a balanced and orderly manner.
- It provides for a comprehensive Credit Risk Assessment system.
- Bank’s general approach to priority sector advances and various advances is set out.
- This policy lays down norms for takeover of advances from other banks and Financial Institutions.
- Aims at continued growth of assets while endeavoring to ensure that these remain performing/standard.
- envisages an effective training system in all areas of 'Credit Management' which reflects the Bank’s commitment to upgrade skills of all members of staff on a continuous basis.

4. The Board of the Bank is the apex authority in formulating all matters of policy in the Bank. The power to make any amendment to the Loan Policy vests with the Board.

II. Exposure Levels

1. Loan Policy recognizes the need for measures aimed at better risk management and avoidance of concentration of credit risks. With this in view, limits have been prescribed for Bank's exposure to single borrower, group of borrowers, specific industry, sector etc. The exposure ceilings are fixed in relation to the Bank’s capital funds.

2. The primary guiding factors for fixing ceilings on exposures are the prudential norms prescribed by RBI, which currently stand at 15% of capital funds for single borrower and 40% of capital funds for a group.

3. RBI have advised that `exposure' for this purpose shall include funded and non- funded credit limits and investment exposure.

4. The sanctioned limits or outstanding whichever are higher, shall be reckoned for arriving at the credit exposure limit. Non-fund based exposures should also be reckoned at 100% of limits or outstanding whichever is higher. However, in respect of fully disbursed term loans, only outstanding is considered without any reference to the limit.

Exemptions from Prudential Exposure Ceilings:

i. Loans and advances both funded and non-funded facilities granted against the security of Bank's own term deposits will be excluded to the extent that the bank has a specific lien on such deposits.
ii. Exposures that are guaranteed by the Government of India (GoI)

The group to which a borrowing unit belongs will be decided based on relevant information available to the Bank; the guiding principle being commonality of management and effective control. In the case of a split in the group, if the split is formalized, the splitter groups will be regarded as separate groups. If the Bank has any doubt about the bonafide of the split, a reference will be made to RBI for a final view in the matter to preclude the possibility of a split being engineered to prevent coverage under the group approach.

While prudential guidelines for avoiding concentration serve as broad indicators, continuous evaluation of other elements such as market conditions, government policies, legal framework, economic indicators, stock market movements, etc., is made to assess transaction risk intrinsic to a group of borrowers, segment of industry as well as sectorial exposures to formulate short term exposure restrictions where considered necessary. The constitution of an entity is also a determining factor owing to varying levels of compliance requirements of legal, statutory, accounting standards etc., for arriving at exposure limits.

CIBIL: Bank has obtained membership in credit Information Bureau (India) Limited, which provides credit information and other value-added products. Bank shall access the credit information of individuals/firms who approached us for financing, to ascertain the details of loans if any availed by the applicant from other Financial Institutions its regularity of payment or otherwise, outstanding balance, credit and utilization etc. Basing on this Bank can take a view on the credit worthiness of the applicant**. However, where the applicant borrower is not having minimum required CIBIL Score, the branch may obtain permission from Head Office, to take up the loan proposal, in genuine cases, duly furnishing the reasons/merits of the case.**

III. Credit Appraisal

A) The Bank has put in place a well-established process of credit appraisal that has developed and evolved over a period. The fundamental purpose of credit appraisal in the Bank has been two fold. First to be able to take an informed decision as to the credit worthiness of any proposal i.e. whether it is prudent, worthwhile and desirable to take a credit exposure on the applicant entity. Thereafter, where a positive decision is arrived at in this regard, to be able to assess the extent and nature of such credit exposure, the conditions on which such exposures is acceptable and the pricing at which it is considered prudent to operationalize such a credit relationship.

2. A decision as to the credit worthiness of a proposal is arrived at after considering a combination of several factors including

- An assessment of the applicant, covering background and relevant experience in the area of the proposed entity;
- previous experience of the Bank with the promoters or their group.
- perceived prospects of the industry or activity proposed;
- already existing extent and quality of the exposure of the Bank to the industry or activity on the one hand and to the promoters/group on the other.
- Policy relating to exposure levels and norms prescribed by the regulators and by the Bank for the proposed activity or industry;
- The perceived financial strength and the risk rating of the promoters or the group;
- The extent and nature of credit risk mitigations proposed, etc.

3. Having decided that the proposal, as a reasonable and acceptable business risk, is a 'bankable' proposition, the next step involves assessing the nature and extent of the proposed exposure. The Bank provides a range of debt instruments (loan products) including all types of term and working capital facilities, each of which can be structured either as fund based products or non-fund based products or a combination

of both. It is the Bank's effort to combine these with a range of payment and collection platforms that are off the shelf or tailor made to meet individual requirements and seek to provide our customers with a complete solution to all their financial requirements.

B) **Assessment**

The assessment of working capital is done through the Projected Balance Sheet Method (PBS), Cash Budget Method or Turnover Method.

i) Under the PBS method, the fund requirement is computed based on borrower's projected balance sheet, the funds flow planned for the current or following year and examination of the profitability, financial parameters etc. The key determinants for the limit can inter alia, be the extent of financing support required by the borrower and the acceptability of the borrower's overall financial position including the projected level of liquidity. The projected bank borrowing thus arrived at, is termed as 'Assessed Bank Finance' (ABF). This method is applicable for borrowers who are engaged in manufacturing, services and trading activities and who require fund based Working Capital finance of above Rs.1.00 crore.

ii) Cash Budget Method is used for assessing Working Capital finance for seasonal industries like sugar and construction activity. This method is used for sanction of adhoc Working Capital limits. In these cases, the required finance is quantified from the projected cash flows but not from the projected values of current assets and current liabilities. Other assessment aspects of examination funds flow, profitability, and financial parameters etc., are also carried out.

iii) Under the **Turnover Method**, working capital requirement is computed at a minimum 25% of the projected sales, of which, at least four-fifth is provided by the Bank and balance one-fifth represents the borrowers' contribution towards margin for working capital. This method is applicable for sanction of fund based working capital limits of up to Rs.1.00 crore. Hence, this turnover method is more applicable for our Bank.

iv) **Term Loan**: In respect of term loans, the computation of cost estimates is scrutinized very carefully to ensure that the total project cost arrived at is accurate, comprehensive, reasonable and realistic. Then the proportion of debt and equity components i.e. the project debt/equity gearing, envisaged in the tie up for the means of financing of the project is examined to ascertain whether it is reasonable and acceptable. There is no standard project debt/equity (D/E) ratio that can be prescribed for any project. The stipulation of this ratio for a particular project will be based on a number of factors such as the nature and size of the project, location, capital intensity, gestation period, promoters' capacity, state of the capital markets, importance to the national economy, government policies, etc. Though there are no rigid norms for the project debt/equity ratios, however one of the deciding factors of the D/E ratio will be the debt servicing ability of the project. After taking into consideration the above-mentioned factors and the suitability of the various sources of finance with due regard to the financial leverage envisaged for the project, the term finance arrived at is validated and accepted.

The debt equity and promoters' component are the factors to decide the term loan amount.

C) **Quantitative Standards**

The basic quantitative parameters underpinning the Bank's credit appraisal and the levels that are desired are as under:

Sector parameters	Indicative levels
Current Ratio (min)	1.33
TOL / TNW (max)	3
Debt Equity Ratio (max)	2
Average gross DSCR (min	1.75
Interest coverage Ratio	2
Promoters contribution to project	25%

While these are indicative levels, there cannot be definitive benchmark, as acceptable levels are case specific, guided by the nature, size and scope of the project. The sanctioning authority will have the necessary discretion to permit deviations in this regard, based on the justification placed before it.

D) **Use of provisional and un-audited data:**

Provisional/un-audited data is made use of for taking credit decisions, in respect of existing borrowal accounts, where there is likely to be a delay in obtaining audited financial statements from them and the reasons adduced therefor are acceptable to the Bank. In respect of such cases, a review of the accounts is to be undertaken based on audited financial statements within a period of six months from the date of renewal/enhancement. In case where deviations on the negative side are observed as compared to un-audited data submitted earlier, the controllers, to whom the review is submitted, issue appropriate directions where considered necessary. Such directions normally include specifying additional covenants, placing restrictions on the drawings etc.

E) **Validity of sanction**

Particulars	Validity of sanction from the date of sanction
Term Loan	6 months
Working Capital	3 months

F) **Revalidation:** The validity of sanction of any facility normally will be three months from the date of sanction in case of working capital limits and six months from the date of sanction for term loans. In case of delay in availment of loan beyond the above period GM-III will be vested with powers to extend the validity of sanction on merits upto twelve months from the date of original sanction.

IV. Security Norms

a) **Primary Security**: Primary security for any advance is the assets proposed to be acquired out of Bank finance.

b) **Collateral security** is normally obtained as a risk mitigating measure and to sustain the promoter's interest in the venture. No collateral security is to be obtained for loans up to Rs.10 lacs in case of units of MSE sector, both manufacturing and services enterprises (except retail trade), subject to cover under Credit Guarantee Scheme of CGTMSE. For loans above Rs.10.00 lac and up to Rs.50 lacs, the HOCC-I/II may consider waiver of collateral security subject to compliance with certain conditions stipulated under MSME Policy and cover the loan under CGTMSE.

c) **In case of SME loans which are not covered under CGTMSE, the branches must obtain collateral security as usual, but the collateral security with value of 125% to 150% may be accepted for SME loans (instead of normal 200% collateral security for other loans).**

d) With regard to Agricultural Segment, the waiver of collateral security is generally permitted for crop loans up to Rs.1.00 lac by RBI. **However, if the limit is Rs.1.00 lakh and the outstanding is not exceeding Rs.1.50 lakhs, renewal can be done, without obtaining collateral security and by the same Sanctioning Authority or Branch Manager of the branch, in case the earlier sanctioning authority was the Field Officer, subject to renewed limit not exceeding Rs.1.50 lakhs.**

e) In other cases, with exception of specified categories like trade advances where obtention of collateral security is prescribed as a part of the scheme, obtention or waiver of collateral security is discretion to be exercised by the HOCC. While this decision needs to be taken on a case-to-case basis, efforts will generally be made to obtain the collateral security. While doing so, the following points will be kept in view:

- Viability of the project per se will be the paramount requirement and available collateral may be taken.

- A distinction may be made between new and existing connections while deciding/ insisting on collateral /additional collateral security.

f) Valuation of Security

The periodicity for valuation of the properties is once in 3 years. While sanctioning fresh advances as well as enhancements it shall be ensured that the valuation of land & buildings/other assets etc., offered as collateral security should be obtained afresh and this valuation will be done by bank's approved valuers.

V. BANK GUARANTEES

i) Bank as a rule, will limit itself to the provision of financial guarantees and exercise due caution regarding issuing of performance guarantees. BGs will generally be issued or renewed valid for a period not exceeding 18 months at any one instance. However, branches will consider issuing of Bank Guarantees for a period exceeding 18 months (but not exceeding 10 years) with the permission of next higher authority, in case of 100% cash margin. No BG should normally have a maturity of more than ten years. Bank may consider issuing BGs beyond maturity of 10 years against 100% cash margin and with prior approval of the Board.

ii) <u>Discretionary powers</u>

RUPEES IN LAKHS

Sl. No.	Particulars	Scale-I	Scale-II	Scale-III	Manager (Adv)	Scale-IV	ROCC	ROCC (Headed by AGM)	HOCC-II	HOCC-I
1	Against 100% cash margin	5	10	25	25	50	50	100	150	FULL
2	Against 50% cash margin (Remaining 50 % with collateral security having double the value)	NIL	NIL	10	10	25	50	100	150	FULL

iii) While sanctioning limits for BGs, factors such as the need for BG, whether the requirement is one time or on a regular basis, constituent's financial strength, past record, margin, etc. will be considered. Normally all BGs will be secured by a charge on the Fixed Deposits and/or fixed assets of the applicant.

iv) A bank guarantee is a contract between the beneficiary and the bank. Bank's liability under BG is absolute, independent and exclusive of any other contract entered with the constituent. Thus, the Bank is obliged to pay to the beneficiary without delay and demur the amount of BG on its invocation, in accordance with the terms and conditions of the guarantee deed. When the Bank receives an order of restraint or injunction from the appropriate court, the bank will withhold payment under the BG. In such cases, the liability of the bank will continue, till the court case is decided, notwithstanding a shorter period of validity as may have been stipulated in the relative guarantee itself. Bank would honor the guarantees issued as and when they are invoked in accordance with the terms and conditions of the guarantee deeds.

VI. Fair Lending Practices Code (FLPC):

a) The Bank would continuously attempt to introduce transparent and fair practices as envisaged by RBI, in respect of acknowledging loan applications, their quick processing, appraisal and sanction, stipulation of terms and conditions, post disbursement supervision, changes in terms and conditions, recovery efforts etc. The Bank has put in place a mechanism for redressal of grievances of borrowers. An annual review of the compliance with FLPC/functioning of the grievance redressal mechanism will be put up to the Board.

b) **Statutory, regulatory and other restrictions**: As per loan appraisal, the Bank will ensure compliance with the guidelines issued by RBI in the matter of statutory, regulatory and other restrictions.

c) **Credit facilities to directors / relatives of director of the bank**
No loans and advances aggregating Rs.25 lacs and above except loans and advances against Government securities, LIC Policies, Bank's term deposits, should be granted to:

i) Directors of the Bank including Chairman/Managing Director and other banks including scheduled co-op banks, subsidiaries, trustees of mutual funds and venture capital funds and or any of their relatives except any loan to an employee or officer of the Bank under any scheme applicable to staff.

ii) Any firm in which any of the directors or their relatives as mentioned in (a) above is interested as a partner or guarantor.

iii) Any company in which any of the directors as mentioned in (a) above holds substantial interest or is interested as a director or as a guarantor.

Decline of credit proposals: In the event of rejection of credit proposal of priority sector, authorization of the controlling authority to be obtained. However, in respect of loan proposals referred to Head Office, within the power of HOCC, the decision to decline the proposal is vested with the Chairman.

VII. Documentation Standards

A) The Bank has well established systems and procedures for documentation in respect of all credit facilities. These have been laid down keeping in view the ultimate objective of documentation which is to serve as primary evidence in any dispute between the Bank and the borrower and for enforcing the Bank's right to recover the loan amount together with interest thereon through a court of law or under SARFAESI, where all other recourses have failed. Accordingly, correctly compiled, executed and maintained documents ensure that the

- Owing the debt to the Bank by the borrower/guarantor is clearly established by the documents.
- Charge created on the borrower's assets as security for the debt is maintained and enforceable and
- Bank's right to enforce the recovery of the debt through the process of law is not allowed to become time-barred under the law of limitation.

Documentation is a continuous and ongoing process covering the entire duration of an advance comprising of the following stages:

B) **Pre-execution formalities**

These cover mainly searches at the office of the sub-Registrar of Assurances or Land Registry (besides search in CERSAI portal) to check the existence or otherwise of prior charge over the immovable property offered as security, etc., as also taking other necessary precautions before creating equitable / registered mortgage, including obtention of the legal opinion as to the clear, absolute and marketable title to the property based upon the genuineness, completeness and adequacy of the title deeds provided.

C) **Execution of Documents:**

This covers obtention of proper documents, appropriate stamping and correct execution and recording thereof as per laid down instructions and as per terms of sanction of the advance. This also ensures compliance with requirements, if any, of corporate borrowers contained in the Memorandum and Articles of Association, Relevant resolution of the Board, etc., A copy of the loan agreement along with its all enclosures will be delivered to the borrower(s) at the time of sanction/disbursal of loans and acknowledgment of receipt thereof be obtained.

D) **Post-execution formalities:**

This phase covers the completion of formalities in respect of mortgages, if any, registration with the Registrar of Assurances, wherever applicable and the registration of charges with the Registrar of Companies, within the stipulated period, etc. All mortgages will be registered, on an ongoing basis, with the Central Electronic Registry under the securitization and Reconstruction of Financial Assets and enforcement of Security Interest Act, 2002 (CERSAI).

E) **Protection from Limitation and Safeguarding Securities**

These measures aim at preventing documents from getting time-barred through limitation and at protecting the securities charged to the Bank from being diluted by any subsequent charge that might be created by the borrower to secure his other debts, if any. These objectives are sought to be achieved by:

a. Revival letter being obtained within the stipulated period from borrower/guarantor
b. Obtention of Balance Confirmation from the borrower/guarantor at least at annual intervals
c. Making periodical searches at the Office of the Registrar of Assurances/ Office of the Registrar of Companies.
d. Insurance of Assets charged to ensure the Bank against the risk of fire, other hazards, etc.
e. Carrying out Periodical valuation of securities charged to the Bank.
f. **Missing documents, if not traced for two consecutive inspection audits, will have to be ascertained as to whether there is any fraud.**

Keeping the above broad objectives and the documentation process in view, the Bank has devised standard documents in most cases for several types of loans given to the borrowers. Wherever standard specimens have not been evolved, these are suitably drafted on a case-by-case basis with the help of Law Officer(s) posted at Head Office. The changes in the documentation procedures and the implications involved will be advised through circulars from time to time to all the branches and offices so that those who are responsible for obtaining and safeguarding the documents are made fully conversant with requirements in this regard. This is further strengthened through on job training at the branches as well as at the Bank's own training center, besides other Bank’s training colleges/centres.

VIII. <u>Credit Monitoring and Supervision</u>
IX.

The Bank put in place an effective post-sanction process to facilitate efficient and effective credit management and to ensure a high percentage of Standard Assets. Broadly, the objectives of post sanction follow up; supervision and monitoring are as under:

a) Follow up functions

- Ensure the end-use of funds.
- Relating the account outstanding to the assets level on a continuous basis
- Co-relating the activity level to the projections made at the time of the sanction/renewal of the credit facilities.
- Detecting deviation from terms of sanction, if any.
- Making periodic assessment of the health of the advances by noting some of the key performance indicators such as profitability, activity level, and management of the unit and ensuring that the assets created are effectively utilized for productive purposes and are well maintained.
- Ensuring recovery of the installments of the principal in case of term loans as per the scheduled repayment programme and the interest as and when debited.
- Identifying early warning signals, if any, and initiate remedial measures thereby

averting incipient sickness.
- Ensure compliance with all internal and external reporting requirements for credit discipline.

b) Supervisory functions
- Ensuring effective follow up of advances to maintain good asset quality.
- Looking for early warning signals, identify 'incipient sickness' and initiate proactive remedial measures.

c) Monitoring functions
- Ensuring that effective supervision is maintained on loans and advances and appropriate responses are initiated wherever early warning signals are observed.
- Monitor on an ongoing basis the asset portfolio by tracking changes from time to time.
- Chalking out strategies and initiate specific action to ensure h igh percentage of 'Standard Assets'.

Detailed operational guidelines on the following aspects for effective credit monitoring are in place:
- Post-sanction responsibilities of different functionaries
- Reporting for control
- Security documents, Statement of stocks
- Computation of drawing power on eligible current assets and maintaining of DP register
- Verification of assets
- Inspection by branch functionaries - frequency, reporting, register etc.

X. Credit Risk Management

Credit risk management encompasses identification, assessment, measurement, monitoring and control of the credit exposures. The procedure adopted by the Bank in this regard is detailed here under:

a) Risk Identification and Assessment:
The Bank undertakes the following functions in the process of identifying and assessing the credit risk underlying a proposal:
- Developing and refining the credit risk assessment models currently used by the Bank.
- Conducting Market research, an integral part in assessing the risk associated with any loan proposal.

b) Credit Risk Assessment Process - Commercial advances:

Before a credit facility is sanctioned to a client, the risk level is measured, as per a Credit Risk Assessment (CRA) framework developed by Integrated Risk Management processes.
Now, the Bank is implementing the scoring models which are being adopted in our Sponsor Bank-State Bank of India, as advised by the SBI Corporate Centre, Mumbai, in respect of the

products: Housing loan, Car loan, Rent plus, Tractor loan and SME smart score.

The credit risk rating will be worked out by the respective Branch or the Credit Department at Head office as applicable.

The CRA (Credit Risk Assessment) Models adopted by the Bank will consider all possible factors which go into appraising the risk associated with a loan. These have been categorized broadly into financial, business & industry and management risk and these risks are rated separately. To arrive at the overall risk rating, the factors duly weighted are aggregated and calibrated as a single point indicator of risk associated with the credit decision. The rating thus arrived at is expressed on the scales of Borrower rating and Facility rating respectively.

A separate credit risk assessment format is being prepared by the Bank in case of SME loans of above Rupees One crore.

XI. Review/Renewal of Advances

a) Working capital facilities are normally sanctioned by the Bank for a period of one year and thereafter they are required to be renewed each year. Renewal of advances is to be accorded for the limit by the respective sanctioning authority. In cases where renewal is not possible for some reason, sanction for the continuance of the limits for a maximum period of 180 days is to be approved in each case by reviewing the facilities by the sanctioning authority.

b) **In case where term loans as well as working capital facilities have been sanctioned:** Term loans to be reviewed annually except irregular TLs which will be reviewed once in six months. However, reviews of term loans may be combined with review of working capital for a comprehensive assessment. Review should contain status of the unit, delay in completion and it should be put up to the sanctioning authority. In respect of new term loans, a review should be made after one year from the date of completion of project and commencement of production. In case of new and existing term loans, if they are rescheduled, the following set of financial covenants are to be stipulated:

i. Current Ratio
ii. TOL/TNW
iii. Interest Coverage Ratio
iv. Default in payment of interest or installment
v. Cross Default i.e. default in payment of installment or interest to other banks

Default of these covenants would attract penal interest of 1% as under:

a. Any adverse deviation by more than 20% from the stipulated levels in respect of any two of the items (i) to (iii) above - penal interest to be levied for the period of non-adherence subject to a minimum period of 1 year.
b. Default in payment of interest or installments to the Bank penal interest to be levied for the period of such defaults.

XII. Takeover of Advances

I) In the liberalized financial environment, it has become important for the Bank to aggressively market for superior quality advances. One of the strategies for increasing superior quality assets in the Bank's loan portfolio is to take over advances from other Banks/Financial Institutions. Keeping this in view and with the objective of adding only superior quality assets, a set of norms and guidelines for SME, 'P' segment and for agricultural segments have been laid down for takeover of advances.

A) Norms for takeover of advances under SME

a. The advances taken over should be rated as per Bank's stipulated credit rating system
b. The unit should score the minimum scores as prescribed, under the various risk segments, of Credit Risk Assessment.
c. The account should have been a standard asset in the books of the other bank or Financial Institution during the preceding 3 years. However, if a unit is not having a track record for 3 years, as it has been in existence for a shorter duration, takeover can be considered based on the track record for the available period, which should normally be for at least one year.
d. The unit should have earned net profits (post tax) in each of the immediately preceding 3 years. However, if the unit has been in existence for a lesser period, it should have earned net post tax profit in the preceding year of operation.
e. The Term Loan proposed to be taken-over should not have been rephased, generally, by the existing Financial Institution or Bank after commencement of commercial production.
f. When only Term Loans are taken over, the remaining period of scheduled repayment of the term loan should be at least 2 years. For takeover of existing Term Loans, while the original time frame for repayment will be generally adhered to, if sanction of fresh term loan is proposed along with the takeover, the schedule of repayment for the existing term loans, if necessary, may be permitted to extend up to 8 years.

B) Norms for takeover of advances under Agriculture segment:

In respect of Agriculture segment, all Agricultural Term loans and Agricultural Cash Credits with other banks and Agricultural Credit Societies, Co-operatives are eligible for takeover, subject to the fulfillment of the following terms and conditions

The minimum amount eligible for takeover would be as under:

i. ACC: Rs. 1.00 lac
ii. ATL: Rs.2.00 lacs
iii. Allied Agricultural Term Loans: Rs. 2.00 lacs

a. Only Standard Assets and regular accounts are eligible for take over. The account should have been a standard account in the books of the other banks and Financial Institution during the preceding 2 years.
b. Term loans of incomplete nature are not eligible for take over.
c. Only ATLs/AATLs with a minimum 2 year repayment programme left are eligible.
d. Crop loan converted to Term Loans and Term Loans, which are re-phased, are not

eligible for take over irrespective of their quantum.

e. No dilution in the security in takeover proposals is permitted.

f. The maximum amount eligible for takeover would be Rs.50.00 lacs. The administrative clearance should be obtained from next higher authority in case of take over.

C) Norms for takeover of 'P' segment advances: Takeover of housing loans and car loans is considered selectively after due diligence and precautions, in cases where possession of the house or flat has been taken, repayment of existing loan has already commenced and installments have been paid as per terms of sanction. Further, it will be ensured that there is no undue delay in construction/ completion of the project.

D) Norms for takeover of Advances under SHG segment: Where, those groups which are regular in thrift, maintaining records up-to-date, conducting meeting at regular intervals, functioning in a democratic way, group members are aware about group activities and participating actively in group meetings, internal lending are going on and rotation in leadership are eligible for take over.

i) Only Standard Assets and regular accounts are eligible for takeover. The account should have been a standard account in the books of the other banks/Financial Institution during the preceding 3 years.

ii) SHG falling outside the 'Service Area' of the branch are also permitted for takeover, subject to adherence of the other instructions.

iii) The SHG A/c should have prompt repayment track record without any restructure/reschedule i.e. Rephased SHG loans are not eligible for takeover.

iv) The maximum amount eligible for takeover would be Rs.5.00 lakhs.

v) The advances to be taken over should have minimum **critical rating score of 80.**

vi) The group should be in existence since last 3 years with good **track record.**

vii) In all cases of take-over of advances from other banks, the experience of the present banker should show satisfactory dealings with the group. Where, from the point of competition, it is not necessary to alert the bank concerned, the report may be obtained after the sanction of facilities but before release of the facilities.

viii) In all cases of take-over, branches should obtain MCP, to assess the requirements of the group members and obtain credit requirements by way of a resolution for the proposed limits before taking over the Outstanding liability of the group

The following aspects should invariably be examined in each case of take-over.

a) Reasons for take-over. b) Market perception including the existing banks/FI's perception regarding the Group and its management c)Takeover of loans from other banks/FIs should be on selective basis.

XIII. <u>Delegation of powers</u>

i) A carefully formulated scheme of Delegation of Powers comprehensively documented and amended from time to time is in operation in the Bank in respect of financial matters for exercise by the various functionaries. This is based on the premise that an executive is required to exercise only those powers which are related to the responsibilities and duties entrusted to.

ii) The Scheme of Delegation of Financial powers for advances and allied matters in the Bank has a graded authority structure. The Board of the bank has full powers for sanctioning all credit facilities. The sanctioning powers have been delegated down the line to Committees of officials at various administrative offices and individual line functionaries.

iii) Further, under the scheme of Delegation of Financial powers, if any individual having already two housing loans, now seeks for third loan, such loan proposal should be referred to Head Office for approval though the aggregate of present limits and proposed limit are well within the discretion of Branch Manager.

iv) An appropriate control system is also in operation in tune with the delegation structure. The exercise of powers, by various functionaries, is required to be reported to the next higher authority as laid down in the Scheme of Delegation of Financial Powers.

v) The scheme is constantly updated and reviewed to factor in the demands made on account of organizational restructuring, emerging challenges, forces of competition, etc.

XIV. Maturity of Bank's Advances

a) The maturity pattern of the Bank's deposits and other liabilities ideally determine the preferred maturity profile of its asset portfolio of which advances are a significant part. The maturities of different components on the Bank’s assets portfolio ideally are determined, based on the composition of its resources pool. Traditionally, the Bank’s resources have a pre-determined weight of time deposits maturing in 1 to 3 years and 3 to 5 years period. In addition, the bank has CASA funds and float funds through drafts and similar transit funds. Although all these funds are of varying maturity of 'On Demand Deposits' to 'long term maturities', due to liberal rules relating to pre-mature payments, most of the resources can be considered as 'On demand' type of resources. Quantum of credit is determined by reference to the asset base of the borrower.

b) The maturity of any term loan, including moratorium, should not normally exceed 8 years except in cases covered under rehabilitation packages, Housing Loans to individuals, Education loans and agricultural term loans under approved schemes. The tenor is to be reckoned from the day of first drawal.
c) Matching of varying maturity buckets in the Bank's asset and liability portfolios is done on an ongoing basis by the Bank's ALCO.

XV. Pricing, Interest Rates Factors and Charges Factors

a) Pricing in the Bank can be divided into interest pricing and non-Interest pricing.
b) The maximum spread which could be charged will be decided by the Bank from time to time. Within such ceiling, the pricing for various credit facilities, schemes, products, credit related services etc., would be determined by HOCC, as considered appropriate.
c) The policy on competitive pricing is reviewed from time to time based on changes in market conditions.
d) Market related service charges and a discretionary structure that enables branches to effectively face competition are in place. These are reviewed periodically based on feedback from operating units and on changes in market conditions.

XVI. NPA Management

a) The Bank has a separate Loan Recovery and NPA Management Policy which lays down the guidelines on management and recovery of NPAs and proactive initiatives to contain NPAs. The Policy lays stress on a system of early identification and reporting of all existing and potential problem loans as a first step towards management of NPAs. Such an "Early Alert System" which captures early warning signals is an integral part of the Bank's Risk Management process and is followed by time bound corrective actions.

b) In line with the RBI guidelines on preventing slippage of NPA accounts, Bank adopted a new asset category Special Mention Accounts (SMAs) by showing such accounts in IRAC-1, 2 and 3 in CBS, for internal monitoring and follow-up.

c) The first focus in management of SMAs will be possible up-gradation by recovery of overdue amount or through rephasement, restructuring or rehabilitation of borrower's business in deserving cases if the branch level review indicates that the problems of the unit are not temporary, viability studies need to be undertaken on a case to case basis. Viability of the unit and the borrowers' interest and stake are the basic pre-requisites for the Bank to undertake restructuring or rehabilitation.
   The separate set of guidelines issued by RBI, would be excluded from the purview of the above requirement.

d) Viable units, where promoter shows genuine interest in reviving the unit will continue to be supported. In other cases, options to exit or reducing exposure will be explored. The following are some of the options which are to be considered in potential NPAs and SMAs where viability is suspect.

a. Avoid enhancements and additional facilities. Deviations should be highly selective and on very strong grounds.
b. Reduce exposure levels in a phased manner without affecting the unit's day to day operations.
c. Explore tightening of conditions such as close monitoring of unit's cash flows, increased margins, withdrawal of concessions, scaling up of collateral etc. for safeguarding the Bank's interests.
d. Negotiated settlements through compromises.
e. Calling up of the advance and initiation of legal action including action under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
f. Filing of criminal cases against borrowers in case of mis-utilisation especially in Government Sponsored cases, with the permission from Regional Office**.**

g) Settlements through compromises will be a negotiated settlement under which Bank will endeavor to recover its dues to the maximum extent possible. Detailed guidelines for compromise settlements are part of the NPA Management Policy.
In a compromise i.e. onetime settlement of dues, as Bank agrees to accept an amount less than the total amount due to the Bank under the relative loan contract in full and final settlement of dues as a general policy, it will tantamount to cessation of lender-borrower relationship with the borrowing unit, its promoters and guarantors. Ordinarily, no fresh finance will be granted to the existing unit or any new unit being promoted by the same borrowers and guarantors. However, exceptions may be made in respect of settlements under various One Time Settlement Schemes of RBI and similar Schemes of the Bank for which separate guidelines are in place. The Bank may also extend fresh finance, enhancement, renewal of credit limits to a unit where the Bank has entered a compromise with the unit/another unit of the same borrower and guarantor.

h) The Bank would follow a policy of expeditious write off, including partial write offs, subject to review from time to time based on experience gained. Detailed operative guidelines are in place. The policy of write off is not expected to dilute in any way the follow-up of recovery process. Written off accounts are to be parked in AUCA in accordance with laid down instructions. The structured mechanism prescribed for follow-up of accounts parked in AUCA will be meticulously followed.

i) Removal of AUCA Accounts:

a) When AUCA accounts are considered under compromise proposal and partial amount is received by way of compromise, the residual amount in AUCA may be reversed.

b) Where the continuation of AUCA is not going to serve any purpose, such accounts may be reversed with the approval of Board.

c) In respect of AUCA accounts, in which details of individual accounts are not traceable and a consolidated amount is held in AUCA, at the time of migration to CBS, the amount may be reversed.

XVII. Deviations

A) Deviations from the Bank's Loan Policy have been classified as 'major' and 'minor' based on:

- Criticality of the norms from asset quality angle
- General compliance levels
- Need for flexibility

Proposals with major deviations from the Bank's laid down policies would be required to be sanctioned by a higher authority recording the reasons for deviation, as given below:

S. No	**Deviation**	Approving Authority
1	Sanction of new or enhanced limits to units having CRA rating below as specified in the Bank's Loan Policy	HOCC-I
2	Deviations in concession of charges a) Up to 50%	HOCC-II
3	b) Above 50%	HOCC-I
4	Deviations in interest rate concession a) Up to 0.75 %	HOCC-II
5	b) Above 0.75 % and up to 1.50%	HOCC-I
6	Age relaxation for sanction of loans	HOCC-II
7	Term Loans having maturity period above 8 years and not exceeding 15 years (other than personal segment loans)	HOCC-I
8	Deviations on account of minimum CRA scores relating to Financial, Business, Industry and Management parameters	HOCC-I
9	Increased quantum of loan more than ceiling of Scheme Specific or Loan Policy Guidelines	HOCC-I
10	Reckoning of eligibility based on gross monthly emoluments	HOCC-I
11	Dilution of security relaxation from the Scheme Specific Guidelines	HOCC-I
12	Fixing of repayment period beyond the stipulated ceiling of loan policy or Scheme Specific Guidelines	HOCC-I

B) The proposals for approval of deviations in the scheme specific guidelines are to be submitted to the competent authority. However, the limits will have to be sanctioned by the authority under whose powers the proposal falls.

C) **Minor Deviations:** Deviations not specifically mentioned above are considered as minor. Such minor deviations may continue to be permitted selectively by the sanctioning authority.

XVIII. ADVANCES TO PRIORITY SECTOR

According to the benchmarks laid down by the RBI, 75% of the total outstanding should be extended to the priority sector, of which sub limits: 18% to agriculture, 8% to small and marginal farmers, 7.5% to Micro enterprises and 15% to the weaker sections, by implementing all the schemes announced/sponsored by Central Govt./ State Govt. from time to time.

The Bank will also focus on financing retail traders, small business, professionals & self-employed persons and small Road and transport operators falling under priority sector under SBF segment as per the existing scheme and any approved new schemes.

XIX. Advances to MSME segment

The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act, 2006) has brought about changes in the classification of enterprises. Investment in plant, machinery and equipment denotes the original cost excluding land and building and the items specified by the Ministry of Micro, Small and Medium Enterprises. The revised classification is as follows.

i) Manufacturing Enterprises:

a. Micro Enterprises: where the investment in plant and machinery does not exceed Rs.25 lakhs
b. Small Enterprise: : where the investment in plant and machinery is more than Rs.25 lakhs but does not exceed Rs.5 crores
c. Medium Enterprises: where the investment in plant and machinery is more than Rs.5 crores but does not exceed Rs.10 crores for.

ii) Service Enterprises:

a. Micro Enterprise: where the investment in equipment does not exceed Rs.10 lakhs
b. Small Enterprise: where the investment in equipment is more than Rs.10 lakhs but does not exceed Rs.2 crores.
c. Medium Enterprise: where the investment in equipment is more than Rs.2 crores but does not exceed Rs.5 crores

SMEs, sub-segment of MSME, are a very attractive segment for the Bank given in large number, loyalty and potential for profitability. The primary needs of SMEs are physical proximity, timely credit availability, service and reliability, although different sub-

segments have different priority needs leading to differences in profitability drivers.
With a view to increase Bank's market share in the SME segment, by improving sales, marketing strategies, to meet the demand of customers for more sophisticated services at competitive prices, to increase customer base, more particularly in the higher end segment the various initiatives that have been taken up by the Bank towards realization of its objective are:

a. Building of strong credit systems and processes,
b. Minimizing of servicing cost through improved operations leveraging the technology
c. Continuous product rationalization and simplification of appraisal, documentation process.

The Bank will continue to give thrust to financing SME sector is crucial to the growth and development of the economy. The Bank will endeavor to continue to support the MSME sector and achieve the benchmarks set regarding priority sector lending.

XX. Advances to services sector

Since the Indian economy integrated with the global economic order, the share of the services sector to the GDP and its contribution to future growth is outpacing with that of the industrial and primary sectors. This sector may constitute the most significant sub-segment and can be divided into different sectors viz:

Communication, Business Services, including Professional and Computer Educational,
Environmental, Financial Services like Insurance and Banking, Tourism and travel,
Recreation and culture, Transport,
constructional and Engineering,
Personal, Community and Social,
Miscellaneous and others

All the above service segments offer significant potential for Bank finance. Bank has been innovating new marketing and product strategies so as to realize the potential offered by this sector.

XXI. Advances to Rural Sector

The bank has been playing a lead role in agricultural banking with changing demographics and lifestyles in rural India, a strong need for providing comprehensive financial services encompassing savings, credit, remittance, insurance and pension products to the rural populace, has been felt by the Bank.

j) Agriculture: The credit policy and procedures for agricultural segment are by and large determined by RBI and NABARD and the SLBC. The policies and procedures substantially differ from those of other segments. Lending to this sector is characterized by the twin features of Service Area Approach and Scales of Finance. Service Area Approach is now applicable to Government Sponsor Schemes only. The bank shall leverage on this relaxation for new lending and for takeover of quality assets from other Banks or Financial Institutions. The Bank has put in place separate guidelines for takeover of agricultural advances.

The scale of finance for crop loans is worked out by the Technical Committee, for various crops grown locally. Such scale of finance is uniformly adopted by the bank with a view to improve the flow of credit to the agricultural borrowers and meet their credit requirements adequately.

The Bank's branches support agriculturists involved in a wide range of agricultural activities such as crop production, horticulture, plantation crops, floriculture, farm mechanization, land development and reclamation, digging of wells, tube wells, irrigation projects, construction of storage godowns. The Bank also supports activities such as dairy, fisheries, livestock, rearing of silk worms, poultry, piggery etc.

ii) Micro Credit: Of late, micro credit has evolved as an economic development approach for the benefit of low income men and women in the society. The term refers to extension of financial services to the low income groups including those who are self-employed. These services include savings, credit, skill up-gradation, etc.

iii) Financial inclusion: Despite commendable expansion of branch network by commercial banks in rural areas and their concerted efforts to reach out to the rural populace, large sections of the rural population still remain outside the coverage of the formal banking system. Therefore, recognizing the need for the emerging opportunities in financial inclusion, Bank has been channelizing its focus and efforts towards provision of affordable financial services to those who are excluded from the formal financial system. In realizing this objective, Bank has been leveraging on alternative delivery channels such as engaging business facilitators or correspondents and through wider application of technology.

XXII. <u>Advances to personal segment</u>

a) While opportunities for lending to non-corporates, Trade and Services Sector are considerable, the growth opportunities are even more in Personal Banking. Andhra Pradesh Grameena Vikas Bank has the brand name in Rural Banking, extensive distribution system, large customer base and improving technology utilization to tap the growth potential in this sector.

b) The loans and advances under personal segment have several distinct features as compared to loans to other segments. The assessment is primarily based on the repayment capacity of the borrower and unlike in other segments, only the present verifiable income of the borrower is reckoned.

c) The Delegation of Financial Powers are different under each scheme and the discretions are fixed from time to time based on various factors by the appropriate authority.

d) The pricing could be on floating rate basis and to an extent market determined. The spread may vary depending on the Scheme, tenor and amount. Further the spread would be higher in the case of clean loans which carry higher risks due to relative liquidity of security. Some flexibility in pricing is provided for loaning under tie-ups with corporates and institutions and on a case to case basis.

e) While the maturity of term loans is not to normally exceed 8 years, in respect of housing finance to individuals, the repayment period is now permitted up to 30 years. **Further, the Bank is preparing a scheme for providing mortgage loan to the housing loan borrowers duly obtaining second charge on the house, where the borrower is having sufficient income.** In respect of educational loans, the loan is normally repayable in 5 years after commencement of repayment. As the repayment would commence after a moratorium, covering course period plus 1 year or 6 months after getting employment, whichever is earlier, the total tenor of educational loans may extend beyond 8 years in most of the cases.