- Rating is applicable to all fund and non fund based facilities of the borrower. The risk weighting would vary based on the individual facility's credit rating.
- For assets in the bank's portfolio that have contractual maturity less than or equal to one year, short term ratings accorded by the credit rating agencies would be relevant. For othet assets with a contractual maturity of more than one year, long term ratings would be relevant.
- Cash credit exposures would require a long term facility rating.
- In case one or more exposures of a borrower is rated, the rating can be mapped to another exposure of the same borrower provided the unrated claim has a lesser maturity and is senior to the rated claim. However, unrated short term claims would carry risk weight at one level higher than their rated counterpart.
- Banks can reduce risk weights of those claims which have credit risk mitigants. Eligible mitigants include cash collaterals, Gold, Central or State Govt securities, liquid debt securities having investment grade rating, listed equities and mutual funds, etc.

For further information, kindly refer to the RBI guidelines on the above

12. Has CARE tied up with any Bank for Basel for Basel II ratings?

CARE has entered into Memorandum of Understanding (MoU) with many Scheduled Commercial Banks in India for Basel II ratings. The MoU inter-alia envisages concessional rates of rating fee for the borrowers of these banks.

13. Whom do I contact for obtaining a rating from CARE?

CARE is headquartered in Mumbai, with offices all over India. The office addresses and contact numbers are mentioned on the back cover.

Credit Analysis & Research Ltd. (CARE Ratings), is a premier credit rating, research and information services company promoted in 1993 by major banks / financial institutions in India. It has emerged as a credible agency for covering many rating segments like that for banks, sub-sovereigns and IPO gradings. CARE Ratings provides the entire spectrum of credit rating that helps corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices. With independent and unbiased credit rating opinions forming the core of its business model, CARE Ratings has the unique advantage in the form an External Rating Committee to decide on the ratings. Eminent and experienced professionals constitute CARE's Rating Committee. CARE Ratings has been granted registration by Securities and Exchange Board of India (SEBI). It is recognized by RBI as External Credit Assessment Institution (ECAI). CARE Ratings is complaint with the Code of Conduct of the International Organization of Securities Commissions (IOSCO) and Association of Credit Rating Agencies, Asia (ACRAA).

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Professional Risk Opinion

Implications of BASEL II on Corporate Borrowers

FAQs on BASEL II and Implications for a CORPORATE BORROWER

1. What is Basel II and what are the main provisions of Basel II (from the view point of a corporate borrower)?

Basel II is a new capital adequacy framework applicable to Scheduled Commercial Banks in India as mandated by Reserve Bank of India (RBI). 'Basel Capital Accord' is in respect of Capital measurement and Capital Standards which align regulatory capital requirements more closely with underlying risks. The Accord has been accepted by over 100 countries including India.

'Capital Adequacy' is the ratio of capital funds to risk weighted assets.

Under Basel II, while the minimum CAR is unchanged at 9%, the risk weights assigned to assets would be proportionate to the credit risk of these assets. As of March 31, 2009, all Indian Banks were to adopt Basel II. Within Basel II, various approaches have been prescribed and Indian Banks would have to adopt 'standardized approach' for credit risk.

Under this standardized approach, credit ratings awarded by recognized agencies (such as CARE) would be used to assign risk weights (and be a proxy of credit risk). RBI had come out with its final guidelines in this regard, in April 2007.

2. When does Basel II come into effect?

Foreign banks operating in India and Indian banks having operational presence outside India were to migrate to Basel II with effect from March 31, 2008. All other commercial banks (except Local Area Banks and Regional Rural Banks) were to migrate by not later than March 31, 2009.

3. What is CARE's role in Basel II?

CARE is one of the agencies recognized under Basel II. Accordingly, CARE Ratings would entail risk weights to be applied on bank exposures as per the table given in point no. 4.

4. What are CARE's rating symbols for Bank Facilities Ratings?

A) Long / Medium-term facilities (NCD/FD/SO/CPS/RPS)

Symbols	Rating Definition
CARE AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.
CARE AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
CARE A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.
CARE BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.
CARE BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.
CARE B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.
CARE C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations.
CARE D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus)/"-"(minus)}can be used with the rating symbols for the categories CAREAA to CARE C. The modifiers reflect the comparative standing within the category.

B) Short term instruments

CARE A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.
CARE A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations. Such instruments carry low credit risk.
CARE A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations. Such instruments carry very high credit risk and are susceptible to default.
CARE D	Instruments with this rating are in default or expected to be in default on maturity.

Modifier {"+" (plus)}can be used with the rating symbols for the categories CARE A1 to CARE A4. The modifier reflects the comparative standing within the category.

5. What would be the risk weights applicable to various ratings of CARE?

Long Term Ratings

CARE Rating	AAA	AA+,AA and AA-	A+, A and A-	BBB+, BBB and BBB-	BB+ and below
Risk Weight (%)	20	30	50	100	150

Short Term Ratings

CARE Rating	A1+	A1	A2+ and A2	A3+ and A3	A4 and D
Risk Weight (%)	20	30	50	100	150

For example, If the entire loan assets (say Rs.100 crore) of a Bank were to carry a 'AAA' rating, the risk weighted assets would be Rs.20 crore and the required capital to achieve the minimum CAR of 9% would be only Rs. 1.8 crore instead of Rs.9 crore as per Basel 1 guidelines which prescribes uniform 100% risk weight for all assets of Rs.100 crore. In effect, the Bank would achieve a 'capital relief of Rs.7.2 crore in case it gets its exposure rated.

6. How much time does CARE take to assign ratings?

The rating process takes about three weeks after submission of initial information. The time taken critically depends on speed of information flow from clients.

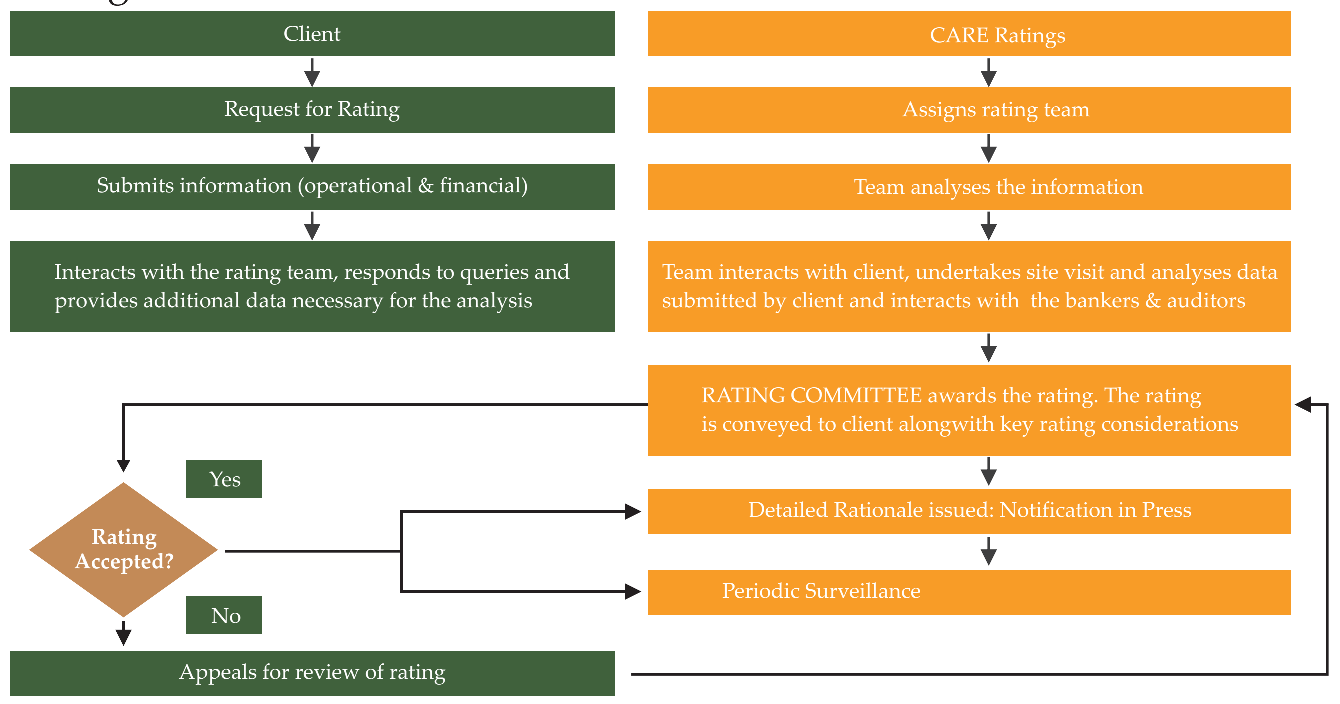
7. What type of facilities which would be rated by CARE?

CARE would rate all types of fund and non fund based facilities sanctioned by Banks. This would include cash credit, working capital demand loans, Letters of credit, Bank guarantees, Bill discounting, Project Loans, loans for general corporate purposes etc., to name a few.

8. What is the rating process followed by CARE?

The rating process commences with the request for rating received from the client. The rating process is pictorially given in **Rating Process Chart.**

Rating Process



The client has the right to accept or not accept every rating assigned by CARE. Only accepted ratings are kept under surveillance and made known in the public domain.

Only ratings which are accepted by the clients, kept under surveillance and published in the periodic bulletins of a Rating Agency are eligible to be risk weighted under Basel II. Further, the ratings so awarded should have been reviewed in the past 15 months for Banks to take cognizance of the rating for risk weighting. CARE Ratings are regularly disseminated to the media by way of press releases, a bi-monthly Rating Reckoner and daily updates in its **website www.careratings.com**

9. What are the rating methodology adopted by CARE?

For detailed rating methodologies for various sectors please visit www.careratings.com

10. What are the advantages for a bank for getting its loans rated and as a bank borrower, what can I expect from banks in return for getting my loans rated?

As said earlier, banks earn capital relief by getting the exposures rated, provided the ratings obtained are Triple B and above. There are two implications of this:

a) Banks save cost of borrowing an equivalent capital from the market.

b) Banks can leverage this additional capital they get (out of having the portfolio rated) and earn margins on such lending. Theoretically, this is an infinite process - as banks can further leverage on the margins earned and earn further margins and so on.

11. What are the other relevant provisions of Basel II?

- Only solicited ratings are allowed to be risk weighted. That is, ratings have to be sought by the client (bank's borrower). For getting a rating from CARE, the client is required to sign a 'Rating Agreement' which inter-alia, binds the client to give periodic information in order to enable CARE keep the rating current.
- To be eligible for risk weighting purposes, the rating should be in force and confirmed from the monthly bulletin of the rating agency. The rating agency should have reviewed the rating at least once during the previous 15 months.