



Bandhan
Bank

**STRESSED
ASSET MANAGEMENT
&
RECOVERY POLICY (SAMRP)**

CONTROL INFORMATION

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| Reviewed by | Credit Risk Management Committee Risk Management Committee of Board |
| Approved by | Board of Directors |
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1. Introduction:

The introduction of Income Recognition and Asset Classification (IRAC) norms by Reserve Bank of India has enabled objective categorization of asset quality of banks. Transparency in disclosing asset quality has benefited many stake holders e.g. shareholders, depositors, regulators. It has also drawn attention of management of banks to the paramount emphasis to be given on monitoring asset quality on ongoing basis. IRAC has also moved banking sector to a healthier platform and strengthened the banking industry in meeting challenges posed by changing situations, environment, national and international competition. Reserve Bank of India guidelines provides that all assets classified as other than 'Standard' are to be termed either as 'Special Mentioned Accounts' (SMAs) or 'Non Performing Assets' (NPAs). Slippage from 'Standard/SMAs' to 'Non Performing' has a double adverse impact. The first is that banks can't recognize income on such accounts. The second is that banks are required to make provisions on such accounts depending upon the period elapsed since its classification as 'NPA' and the security available. In order to address this segment of advances portfolio in a systematic manner and provide clear guidelines to operational personnel to contain, monitor, regularise, recover such advances, a comprehensive policy document touching upon all the nuances of stressed assets is required to be in place. This document which has been prepared in conformity with regulatory guidelines and prevalent industry practices, shall be named as 'Stressed Assets Management & Recovery Policy' and with the approval the Board, this Policy shall be in force with immediate effect. The policy is in compliance with the provisions of IRAC norms laid down by RBI Circular bearing no. RBI/2015-6/101 DBR.No.BP.BC.2/21.04.048/2015-16 dated 01.07.2015.

2. Objectives & Scope:

- To manage the delinquent assets, preventing slippages to NPAs and accelerate recoveries.
- To take a pro-active approach in finding solutions in chronic cases which could involve restructuring of loans if intent of borrower is positive and viability of project is established or enforcement of securities. Compromise solutions would be encouraged in certain situations, though the Bank's endeavor would remain recovery of 100% principal and interest dues when possible.

- To update system of identification and reporting of accounts showing signs of slippage to 'NPA' category.
- To provide directions to contain slippage to NPA category.
- Review the Loan classification, provisioning and Write-off Policy dated 26th April 2017.

3. Classification of Stressed Assets:

The stressed assets of a bank may be classified into the following four main categories:

- 1) The Special Mention Accounts (SMAs)
- 2) The Non-Performing Assets (NPAs)
- 3) Restructured Assets
- 4) Prudential Written-Off Accounts

3.1 Special Mention Accounts (SMAs)

Subject of non-performing assets has been drawing the attention of RBI in the adverse economic scenario being faced by corporates and businesses. Accordingly, in January 2014, the central bank issued a framework for revitalizing distressed assets in the economy which outlined incentives for early detection of problem cases, timely restructuring for viable accounts and prompt recoveries and sale of unviable accounts. Further, RBI vide circular reference RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019 has issued revised framework to substitute the existing guidelines with a harmonised and simplified generic framework for resolution of stressed assets. It also introduced concept of Special Mention Accounts (SMAs) and required the Bank to categorize accounts as SMA as follows:

| SMA Sub-categories | Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between |
|---------------------------|--|
| SMA-0 | 1-30 days |
| SMA-1 | 31-60 days |
| SMA-2 | 61-90 days |

For revolving facilities like Cash Credit/ Overdraft, default would mean, if the outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for more than 30 days.

The Regulator has also set up a Central Repository of Information on Large Credits (CRILC). The Bank is required to report credit information, including classification of an account as SMA to CRILC on all their borrowers having aggregate fund-based and non-fund based limits Rs. 5.00 Crores and above with them.

3.2 Non-Performing Assets:

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank

A loan asset should be classified as Non-performing if:

- I. Interest and / or installments of principal remain overdue for a period of more than 90 days in respect of Term Loan.
- II. The bill remains overdue for a period of more than 90 days in the case of bills purchased / Bills Discounted.
- III. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- IV. The installment of principal or interest thereon remains overdue for one crop seasons for long duration crops.
- V. In respect of Overdraft/ Cash Credit accounts, if they remains "Out of Order" as indicated below,

Cash credit/ Overdraft account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power. In case where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credit continuously for 90 days as on the date of balance sheet or credits are not enough to cover interest debited during the same period, these accounts should be treated as 'out of order'. Accounts remaining out of order continuously for 90 days should be classified as Sub-Standard.

- VI. In case Bank Guarantees (B.G.) / Letter of Credit (L.C) devolve on the Bank, the account be treated as NPA after 90 days from the date of payment of the amount if the amount is not reimbursed by the customer.
- VII. Bank should ensure that drawings in working capital accounts are covered by adequacy of current assets, since current assets are first appropriated in times

of distress. Drawing power is required to be arrived at based on the stock statement which is current (after factoring for old/obsolete/perishable stocks). However, considering the difficulties of large borrowers, stock statements relied upon by the Bank for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular. A working capital borrower account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

- VIII. Regular / ad-hoc credit limits need to be reviewed / regularized not later than three months from the due date/ date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrower, should furnish evidence to show that renewal / review of credit limits as already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed / renewed within 180 days from the due date / date of ad hoc sanction will be treated as NPA.

Overdue: Any amount due to the Bank under any credit facility is 'overdue', if is not paid on the due date fixed by the Bank.

3.2.1 SUB STANDARD:

A substandard asset would be one, which has remained NPA for a period less than or equal to 12 months.

3.2.2 DOUBTFUL ASSETS

Doubtful - I

The NPAs after completion of 12 months in Sub-standard category will slip to Doubtful -I category.

3.2.3 Doubtful - II

The NPAs after completion of 24 months from date of NPA category will slip to Doubtful-II category.

3.2.4 Doubtful-III

The NPAs after completion of 48 months from date of NPA category will slip to Doubtful-III category.

3.2.5 LOSS ASSETS

A loss asset is one where loss has been identified by the Bank or internal or external Auditors or the RBI inspection, but the amount has not been written off. In other words, said asset is considered as unrealisable that its continuance as a bankable asset is not warranted, though there may be some salvage or recovery value. There should be a provision of 100% for loss assets.

Asset Classification is borrower wise. Where several facilities have been granted to a borrower, even if one of the facilities is required to be classified as NPA, all the facilities granted to the borrower in the same capacity would also be classified as NPA, even if few of them may be in order. Classification of account as NPA is irrespective of the security available. However, advances against term deposits, National Savings Certificates, Indira Vikas Patras, Kissan Vikas Patras and life policies need not be treated as NPAs provided margin is available. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

3.2.6 - Projects under implementation

3.2.6.1 NPA and Restructuring norms for Projects under Implementation

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delayed in Govt. approval etc. All these factors, which are beyond the control of promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by Bank. Accordingly, the following assets classification norms would apply to the project loans before commencement of commercial operations. These guidelines will, however, not be applicable to restructuring of advances covered under advances classified as Commercial Real Estate exposures, Capital Market exposure, and consumer & personal advances which will continue to be dealt with the term of the extent provisions.

3.2.6.2 Project Loans

For this purpose, all project loans have been divided into the following two categories:

- a. Project Loans for infrastructure sector
- b. Project Loans for non-infrastructure sector

For the purpose of these guidelines, 'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Further, Infrastructure Sector is a sector as defined in extant Harmonised Master List of Infrastructure of RBI.

A loan for project financing will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset'.

Bank should maintain provisions on such accounts as long as these are classified as standard assets as para “ **13. Provisioning**”

3.2.6.3 Deferment of DCCO

i) Deferment of DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

(a) The revised DCCO falls within the period of two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects (including commercial real estate projects) respectively; and

(b) All other terms and conditions of the loan remain unchanged. As such project loans will be treated as standard assets in all respects, they will attract standard asset provision of 0.40 per cent.

ii) Bank may restructure project loans, by way of revision of DCCO beyond the time limits quoted at paragraph (i) (a) above and retain the 'standard' asset classification, if

the fresh DCCO is fixed within the following limits, and the account continues to be serviced as per the restructured terms:

(a) Infrastructure Projects involving court cases up to another two years (beyond the two year period quoted at paragraph 1(a) above, i.e., total extension of four years), in case the reason for extension of DCCO is arbitration proceedings or a court case.

(b) Infrastructure Projects delayed for other reasons beyond the control of promoters up to another one year (beyond the two year period quoted at paragraph 1(a) above, i.e., total extension of three years), in case the reason for extension of DCCO is beyond the control of promoters (other than court cases).

(c) Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures) up to another one year (beyond the one year period quoted at paragraph 1(a) above, i.e., total extension of two years).

iii) The asset classification benefits provided at paragraph 3.2.6.3 (ii) are not applicable to commercial real estate sector.

iv). It is re-iterated that a loan for a project may be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue). It is further re-iterated that the dispensation at paragraph 3.2.6.3 (ii) is subject to the condition that the application for restructuring should be received before the expiry of period mentioned at paragraph 3.2.6.3 (i) (a) above and when the account is still standard as per record of recovery. The other conditions applicable would be:

- a. In cases where there is moratorium for payment of interest, Bank should not book income on accrual basis beyond two years and one year from the original DCCO for infrastructure and non-infrastructure projects respectively, considering the high risk involved in such restructured accounts.
- b. Bank should maintain provisions on such accounts as mentioned in para 13.2 under "Project Loan" as long as these are classified as standard assets in addition to provision for diminution in fair value due to extension of DCCO:

(v) In case of infrastructure projects under implementation, where Appointed Date (as defined in the concession agreement) is shifted due to the inability of the Concession

Authority to comply with the requisite conditions, change in date of commencement of commercial operations (DCCO) need not be treated as 'restructuring', subject to following conditions:

- a. The project is an infrastructure project under public private partnership model awarded by a public authority;
- b. The loan disbursement is yet to begin;
- c. The revised date of commencement of commercial operations is documented by way of a supplementary agreement between the borrower and lender and;
- d. Project viability has been reassessed and sanction from appropriate authority has been obtained at the time of supplementary agreement.

3.2.6.4 Projects under Implementation – Change in Ownership

i. In order to facilitate revival of the projects stalled primarily due to inadequacies of the current promoters, if a change in ownership takes place any time during the periods quoted in paragraphs 3.2.6.3 above or before the original DCCO, Bank may permit extension of the DCCO of the project up to two years in addition to the periods quoted at paragraph 3.2.6.3 above, as the case may be, without any change in asset classification of the account subject to the conditions stipulated in the following paragraphs. Bank may also consequentially shift/extend repayment schedule, if required, by an equal or shorter duration.

ii. In cases where change in ownership and extension of DCCO (as indicated in paragraph 3.2.6.5 (i) above) takes place before the original DCCO, and if the project fails to commence commercial operations by the extended DCCO, the project will be eligible for further extension of DCCO in terms of guidelines quoted at paragraph 3.2.6.3 above. Similarly, where change in ownership and extension of DCCO takes place during the period quoted in paragraph 3.2.6.3 (i) above, the account may still be restructured by extension of DCCO in terms of guidelines quoted at paragraph 3.2.6.3 (ii) above, without classifying the account as non-performing asset.

iii. The provisions of paragraphs 3.2.6.4 (i) and 3.2.6.4 (ii) above are subject to the following conditions:

- a. Bank should establish that implementation of the project is stalled/affected primarily due to inadequacies of the current promoters/management and with a change in ownership there is a very high probability of commencement of commercial operations by the project within the extended period;
- b. The project in consideration should be taken-over/acquired by a new promoter/promoter group with sufficient expertise in the field of operation. If the acquisition is being carried out by a special purpose vehicle (domestic or overseas), the bank should be able to clearly demonstrate that the acquiring entity is part of a new promoter group with sufficient expertise in the field of operation;
- c. The new promoters should own at least 51 per cent of the paid up equity capital of stake in the acquired project. If the new promoter is a non-resident, and in sectors where the ceiling on foreign investment is less than 51 per cent, the new promoter should own atleast 26 per cent of the paid up equity capital or up to applicable foreign investment limit, whichever is higher, provided Bank are satisfied that with this equity stake the new non-resident promoter controls the management of the project;
- d. Viability of the project should be established to the satisfaction of the Bank.
- e. Intra-group business restructuring/mergers/acquisitions and/or takeover/acquisition of the project by other entities/subsidiaries/associates etc. (domestic as well as overseas), belonging to the existing promoter/promoter group will not qualify for this facility. The Bank should clearly establish that the acquirer does not belong to the existing promoter group;
- f. Asset classification of the account as on the 'reference date' would continue during the extended period. For this purpose, the 'reference date' would be the date of execution of preliminary binding agreement between the parties to the transaction, provided that the acquisition/takeover of ownership as per the provisions of law/regulations governing such acquisition/takeover is completed within a period of 90 days from the date of execution of preliminary binding agreement. During the intervening period, the usual asset classification norms would continue to apply. If the change in ownership is not completed within 90 days from the preliminary binding agreement, the

'reference date' would be the effective date of acquisition/takeover as per the provisions of law/regulations governing such acquisition/takeover;

- g. The new owners/promoters are expected to demonstrate their commitment by bringing in substantial portion of additional monies required to complete the project within the extended time period. As such, treatment of financing of cost overruns for the project shall be subject to the guidelines prescribed in paragraph 13 of this circular. Financing of cost overrun beyond the ceiling prescribed in paragraph 13 of this circular would be treated as an event of restructuring even if the extension of DCCO is within the limits prescribed above;
- h. While considering the extension of DCCO (up to an additional period of 2 years) for the benefits envisaged hereinabove, Bank shall make sure that the repayment schedule does not extend beyond 85 per cent of the economic life/concession period of the project; and
- i. This facility would be available to a project only once and will not be available during subsequent change in ownership, if any.

iv. Loans covered under this guideline would attract provisioning as per the extant provisioning norms depending upon their asset classification status.

3.2.6.5 Project under implementation – Non Infrastructure Commercial Real Estate Sector

Definition of CRE:

As per RBI guidelines vide Circular no. DBOD. BP. BC. No. 42 / 08.12.015/ 2009-10 dated September 09, 2009, a Commercial Real Estate (CRE) exposure is one where the funding will result in creation/ acquisition of a real estate and the prospect of repayment of the loan would depend “primarily on the cash flow generated from such asset”.

Primary source of cash flow means more than 50% of cash generally in the form of lease or rental payments or sale of such assets used for repayment or for recovery in the event of default. Example of CRE exposure are loans for creation/acquisition of Office Buildings to let, retail space, multifamily residential buildings, industrial or warehouse space and hotels.

Further, even if the exposure is not directly used for creation/acquisition of a commercial real estate but the prospect of repayment is primarily dependent on the

cash flow generated from CRE, it will be classified as CRE. Thus, exposure taken against existing commercial real estate where repayment is from the lease rental or sale proceeds of the real estate shall be classified as CRE.

Other instances of CRE exposures are:

- i) Extension of guarantees on behalf of units engaged in CRE activities.
- ii) Exposure on account of derivative transactions with real estate companies.
- iii) Corporate loans to real estate Companies
- iv) Investment made in equity/ debt of real estate companies etc.

Commercial Real Estate - Residential Housing (CRE-RH):

As per RBI guidelines DBOD. BP. BC. No. 104/08.12.015/2012-13 dated June 21, 2013, loans to builders/developers for residential housing projects (except for captive consumption) are classified as a separate sub-sector called Commercial Real Estate – Residential Housing (CRE-RH) within the overall CRE. Integrated housing projects comprising of some commercial space (e.g. shopping complex, school, etc.) are also classified as CRE-RH, provided that the commercial area in the residential housing project does not exceed 10% of the total Floor Space Index (FSI) of the project.

Prudential IRAC Norms for CRE- Projects under implementation:

Projects under implementation in case of CRE shall be guided by RBI guidelines, on “Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation”, issued vide circular no. DOR.No.BP.BC.33/21.04.048/2019-20 dated February 07, 2020. Broad guidelines are as follows:

- i) For loans under CRE where the project is under implementation, prior to the Date of Commencement of Commercial Operation (“DCCO”), NPA classification of the project loan shall be as per the record of recovery i.e. the 90 days’ overdue norms shall be applicable.
- ii) Bank can extend the Date of Commencement of Commercial Operation (“DCCO”) of a CRE project and resultantly it can extend the repayment schedule of such loan either for equal or for shorter period without treating the same as restructuring subject to following conditions:

a. The revised DCCO is within 1 year from the original DCCO fixed at the time of sanction/ financial closure of the CRE project.

b. There is no change in any other terms of the sanction.

iii) If there is further delay in the CRE projects for reasons beyond the control of the promoters, Bank can further extend the DCCO by another

1 year and resultant repayment schedule by similar or shorter period and continue to treat it as standard asset subject to the loan is being serviced as per the revised terms and conditions under restructuring.

Thus the cumulative extension of DCCO and resultant repayment schedule by equal or shorter period (as given in para (i) and (ii) above by not exceeding Two years from the date of Original DCCO fixed at the time of financial closure of the project.

iv) Bank can consider the restructuring/ extension of DCCO subject to following:

a) Application for restructuring is received before the expiry period of the DCCO as fixed in (ii). (a) above i.e. before the expiry of the 1st one-year extension.

b) The account is standard as per the record of recovery.

c) Bank is satisfied about the viability of the project and restructuring plan.

d) All other aspects related to restructuring, income recognition, asset classification, provisioning as applicable for projects under implementation shall continue to apply.

e) Provisions of the Real Estate (Regulation and Development) Act, 2016 are complied with.

v) In case there is cost overrun in the project due to the extension of DCCO as above, Bank can fund the same subject to extant RBI guidelines vide circular DBOD.No.BP.BC.33/21.04.048/2014-15 dated August 14, 2014 and the mailbox clarification dated April 20, 2016, which, inter alia, stipulates as below.

a) In case of Project finance, Bank can sanction a 'standby credit facility' to fund cost overruns if needed. Such 'standby credit facilities' are to be sanctioned at the time of initial financial closure; but disbursed only .

3.2.6.6 Other Issues

(i) All other aspects of restructuring of project loans before commencement of commercial operations would be governed by the provisions of Part B of this Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances. Restructuring of project loans after commencement of commercial operations will also be governed by these instructions.

(ii) Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if:

- a. The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.
- b. The rise in cost excluding any cost-overflow in respect of the original project is 25% or more of the original outlay.
- c. The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO.
- d. On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

(iii) Multiple revisions of the DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will be treated as a single event of restructuring provided that the revised DCCO is fixed within the respective time limits stipulated at paragraphs 3.2.6.3 (ii) above, and all other terms and conditions of the loan remained unchanged.

(iv) Bank, if deemed fit, may extend DCCO beyond the respective time limits stipulated at paragraphs 3.2.6.3 (ii) above; however, in that case, Bank will not be able to retain the 'standard' asset classification status of such loan accounts.

(v) In all the above cases of restructuring where regulatory forbearance has been extended, the Boards of Bank should satisfy themselves about the viability of the project and the restructuring plan.

3.3 Restructured Accounts

Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's ****financial difficulty**, grants concessions to the borrower. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest / roll over of credit facilities / sanction of additional credit facility / enhancement of existing credit limits / compromise settlements where time for payment of settlement amount exceeds three months.

FITL (Funded Interest Term Loan):

Funded Interest Term Loan (FITL) is a tool for loan restructure mechanism to repaying an interest of existing loan. Bank may be allowed to grant FITL to borrowers as a part of restructuring/rescheduling of the existing loans or fresh loans given under all Business segments. Bank may also provide WCTL (Working Capital Term Loan) as a part of restructuring/ rescheduling of Working Capital Limits.

Micro Credit

The Bank extends loans of small value under EEB portfolio. These loans are extended to individual as well. The borrowers are engaged in a livelihood activity coming under micro enterprise activity (agri, manufacturing or services). At times, these borrowers are facing financial difficulties on account of frequent occurrences of natural calamities, liquidity hurdle, business issues, change in market dynamics etc. When such a unit fails it will be difficult for them to overcome the situation and a proper revival plan of these units needs to be implemented by bank as per regulatory guidelines. Hence, EEB segment is also proposed to be included under Revival & Rehabilitation assessment and also admissible under regulatory guidelines provided for relief in COVID-19 package.

****Non - Exhaustive Indicative List of Signs of Financial Difficulty**

- Irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin basis or drawings exceeding sanctioned limits, periodic interest debited remaining unrealized;
- Failure/anticipated failure to make timely payment of instalments of principal and interest on term loans;

- Delay in meeting commitments towards payments of installments due, crystallized liabilities under LC/BGs, etc.
- Excessive leverage;
- Inability to adhere to financial loan covenants;
- Failure to pay statutory liabilities, non- payment of bills to operational creditors, etc.;
- Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements, delay in publication of financial statements and adversely qualified financial statements;
- Steep decline in production figures, downward trends in sales and fall in profits, margin erosion etc.;
- Elongation of working capital cycle, excessive inventory build-up;
- Significant delay in project implementation;
- Downward migration of internal/external ratings/rating outlook.

The guidelines issued by the Reserve Bank of India from time to time on restructuring of advances (other than those restructured under a separate set of guidelines issued by the Rural Planning and Credit Department (RPCD) of the RBI on restructuring of advances on account of natural calamities) should be adhered to for restructuring of loans.

As per the extant RBI guidelines, following are broad guidelines restructuring of advances:

Eligibility:

- i) Bank may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories.
- ii) Bank cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation.
- iii) Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the bank in deserving cases subject to customer agreeing to the terms and conditions.

- iv) No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package.
- v) Cases of frauds and malfeasance will not be eligible for restructuring.
- vi) BIFR cases are not eligible for restructuring without their express approval.

Asset Classification:

- i) The accounts classified as 'standard assets' should be immediately re-classified as 'sub-standard assets' upon restructuring. However, such accounts may continue as "Standard Asset" after restructuring subject to compliance of the conditions as given in extant RBI guideline.
- ii) The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule.
- iii) Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the bank should be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' , i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.
- iv) "Specified Period" means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.
- v) In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.
- vi) Any additional finance may be treated as 'standard asset' during the specified period under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the

additional finance shall be placed in the same asset classification category as the restructured debt.

- vii) If a restructured asset, which is a standard asset on restructuring in terms of para 20.2, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a substandard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion maybe allowed to be upgraded to standard category after the “specified period” in terms of the current restructuring package, subject to satisfactory performance.

Income Recognition:

Subject to provisions of RBI Guidelines, interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' will be recognized on cash basis.

Provisioning:

Provision against the restructured advances shall be as per the extant provisioning norms as prescribed from time to time.

All other provisions shall be as per extant RBI guidelines as shall be amended from time to time.

3.4 Prudential Written-off accounts

Write-off in banking parlance means that the bank has made 100 per cent provision from its earning against any account. Following this, Non-performing asset (NPA) is no longer part of its balance sheet. However, the write-off puts pressure on balance sheet of banks as it erodes operating profit.

In terms of Section 43(D) of the Income Tax Act 1961, income by way of interest in relation to such categories of bad and doubtful debts as may be prescribed having regard to the guidelines issued by the RBI in relation to such debts, shall be chargeable

to tax in the previous year in which it is credited to the bank's profit and loss account or received, whichever is earlier.

This stipulation is not applicable to provisioning required to be made as indicated above. In other words, amounts set aside for making provision for NPAs as above are not eligible for tax deductions.

Therefore, the bank should either make full provision as per the guidelines or write-off such advances and claim such tax benefits as are applicable, by evolving appropriate methodology in consultation with their auditors/tax consultants. Recoveries made in such accounts should be offered for tax purposes as per the rules.

4. Reversal of income

If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realized. This will apply to Government guaranteed accounts also.

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

5. Interest Application

On an account turning NPA, bank shall reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, bank may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

6. Other guidelines:

All the loans and advances be classified in seven categories as per the norms prescribed by Reserve Bank of India namely;

- 1) Standard,
- 2) SMA-0,
- 3) SMA-1,
- 4) SMA-2
- 5) Sub-standard,

6) Doubtful and

7) Loss Assets.

The process of above categories including NPA Identification should be automated. However, Finance & Accounts Department should ensure the correctness of the classification in the system for Sub-standard, Doubtful and Loss Assets as per IRAC norms. The classification made by the Finance & Accounts are verified by Internal Audit Department and / or Concurrent Auditors on regular interval as decided by Bank.

Bank shall not resort to manual intervention / over-ride in the System based asset classification process. In any exceptional circumstance where manual intervention is required to override the System classification, it must have at least two level authorisation. Such delegation of powers for authorising the exceptions should be approved by MD&CEO from time to time and shall be done from the centralised location. The process shall be suitably documented in SOP(Standard Operating Process). Further, any such intervention shall have appropriate audit trails and subjected to audit by concurrent and statutory auditors. Detail reports of such manual intervention shall be placed before the Audit Committee of Executives on monthly basis by IAD.

Any advance account downgraded from Standard category to Sub-standard category has adverse effects on Bank's profitability, i) Stoppage of interest application and ii) requirement of provisioning. When any standard loan / advance account is downgraded due to non-payment of interest or installment, it first goes to Sub-standard category provided there is sufficient security to cover the outstanding dues i.e. the outstanding ledger balance. Such account remains in Sub-standard category for 12 months and it moves to Doubtful category afterwards, unless it is upgraded to Standard category or adjusted.

7. Monitoring of Special Mention Accounts (SMA):

Banking landscape has altered significantly over the year. Efforts of the Bank in expanding credit in such scenario can be sustained only, when the health of credit portfolio is maintained in good condition. This high lights the importance of exercising ongoing basis. The Bank has got system of identifying irregular accounts at monthly

intervals. As per Reserve Bank of India, such irregular accounts are treated as Special Mention Accounts. The primary aim of monitoring exercise is to ensure that accounts are conducted in the manner normally expected, irregularities are appropriately addressed & the accounts continue as performing assets. In the normal course an irregular loan account can slip into NPA category only after passing through SMA. Any account slipping directly to NPA category (Non-Financial reason, Fraud etc.) without passing through SMA, should be examined by Business Group.

7.1 Special Mention/Watch list Accounts:

A system of early recognition with timely and adequate interventions may form the focus of approach in dealing with slippage of NPAs. "Special Mention" or "Watch list" Accounts is a new asset category between "Standard" and "Sub-standard" for Bank's own internal monitoring and follow up. This would help Bank to look at accounts with potential problems in a focused manner right from the onset of the problem, so that monitoring and remedial actions can be more effective. Once these accounts are categorized and reported as such, proper top management attention would also be ensured.

In case of credit facilities like Cash Credit / overdraft / Term Loans which are to be renewed/reviewed annually a notice be issued to the concerned borrower before the due date advising to submit the papers required for the renewal of the limit. This would help to judge whether the limit is going to be renewed or otherwise and to take appropriate steps.

The documents of such loan accounts exhibiting such behavior should be thoroughly examined and discrepancies therein if any rectified. Acknowledgement of debt should be obtained from the borrower and the guarantor.

The Stressed Assets Management Group and Business Groups of the Bank will work together to ensure that slippage to NPAs is minimal through pro-active monitoring of accounts and active senior management involvement.

Operating Units should closely monitor on monthly basis the other standard accounts, where following irregularities are - One Monthly installment / Quarterly / Half yearly / Annual installments in respect of Term Loans.

- Excess over limit / non recovery of one month interest.

- Excess over the Drawing power in respect of advance against Term Deposits, National Saving Certificates, Indira Vikas patra, Kissan Vikas Patra & Life Insurance Policies Relationship Managers and Branches should follow up with such borrowers for recovery of over dues/excesses in the accounts

8. Central Repository of Information on Large Credits (CRILC):

RBI Guidelines on “Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy” issued on January 30, 2014 and subsequent DBOD circulars DBOD.BP.BC.No.97 /21.04.132/2013-14, DBOD.BP.BC.No.98/21.04.132/ 2013-14 both dated February 26, 2014 and RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019 issued on the subject. Reserve Bank of India has set up a Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders within the regulatory framework for revitalizing distressed assets in the economy, which has been fully effective from April 1, 2014.

Bank is required to furnish information to CRILC on all the borrowers having aggregate fund based and non-fund based exposure of Rs. 5.00 crore and above at monthly intervals with effect from month end March 31, 2018. The monthly data should be submitted within 15 days from the close of the month.

8.1 Weekly report: The borrower entities in default (with aggregate exposure of INR 5.00 Crores and above) are to be reported weekly as defaulted borrowers to RBI under XBRL returns (at the close of business on every Friday, or the preceding working day if Friday happens to be a holiday), starting from February 23, 2018

The return consist of the following sections:

- a) Report on entities in default
- b) Report on entities moved out of default

8.2 CRILC-Main (Monthly Submission):

The Monthly CRILC report comprises of the following four sections:

- a) Section 1: Exposure to Large Borrowers.(exposure of rs. 5.00 Crores and above)
- b) Section 2: Reporting of Technically/Prudentially Written-off Accounts
- c) Section 3: Reporting of Balance in Current Account for customers with current account balance of Rs 1.00 crore and above (debit/credit) and
- d) Section 4: Reporting of Non-cooperative Borrowers

8.3 As and When RFA/Fraud return:

Also the Red Flagged/ Fraud borrower exposures of Rs. 3.00 crores and above are to be reported to RBI under the new XBRL return post implementation of the new framework. The return consists of details of flagging, with reason or Fraud marking with dates of FIR, involvement of staff in fraud, etc details for submission under XBRL platform.

Reporting Process:

- 1) CRILC data in every Month end for CRILC-Main filing by the bank shall be extracted from MIS database in the attached format given by RBI from time to time. Once the data is spooled and extracted, a thorough validation is to be carried out by CBO (Corporate Banking Operations) to ensure to include all FUND+NONFUND exposures of Rs. 3.00 crores and above and the correct status of account to be reported.
- 2) All support data and the base data elements for each month shall be stored after finalization, with CBO (Corporate Banking Operations) and a printout of final report may be taken and filed.
- 3) All data related and validations related audit (external and internal), shall be coordinated and closed by CBO (Corporate Banking Operations), but any data sanctity and borrower wise issues, shall be referred to respective business teams.

Any changes regarding the guidelines of CRILC reporting, policy on SMA reporting formation issued by RBI and other regulatory authority from time to time to be apprised by Bank`s Compliance Department to all stakeholders.

9. Identification and Resolution Mechanism for Non-Performing Assets:

9.1 Regulatory Framework

Both Government of India and Reserve Bank of India (RBI) have provided guidelines to deal with NPA/Stressed Assets. Bank shall follow the below mentioned mechanism on case to case basis:

Recovery Mechanisms

- a) Filing of suit with Debt Recovery Tribunals (DRT) under The Debts Recovery Tribunal (DRT) enforces provisions of the Recovery of Debts Due to Bank and Financial Institutions (RDDBFI) Act, 1993 as amended.
- b) Enforcement of securities through SARFAESI under Enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act (SARFAESI) as amended.
- c) Filing of criminal suit under Amendment of Negotiable Instrument Act making bouncing of cheques.
- d) Sale of Stressed Assets to Asset Reconstruction Companies as per guidelines RBI circular bearing no. RBI/2016-17156 DBR,No.BP.BC.9/21.04.048 /2016-17 dated 01.09.2016.
- e) Application before NCLT (National Company Law Tribunal) under The Insolvency and Bankruptcy Code, 2016 (passed by Parliament). IBC seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy. This recently approved law will help in paving the way for creating a formal insolvency resolution process for businesses, either by liquidation of assets or charting out a sustainable survival mechanism.

Revival Mechanisms

- a) MSMEs as defined under 'The Micro, Small and Medium Enterprises Development Act, 2006' and loan limits up to Rs. 25.00 Crores shall be guided by the instructions contained in Circular No. FIDD.MSME & NFS.BC.No.21/06.02.31/ 2015-16 dated March 17, 2016, as amended from time to time.
- b) The section 391 of the Companies Act 1956 which gives power to companies to make compromise arrangements with its creditors.

Preventive and Information Sharing Mechanism

- a) Bank has set up a framework for dealing with stressed cases developed RBI vide its circular The Micro, Small and Medium Enterprises Development Act, 2006' shall be guided by the instructions contained in Circular No. FIDD.MSME & NFS.BC.No.21/ 06.02.31/ 2015-16 dated March 17, 2016, as amended from time to time).
- b) Bank is required to provide information to Credit Information Bureau of India Ltd. (CIBIL) and other information companies for exchange of information on borrowers in terms of Reserve Bank of India.
- c) Bank is required to furnish information to CRILC (Central Repository of Information on Large Credits) on all the borrowers having aggregate fund based and non-fund based exposure of Rs. 5.00 crore and above at monthly intervals.
- d) As per existing RBI guidelines, information has to be shared / disseminated among the member banks about the status of accounts of borrowers enjoying credit facilities from more than one bank under MBA (Multiple Banking Arrangement) or consortium arrangement in quarterly intervals.

9.2 Framework of Bandhan Bank for Recognizing and Reporting NPAs

Objectives & Strategies

The main objective of the Bank's Stressed Assets Management policy is to reduce the level of NPAs and to maximize recoveries from the pool of NPAs within the shortest possible time. To achieve the above objective, the following broad strategies would be followed.

- Close monitoring of all standard and SMA accounts to curb fresh slippage. The information available with the recently introduced Central Repository of Information on Large Credits (CRILC) would be effectively utilised towards this end.
- Supporting viable accounts through restructuring and rescheduling.
- Prompt initiation of legal action and effective follow up in cases where operations are no longer viable.
- Exploring compromise settlement in deserving cases rather than resorting to the long drawn legal process.

- Sale of NPAs, including written-off accounts to Asset Reconstruction Companies/ Banks/Fls/others, wherever feasible.

In order to enable greater focus on high value NPAs, it has been decided that Stressed Assets Management & Recovery vertical would handle NPA accounts in General banking segment and the resolution/recovery would be handled by respective SME/Corporate/Retail Assets along with Stressed Assets Group Team. This is expected to give the much needed impetus to the recovery performance of the Bank. Any change of vertical handling of NPA/PNPA accounts to be decided and approved by MD & CEO.

9.3 Monitoring

Identifying sickness at an early stage goes a long way in preventing and reducing the level of NPAs.

Monitoring in MSME Portfolio: Bank will follow monitoring of MSME account as per RBI circular no. FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated March 17, 2016 had issued guidelines on Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs). Detail process given in Annexure-I

Monitoring in Micro Banking Portfolio: In any DSC (Door Step Service Centre) when overdue in Loan repayments starts with default of one or two borrowers, gradually it spreads in all directions in geometric progression. As the overdue starts, it has an adverse multiplier impact on all the activities. The reasons behind non-payment of loan and various steps to improve the overdue situation are detailed in Annexure-II under “Overdue and NPA Control mechanism – Micro Banking”

Monitoring in Gold Loan Portfolio: In case of monitoring of irregularity in Gold Loan portfolio where the customer fails to repay the debt timely & turns out to be a defaulter in our books, the bank will execute appropriate course of action to recover the Gold loan outstanding through Auction process. Detail process of portfolio management and recovery mechanism for Monitoring in Gold Loan Portfolio Loan is given in recovery and collection note of the bank.

Monitoring in Personal Loan Portfolio: In case of monitoring of irregularity in Personal Loan portfolio where the customer fails to repay the debt timely & turns

out to be a defaulter in our books, the bank will execute appropriate course of action. Detail process of portfolio management and recovery mechanism for Monitoring in Personal Loan is given in recovery and collection note of the bank.

Monitoring of Home Loan & LAP (Loan against property) Portfolio: In case of monitoring of irregularity in Home Loan & LAP (Loan against property) Portfolio where the customer fails to repay the debt timely & turns out to be a defaulter in our books, the bank will execute appropriate course of action. Recovery activity can be defined as the process of following up with the customer whose loan EMI becomes overdue. Detail process of portfolio management and recovery mechanism for Monitoring of Home Loan & LAP (Loan against property) is given in recovery and collection note of the bank.

Monitoring of SEL (Small Enterprise Loan) Portfolio: In case of monitoring of irregularity in SEL Loan portfolio where the customer fails to repay the debt timely & turns out to be a defaulter in our books, the bank will execute appropriate course of action to recover the outstanding. Detail process of portfolio management and recovery mechanism for Monitoring of SEL (Small Enterprise Loan) Portfolio is given in recovery and collection note of the bank.

Monitoring in Two Wheeler and Four Wheeler Loan Portfolio: In case of monitoring of irregularity in Two Wheeler and Four Wheeler Loan portfolio where the customer fails to repay the debt timely & turns out to be a defaulter in our books, the bank will execute appropriate course of action. Detail process of portfolio management and recovery mechanism for Two Wheeler and Four Wheeler Loan is given in recovery and collection note of the bank.

The policy guidelines shall also cover the other recovery recourse including legal action/SARFAESI to be undertaken in case customer is not regularizing the loan account even after follow ups.

Consequently, the Bank has an internal credit rating tool. It is also proposed to developed EWS (Earning Warning Signal) tool to monitor the credit quality of the borrowers. These tools encompasses various parameters such as documentation, security compliance, financial & operating performance, inspection & audit findings, financial discipline and market intelligence. The credit review of borrower is based on the rating with borrowers slipping into non-investment grades reviewed

on a quarterly basis. The frequency of the review of the borrower and the rating is defined in the credit policy.

With the effective utilization of available technology, the Bank would establish MIS for potential NPAs and concentrating on such accounts for recovery/exit to the accretion of fresh NPAs.

The stressed assets group and Respective business group would continuously monitor high value accounts that show symptoms of weaknesses. The resolution strategy could include timely exit, restructuring of accounts, change of management, mergers & acquisitions etc.

9.4 Identification of NPAs

Accounts are classified as NPAs based on the extant RBI guidelines contained in the Master Circular on Income Recognition, Asset Classification and Provisioning pertaining to advances. The process of NPA Identification is to be automated and classification of accounts shall be done at daily/monthly or any other frequency as per regulations from time to time. Accounts that have irregularities persisting for more than 90 days, except loans for agricultural activities, are classified as NPAs. Loans for agricultural activities are classified as NPAs if the irregularity persists for two crop seasons (for short duration crops) and one crop season (for long duration crops), For all other activities under agriculture not specified by RBI, the 90 day norms are applicable.

9.5 Identification and Reporting of Willful Defaulters

Bank has put in place a mechanism for identifying instances of willful default by constituting the Committee for Identification of Willful default. The Bank shall follow the guidelines stipulated by the RBI with respect to identification and reporting of willful defaulters. Towards this end, the Bank shall adhere to the following process for identification and reporting of willful defaulters:

- The respective business department shall make an objective assessment of the account and submit a proposal for initiation of legal action (criminal or civil, as the case may be) against the borrower wherever warranted. The proposal shall invariably contain a comment as to whether the account falls under the category of willful defaulter, based on the criteria laid down by the RBI as stated below.

- A "willful default" would be deemed to have occurred if any of the following events is noted:-
 - i) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honor the said obligations.
 - ii) The unit has defaulted in meetings its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
 - iii) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
 - iv) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.
- If the recommendation is for classification of the account as willful defaulter, the proposal shall be forwarded to the Willful Defaulter Identification Committee as given Annexure-VII.
- If the Committee concludes that an event of willful default has occurred, it shall authorize the Stressed Assets Group/Business Team to issue show cause Notice to the borrower concerned and the promoter/whole-time director and call for their submissions. After considering their submissions, the Committee shall record the facts of default and the reasons why the same should or should not be considered a case of Willful Default. An opportunity may be given to the borrower and the promoter/whole-time director in case the identification committee feels such as opportunity is necessary. Whereupon, on the basis of the facts of the case, evidences produced and submissions made by the concerned parties, the Committee shall pass an order.
- The Order of the Committee would be reviewed by another Review Committee headed by the MD & CEO and consisting, in addition, of at least two independent directors of the Bank. The Order of the Willful Defaulter Identification Committee would become final only after it is confirmed by the said the said Committee. The same is given as Annexure-VII

- The Bank at its discretion reserves the right to publish the photographs of willful defaulters in compliance with the guidelines issued by the RBI vide its circular DBR.CID.BC.No.17/20. 16.003/2016-17 dated 29.09.2016. The final decision to publish the photographs of the willful defaulters would rest with the Review Committee (MD & CEO and at least 2 independent directors) of Willful Defaulters the Bank. The reasons for publishing the photographs will have to be highlighted in the note being put up for approval to the review committee.
- Bank can consider publication of the photographs of only those borrowers, including proprietors/ partners /directors / guarantors of borrower firms/ companies, who have been declared as wilful defaulters following the mechanism set out in the RBI instructions referred to above. This shall not apply to the non-whole time directors who are exempted from being considered as wilful defaulters unless the special conditions, in accordance with these instructions, are satisfied.
- Bank shall Permit to provide personal hearing through video conferencing, based on the guidelines on wilful defaulters as per RBI circular DOR.CID.No.2945/20.16.042/2020-21, dated 10.02.2021

The Bank shall also follow the guidelines stipulated by the RBI with respect to reporting the names) of guarantors and directors of wilfully defaulting companies to RBI. Where substantial evidence exists, criminal action would be initiated against the wilfully defaulting borrowers, guarantors and directors, if we are the sole lenders. In the case of consortium or multiple banking arrangements, the possibility of jointly initiating criminal action against the defaulter would be explored.

As prescribed under RBI guidelines, a list of suit filed accounts of willful defaulters with exposure exceeding Rs.25 lacs would be furnished at the end of every quarter to the Credit Information Bureau (India) Limited (CIBIL) and/or any other credit information company which has obtained certificate of registration from RBI in terms of Section 5 of Credit Information Companies (Regulation) Act 2005. A list of accounts reported as Willful Defaulters, where suits have not yet been filed

would also, be submitted on a quarterly basis to all the four Credit Information Companies (CIC).

As per RBI guidelines, we propose the following penal measures for cases reported as willful defaulters:

- I. No additional/new facilities would be granted by the Bank to the borrowers reported as Willful Defaulters.
- II. Legal proceedings and foreclosure for recovery of dues, wherever warranted, would be initiated against the borrowers/guarantors.
- III. Criminal proceedings would be initiated against Willful Defaulters, wherever necessary.
- IV. In cases where guarantees furnished by associate companies on behalf of willful defaulters units are not honored when invoked. Such associate companies would reckon as Willful Defaulters.
- V. In case of guarantees obtained by the Bank after September 9, 2014, in cases where the guarantor refuses to comply with the demand made by the creditor/banker, despite having sufficient means to make payment of the dues, such guarantor would be treated as a Willful Defaulter.
- VI. Except in very rare cases, a non-whole time director should not be considered as a willful defaulter unless it is conclusively established that (a) he/she was aware of the fact of willful default by the borrower by virtue of any proceedings recorded in the Minutes of the Board or a Committee of the Board and has not recorded his/her objection to the same in the Minutes, or, (b) the willful default had taken place with his/her consent or connivance. However, the above exception will not apply to a promoter director even if not a whole time director.

It would be ensured that the above penal measures are used effectively but after careful consideration and due caution.

9.6 Identification and Reporting of Non-Cooperative Borrowers

RBI vide circular number RBI/2014-15/362 DBR.No.CID.BC.54/20.16.064/2014-15 dated December 22, 2014, has issued new guidelines on identification and reporting of borrowers as non-cooperative. The following guidelines will be applicable

Definition of Non-Cooperative Borrower: A non-cooperative borrower is one who does not engage constructively with the Bank by defaulting in timely repayment of dues while having ability to pay, thwarting the Bank's efforts for recovery of the dues by not providing necessary information sought, denying access to assets financed / collateral securities, obstructing sale of securities, etc. In effect, a non-cooperative borrower is a defaulter who deliberately stone walls legitimate efforts of the Bank to recover the dues.

Guidelines on classification of a borrower as non-cooperative, subsequent declassification and reporting

The following guidelines are to be adhered to while classifying/declassifying a borrower as non-cooperative and while reporting such information to Central Repository of Information on Large Credits (CRILC).

1. The guidelines on classification of borrower as non-cooperative will be applicable to borrowers having aggregate exposure of Rs. 5.00 crores and above from the Bank. A non-cooperative borrower in case of a company will include, besides the company, promoters and directors (excluding independent directors and directors appointed by Government and lenders) of the company. For other business enterprises, non-cooperative borrowers will include persons who are in-charge of management of the business enterprise.
2. The delegation of powers to classify a borrower as non-cooperative will fall within the purview of Committee as per Annexure-VII
3. Classification of a borrower as non-cooperative shall be recommended by the respective credit team after considering the various instances where the borrower's actions were found to be detrimental to the Bank's efforts to recover the dues. Any solitary or isolated instance should not form basis of such classification.
4. If the recommendation is approved by Committee, the concerned Business department shall issue a show cause notice to the borrower and its

promoters/ directors calling for their submissions within 30 days from the date of the communication. After considering the response received from the borrower, committee shall decide on classifying the borrower to be non-cooperative based on the characteristics of the case. The reasons for classifying the borrower as non-cooperative will also be recorded by committee. The committee may also decide on a personal hearing from the borrowers, if felt necessary.

5. The decision of committee will be reviewed by a committee headed by MD & CEO with at least 2 independent directors as its members and the order shall be considered as final, only after confirmation by this committee as per RBI Circular.
6. A review of the status of the non-cooperative borrowers shall be placed before the Board of Directors of the Bank on a half-yearly basis (as on 30 June and 31 December). The decision to declassify the non-cooperative status of borrowers should be vested with Board of Directors, based on the borrowers' return to credit discipline and cooperative dealings.
7. Post necessary approvals, Identification of non-cooperative borrowers as well as their subsequent removal from non-cooperative status (if any) shall be advised to CBO (Corporate Banking Operations) Deptt by the respective business departments immediately upon classification / declassification of the borrower. Reporting of the same through CRILC shall be undertaken by CBO (Corporate Banking Operations) Deptt within the timelines specified by RBI.

Any fresh exposure to an entity reported as non-cooperative by any bank / FI, will entail higher provisioning as applicable to substandard assets. The higher provisioning will also be applicable to new exposures sanctioned to any other company that has on its board of directors any of the whole time directors/promoters of a non-cooperative borrowing company or any firm in which such a non-cooperative borrower is in charge of management of the affairs, However, for the purpose of asset classification and income recognition, the new loans would be treated as standard assets,

9.7 Red Flag Account (RFA) / Fraud Monitoring and Reporting

Identification/classification of accounts as fraud, in case of standard assets, would be carried out by Fraud Containment & Monitoring Department, in order to derive synergy from the credit monitoring process. The framework for dealing with loan frauds guided by RBI Circular RBI/2014-15/590 DBS.CO.CFMC.BC.No.007/23.04.001/2014-15 dated May 7, 2016. Once convinced about the perpetration of fraud in the account, would report to the regulatory authorities. CBO (Corporate Banking Operations) would report the identified Red Flagged Account (RFA) accounts on CRILC as per existing process.

The Fraud Containment & Monitoring Department may empanel forensic auditors to investigate these cases within the stipulated time frame. Fraud Containment & Monitoring Department would also furnish, on a quarterly basis, the details of all the accounts reported to the F&A Dept. to enable them to make required provisions thereof 100 % provision would be made against all fraud accounts. Fraud Containment & Monitoring Department may also serve as the focal point with the law enforcement agencies with the complaint being vetted by the Corporate Legal Department.

As per RBI guidelines, we propose the following penal measures for cases reported as fraud:

- I. No additional facilities would be granted by the Bank to the borrowers reported as fraud.
- II. Legal proceedings and foreclosure for recovery of dues, wherever warranted, would be initiated against the borrowers / guarantors.
- III. Criminal proceedings would be initiated against accounts classified as fraud, wherever necessary.
- IV. Accounts classified as fraud/Red Flagged Account will not be subjected to any restructuring.
- V. No compromise settlement involving a fraudulent borrower will be allowed, unless the conditions stipulate that the criminal complaint will be continued.

Consequences of declaring as RFA / Fraud as per RBI guideline are summarized as follows:

| Parameter | RFA | Fraud |
|-----------|-----|-------|
|-----------|-----|-------|

| | | |
|--|---|---|
| Frauds barred from availing bank finance for 5 years from the full payment of defaulted amount | Y | Y |
| No restructuring or grant of additional facilities | Y | Y |
| No compromise settlement unless the conditions stipulate that criminal complaint will continue | | Y |

9.8 Staff Accountability

Bank has framed Staff Accountability policy in respect of Credit portfolio, Operational matters, and inspection/Audit and Treasury operations. Considering the same framework, staff accountability in respect of NPA accounts would be examined in General Banking and Micro Banking Portfolio.

The approach for ascertaining and affixing staff accountability in General Banking portfolio;

- Staff accountability may be fixed in all cases of quick mortality and cases 1.00 Cr and above.
- Staff Accountability would be examined in case of slippage of performing assets into the non-performing assets.
- Staff Accountability would be examined in case of loss caused to the Bank due to operational lapses, non-observance of standard procedures and practices.
- Staff Accountability would be examined immediately on turning of standard assets into substandard category and further slippage.
- For cases less than 1.00 Crore, respective business department would be ensured detail examination of loss caused to the Bank due to lapses, non-observance of standard procedures and practices.

Due to smaller value of loans in the Micro Banking portfolio, it has been decided that the loans in Micro Finance vertical, the accountability exercise may be fixed where bunch of loans turned out to NPA or Write-off for specific DSCs/Clusters/Regions/Geographies.

When any account is classified as NPA, with emphasis on the cases of quick mortality in general banking portfolio, the business department concerned would originate a note to the competent authority, containing strategies for resolution of the account including recommendation for initiation of legal action or otherwise. The note would

discuss, inter-alia, a brief assessment of the staff accountability covering the following points:

- a) Whether adequate due diligence was carried out and appropriate credit appraisal was made in terms of Bank's guidelines and whether the advance was sanctioned by the appropriate authority?
- b) Whether the terms and conditions of sanction were complied with?
- c) Whether the deviations from the scheme parameters, if any, (in the case of schematic advances) were approved by the competent authority?
- d) Whether the original sanction was reviewed by the appropriate authority?
- e) Whether the documentation for the facilities was executed as applicable for the facilities and securities?
- f) Whether the charge has been created over the securities for the facilities sanctioned per the terms of sanction?
- g) Whether the documents are live and enforceable in the Court of Law?
- h) Whether proper monitoring and follow up of the account was done, on site visits were made and securities were verified?
- i) Whether the incidence of fraud, if any, perpetrated either by the borrower or by the concerned employees had come to the knowledge of the Bank and whether the same has been reported to the competent authorities?
- j) Any lapse observed on the part of the staff in monitoring the conduct of the account.

The sanctioning authority, on perusal of the note, would record its views on the need for detailed examination of staff accountability or otherwise and final decision would be taken one notch higher authority. If it is felt that staff accountability has to be examined in detail, a copy of the note would be sent to CAE, who would authorize an official from IAD, to study the staff accountability and submit a report. A Copy of the investigation report, along with the details of the action taken, would be sent to Head-HR for action if any and to Stressed Assets Group.

In case of irregularities/staff lapses as per extant RBI guidelines, the sanctioning/disciplinary authority, with the help of the Chief of Internal Vigilance Officer (CIVO) / Disciplinary Committee (DC) would carefully study the case and weigh the circumstances to arrive at a conclusion as to whether there are reasonable grounds to doubt the integrity of the officer(s) concerned. A review note in respect of staff accountability (Portfolio wise & all individual accounts exposure greater than 0.50

Crore) would be submitted to the CRMC (Credit Risk Management Committee) in every six months.

9.9 Quick Mortality Accounts

As per the Risk Profiling Template circulated by the RBI in June 2006, Quick Mortality Accounts are those which are classified as NPA within one year from the date of sanction. A review note in respect of Quick mortality of all accounts (SME/Corporate/Retail assets) would be submitted to the COD (Committee of Directors) every quarter.

10. Framework for Resolutions

As per the provisions, Bank are required to appoint an authorized officer for observance of the various provisions of the act. Therefore an officer of the Grade of Sr Manager & above be appointed as an authorized officer who will initiate recovery actions under SARFAESI Act. The operational details of carrying out various activities for realising the settlement amount will be carried out as per the instructions given by corporate legal department. The same to be approved by PCMC.

Bandhan Bank employs the following recovery mechanism for resolution and recovery of its non-performing assets;

10.1 Compromise/Settlements

The basic guidelines governing compromise settlements of NPAs are listed below.

- A compromise should be negotiated settlement, which would ensure recovery of the dues to the maximum extent possible at minimum expense and within shortest possible time frame.
- While taking NPAs a proper distinction will have to be made between willful defaulters and defaulters due to circumstances beyond their control. While in case of the former, a tough stand has to be taken, in latter cases a moderated view is to be taken.
- Where security is available for assessing the realizable value, proper Weight age has to be given to the location, condition, marketability and weather property is self-occupied or tenanted etc.

- Due weightage to be given to present activities of the borrower / guarantor, their present means etc.
- While arriving at a negotiated settlement, the advantage available to the Bank from prompt recycling of funds should be weighted in comparison to the likely recovery by following legal or other protracted course of action i.e. opportunity cost analysis be made.
- The internal reporting system should ensure prompt reporting of all compromise proposals approved, to the Head-Risk and MD & CEO.
- A compromise/settlement be made only if the account has been classified as doubtful or loss assets. However, if there are any genuine reasons compromise/settlement be made in case of a sub-standard account also.
- While compromising in any account only interest amount be sacrificed and no relief be granted in principal amount. However, in deserving cases relief in principal amount also be considered.
- Before entering into any compromise /settlement details of the assets of the borrower and guarantor be collected and the relief be granted if the Bank deems fit.
- While considering the settlement proposals received from the borrowers it would be ensured that the interest earned in the respective account is not less than the cost of fund. (Example i.e during the last 3 years the average cost of fund works out to 7.90 %. In case we recover the interest at 10% from the date of NPA the Bank would not be at loss and therefore, while considering compromise proposals it would be ensured that interest earned in the account is not less than 10%). However, in deserving cases lower rate would be considered.

10.1.2 The Compromise/Settlement approach

Compromise / relief proposals will be negotiated in keeping with the basic objectives spelt out above. The module approach is developed, keeping in mind the following key parameters.

- Realizable value & marketability of securities charged (both prime and collateral securities) to the Bank if the advance / loan is secured.
- Aggregate means of borrowers / guarantors.
- Age of NPA.
- Legal position of the Bank.

“Realizable Value” given by valuer should be taken for the purpose of assessing and not distress value.

While calculating as module it should be borne in mind that marketability is a function of legal angles affecting security. Hence the following may be considered while awarding points under module.

- a) Various laws meant for protection of Agriculturists / Tribal people govern security in the form of Agricultural Land. In that case marketability would be a factor of: (i) getting permission from Collector (ii) availability of purchasers from tribal communities (iii) restrictions on sale to non-agriculturists etc.
- b) There may be cases, where (i) security is heavily tenanted and vacant possession is next to impossible (ii) security is a subject matter of litigation between the borrower and paramount title holder (iii) security is subject to planning, environment, forest law restrictions.
- c) Security may be subject to expropriation proceedings due to violation of user conditions etc.
- d) For the purpose of judging and estimating, whether security is easily marketable, not easily marketable and very difficult to market, following yardsticks among other things may be kept in mind.

| Parameters | Yardstick |
|-------------------|--|
| Easily marketable | Like residential / commercial premises located Metro/urban or prime locality |

| | |
|--------------------------|--|
| Not easily marketable | Tenanted premises or industrial Land / Building |
| Very difficult to market | Like agricultural land |

In case of unsecured advances / loan parameter of Realizable value of security and marketability would be irrelevant. Hence, with respect to unsecured advances points / score for the parameter realizable value of security and marketability may be taken as NIL.

The compromise and settlement helps in speedy recovery. With a view to accelerating the recovery process by way of compromise/settlement, delegated powers for write off of principal / waiver of interest / absorption of legal expenses of NPAs are given as per Annexure-VI - Delegation of Power.

The Business Department/Branch official who have recommended/sanctioned the loan / advance should not participate in the process of compromise / settlement of the account in question.

No relief either in principal or in interest should be considered in the loans and advances or any debt due from;

- 1) The directors of the bank.
- 2) Any firm or company in which any of the directors is interested as partner / director or guarantor.
- 3) Any individual if any of its directors is his partner or guarantor. However, such a request can be considered subject to prior approval of the Reserve Bank of India.

10.1.3 Payment of settlement amount

As far as possible, settlement amounts should be recovered in a lump-sum. Where the borrowers desire to pay the settlement amounts in installments, a maximum time period of 12 months from the date of approval, be allowed.

Payment of settlement amount in installments will attract interest at decided by Bank. Wherever installment payments are sought, there should be a minimum of 25% down payment of the settlement amount. The sanctioning authority will have authority to waive the interest for delayed payment if they deem fit.

10.1.4 Settlement proposal from guarantor:

There are cases, where guarantors in NPA accounts come forward with settlement proposals so that they can seek release of their guarantees. Such proposals from guarantors should be treated on par with proposals from borrowers and module approach under Recovery Policy is applicable to such proposals.

10.1.5 Recovery through Settlement in Fraud cases

Compromise / settlement can be negotiated and sanctioned in NPA accounts reported as fraud cases by treating those accounts as normal accounts, subject to following conditions:

- a) The settlement / compromise shall be negotiated only after filing cases before Civil Courts/DRT/SERFAESI action and after initiating criminal proceedings and other applicable legal formalities and after obtaining clearance from next higher authority.
- b) Investigating agency prosecuting the case should be informed in writing by Registered Post / Courier Services about the proposed settlement and if objections are not received within 30 days, settlement can be implemented.
- c) Post settlement, criminal case should not be withdrawn by Bank. All the assistance required of called for by the investigating Agency or court to take the case to its logical conclusion should be promptly provided by the Bank.
- d) After the settlement, files relating to the account should not be destroyed or sent to old records, but should be kept safely and properly till the conclusion of the criminal proceedings.

10.1.6 Settlement & Compromise

Proposal for compromise of Principal & Interest Outstanding falling within the authority as per Annexure-VI - Delegation of Power and compromise of Principal Outstanding will be processed by respective authority/committee based on following guidelines:

Guidelines on the working of the settlement & compromise:

- i) The task of authority/committee is to examine the compromise and relief proposals and ensure that the settlement offer is fair, responsible, in the best interests of the bank and in line with the guidelines for settlement of such proposals as contained in the Policy.
- ii) The authority/committee will meet at regular intervals in keeping with flow of proposals. The frequency of Committee meetings will be such that proposals are cleared expeditiously.
- iii) The control return of all settlement & compromise approvals should be put up to one notch higher authority as per Annexure-VI - Delegation of Power
- iv) Proposals for compromise and relief etc. should clearly bring out, brief history of the account, nature and causes of irregularities, staff accountability and the basis for valuation of assets as also their marketability. The proposals should specifically state the reasons why the concerns debt is considered irrecoverable of remissions recommended.

10.2 Securitization and Reconstruction of Financial assets and enforcement of Security Act:

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 is an effective tool in the hands of the Bank to enforce the security interests and recover the dues thereby reducing NPAs. The Act has three segments –

- a) Securitisation and Asset Reconstruction Companies
- b) Central Registry
- c) Enforcement of Security Interest

The SARFAESI Act enables the Bank wherever the Bank is a secured creditor to enforce security interest for recovery of its dues without the intervention of the Court or Debt Recovery Tribunal provided that secured interest has been properly created in favor of the Bank. The term Security Interest has been defined under the SARFAESI Act as under:

“Security Interest” means right, title and interest of any kind whatsoever upon property created in favor of any secured creditor and includes mortgage, charge, hypothecation and assignment. The details of SARFAESI Act given in Annexure-III

Criteria for invoking the provisions of the SARFAESI Act:

Before enforcing security interest, branches should ensure that the borrowal accounts comply with the following criteria:

- The contractual dues in the account should be Rs.1.00 lakh and above.
- The default must have occurred i.e. the account should have become NPA as per RBI norms.
- The security charged to the Bank must be specific, clear and available to the Bank. It must be duly and effectively charged to the Bank and therefore, enforceable if the borrower fails to pay in response to the Notice.
- The security documents in the advance account should be in full force on the date of serving the 60 days' notice. As an abundant caution, it should be ensured that they are in force even at the time of the Action that will follow for enforcement of security i.e. at least up to one year from the date of serving the notice.
- The security documents should be duly filled in and no column should be kept blank.
- Either our Bank must be the sole Banker to the borrower i.e. 100 % lending is done by us or in case of joint lending, at least lenders representing 60 % of the contractual amount due and out-standing agree to take Action.
- In case of Multiple Banking, if the security is exclusively charged, the Bank can proceed as though it is the sole Banker.

Exemptions:

The following are exempted from the purview of the Act:

- Accounts where the contractual dues are below Rs.1.00 lakh.
- When the security interest is created on agricultural land. However, other agricultural related assets like tractor, implements etc. can be enforced, if charged as security to Bank's advance.
- Where the contractual dues remaining unpaid are less than 20% of the principal i.e. total amount disbursed and interest.
- Assets under pledge, lien/ assets financed under lease or hire purchase are not covered.

Registration of Charge with Central Registry

- 1) In view of new amendments for enforcing the security interest, in the secured assets under SARFAESI ACT and RDDDBFI Act, it is essential to get the charge registered with Central Registry.
- 2) New clause has also provided for registration of charge created by way of attachment orders passed by any court.
- 3) Priority of charge will be determined on the basis of the registration with CERSAI

In view of above;

- a) Before creation of any security interest in favor the bank, it is advisable to take search of Central Registry also to ascertain encumbrances by way of charge /mortgage attachment orders etc. on the properties offered as security.
- b) Upon creation of any charge, the same has to registered with CERSAI immediately. Any changes in the existing CERSAI procedures will be updated in the Operations Manual subsequently post discussion with Legal Department.

Due Diligence Study:

Before invoking the provisions of the SARFAESI Act, a due diligence study should be conducted in respect of the secured assets to be taken into possession covering nature, value of such assets, probability of finding a buyer in the shortest period. Expenses to be incurred in connection with safe-keeping / storage, appointment of security guards, estimated realizable value of the assets in case of sale etc. Bank should keep the above in mind before initiating enforcement Action.

As per provisions of the above referred act, Bank is entitled to take possession of the securities in case of accounts, which have been classified as NPA. In this context the NPA accounts having outstanding balance of Rs.1.00 lakh and above be reviewed from time to time and steps be taken as per the provisions of the act.

As per the provisions of the above act, Bank is required to appoint an authorized officer for observance of the various provisions of the act. Therefore an officer of the Grade of Senior Manager & above be appointed as an authorized officer who will initiate recovery actions under SARFAESI Act.

10.3 Legal Action

- a) Where Cheques issued by the borrowers are returned unpaid, the bank would, after issuing appropriate notice, initiate criminal action under Section 138 of Negotiable Instrument Act.
- b) Where action under SARFAESI Act is not possible a case would be filed immediately before DRT or other appropriate court. If it is felt that filing a suit under DRT / court would not serve any purpose due to the low level of outstanding dues or absence of any security or any other reason, the decision not to initiate/waive legal action would be taken by the authorities as per Scheme of Delegation specified as per Annexure-VI - Delegation of Power.
- c) While the notice for suit under DRT / court would be allowed as per Scheme of delegation as mentioned in delegation of power for suit filing, an exception may be made for issuing recall notice and issuing notice under Section 13(2) of the SARFAESI act. As such these two specific notices may be sent with the approval as per as per Annexure-VI - Delegation of Power.

10.3.1 Norms in respect of filing of Suits

Considering the long drawn process in the litigation and difficulties in executing the decrees action of filing of suit be taken as a last resort. Following norms be observed before filing of a suit.

- a) A suit be filed only after making all the efforts such as personal contacts, demand notice from the branch or through advocate , proceeding under Securitisation Act etc.and if the branch and Head Office comes to the conclusion that there is no alternative but to file a suit for recovery.
- b) Before filing of the suit it should be ensured that the loan documents are complete in all respects and that the suit is well within the limitation period. The position of documents be got examined form the Bank's approved advocate.
- c) Before filing of the suit final notice through Bank's advocate be issued.
- d) All the deposits obtained as security and / or collateral security be got appropriated towards the outstanding before filing of the suit.

- e) All the assets such as machinery, vehicles, shares etc. in the custody of the Bank be disposed of and the sale proceeds be appropriated towards the outstanding in the account and the suit be filed for recovery of residual amount.
- f) Suit be filed through an Advocate on the Bank's panel only.
- g) Before filing of the suit information regarding movable/immovable assets of the borrower and the guarantor be ascertained and steps be taken for attachment of these properties before judgment.
- h) In areas where "Lok Adalats" are arranged, branches should approach such Lok Adalats for speedy disposal of the cases. However, in case if the suit is to be compromised in the Lok Adalat, the compromise terms be got approved from the Head Office.
- i) Delegation of powers - With a view to accelerating the recovery process by way of filing suits, the delegation of power for filing suits is given as per Annexure-VI - Delegation of Power.

10.3.2 Waiver of Legal Action

There may be accounts where borrowers and guarantors have died or are not traceable. Further security/net worth is Nil. In such cases legal action only added to cost and does not result in any recovery. With more and more stress on retail loans, there may arise cases, where cost of legal action will be more than the loan granted. In all such cases discretion should be available for waiver of legal action.

Powers for waiver of legal action for above accounts rest with the authority as per Annexure-VI - Delegation of Power.

10.4 Collection of Dues and Security Repossession Policy

The debt collection of the bank is built around dignity and respect to customers where there are genuine problems. Bank will not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment, persuasion and finding solutions. The Bank believes in following fair practices with regard to collection of dues and repossession of security and thereby fostering customer confidence and long - term relationship. The repayment schedule for any loan sanctioned by the Bank will be fixed taking into account paying capacity and cash flow pattern of the borrower. The Bank will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or any other

mode of repayment will be appropriated against interest and principal due from the customers. The method collection of EMI (say post-dated cheque, direct debit ECS etc.) would be fixed taking in to consideration the convenience of the borrower. The Bank would expect the customers to adhere to the repayment schedule agreed to and approach the Bank for assistance and guidance in case of genuine difficulty in meeting repayment obligations.

10.4.1 General Guidelines

All the members of the staff or any person authorised to represent our Bank in collection or/and security repossession would follow the guidelines set out below:

- The customer would be contacted ordinarily at the place of his or her choice and in the absence of any specified place at the place of his / her residence and if unavailable at his or her residence, at the place of business / occupation.
- Identity and authority of persons authorised to represent Bank for follow up and recovery of dues would be made known to the borrowers at the first instance. The Bank staff or any person authorised to represent the Bank in collection of dues or / and security repossession will identify himself / herself and display the authority letter issued by the Bank upon request.
- The Bank would respect privacy of its borrowers.
- The Bank is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and Bank will adopt civil manners for interaction with borrowers.
- Normally the bank's representatives will contact the borrower between 0700 hrs and 1900 hrs, unless the special circumstance of his/her business or occupation requires the bank to contact at a different time
- Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible. The bank will document the efforts made for the recovery of dues and the copies of communication sent to customers, if any, will be kept on record
- All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.

- Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls/visits to collect dues.
- The Bank will also adhere to the extant regulatory guidelines on Fair Practices Code for Lenders, Outsourcing of Financial Services, Code of Bank's Commitment to Customers and Recovery Agents engaged by Banks.

10.4.2 Giving Notice to borrowers

While telephonic reminders or visits by the Bank's representatives to the borrower's place or residence will be used as loan follow up measures, the Bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. Such notice will be sent immediately upon default by the borrower or when telephonic reminders or personal visits fail to yield result.

10.4.3 Repossession of Security

Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property or any assets secured in favour of Bank. The policy applicable to all categories of borrowers of bank including Retail Loans and Write-offs. The recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Due process of law will be followed while taking repossession of the property. The Bank will take all prudent measures for ensuring the safety and security of the property after taking custody.

10.4.4 Valuations and Sale of Assets

Valuation and sale of property repossessed by the Bank will be carried out as per law and in a fair and transparent manner. The collateral specific valuation methods for NPA accounts given in Point No 17 under "Valuation Policies for NPAs" shall be followed.

Mortgaged Assets: - The valuation given by the approved valuer will be conveying to the borrower before proceeding with sale of property. Even while finalizing sale of the

property the offer(s) received by the bank will be informed to the borrower and he will be having an opportunity to bring in a higher price bid. The bank will have right to recover from the borrower the balance due if any, after sale of property excess amount if any, obtained on sale of property will be returned to the borrower after meeting all the related expenses.

Hypothecated Assets: - In the case of hypothecated assets after taking possession if no payment is forthcoming, a sale notice will be given as per the provisions of the SARFAESI Act/ any other applicable law. Thereafter Bank will arrange for sale of the hypothecated assets in such manner as deemed fit by the bank inclusive of E-auction. When sale is envisaged by public auction or by tender, the same will be published in two leading newspapers out of which one is in local vernacular paper.

10.4.5 Opportunity for the borrower to take back the security

As indicated earlier in the policy document, the Bank will resort to repossession of security only for the purpose of realization of its dues as the last resort and not with intention of depriving the borrower of the property. Accordingly, the Bank will be willing to consider handing over possession of property to the borrower any time after repossession and before concluding sale transaction of the property, provided the Bank dues are cleared in full. If satisfied with the genuineness of borrower's inability to pay the loan installments as per the schedule which resulted in the repossession of security, the Bank may consider handing over the property after receiving the installments in arrears. However, this would be subject to the Bank being convinced of the arrangements made by the borrower to ensure timely repayment of remaining installments in future.

10.4.6 Recovery through Lok Adalat

Lok Adalat is a legally constituted authority, for resolution of disputes through conciliation. It functions under the aegis of Central, State and District legal services Authority headed by judges from Supreme Court, High Court and District court respectively. They have powers to settle both pending suit filed cases as well as pre litigation cases. They grant awards, which are treated as decree and can be straight away executed in a court of law. Govt. of India has permitted Banks to efforts settlement through Lok Adalat for the dues up to Rs.20.00 lakhs.

10.5 Purchase and Sale of NPA

SARFAESIA besides facilitating enforcement of security without intervention of Court has put in place a framework for growth of specialized institutions for securitization and reconstruction of NPAs. These agencies purchase NPAs from Banks, Further RBI has now permitted sale and purchase of NPAs by Banks. In line with these developments, sale of NPAs to Asset Reconstruction Companies, Bank will be followed guidelines laid down in RBI circular bearing no. RBI/2016-17156 DBR,No.BP.BC.9/21.04.048 /2016-17 dated 01.09.2016 which provides for identification of the stressed assets, invitation of bid from Securitization Company (SC)/ Reconstruction Companies (RCs)/ banks/NBFCs/FIs, etc. who have the necessary capital and expertise in resolving stressed assets and valuation of such assets for sale.

10.5.1 Identification of Assets for Sale of NPA

At least once in a year bank shall, with the approval of the Board, identify and list internally the specific financial assets identified for sale to other institutions, including SCs/RCs.

All assets classified as 'doubtful asset' will be reviewed by the COD (Committee of Directors) on a half yearly basis and a view, with documented rationale, will be taken on exit or otherwise. The assets identified for exit shall be listed for the purpose of sale. Bank shall ensure that while selling performing or non-performing assets, it is properly ascertained that the pool of assets being sold does not contain any loan originated fraudulently or has been classified as fraud as on the date of sale.

10.5.2 Identification of Buyer for Sale of NPA

The Bank may assign the NPAs to Assets Reconstruction Companies (ARCs), Securitisation Companies (SCs)/Reconstruction Companies (RCs) Other Banks, FIs and NBFCs. The sale to ARCs could be undertaken either on single asset basis or on portfolio sale basis, where a group of NPAs may be pooled and sold to ARCs. The Bank may sell one or more NPAs to any ARC/Bank/FI/NBFC/third parties on bilateral basis or by following a bidding process.

In order to attract a wide variety of buyers and better price discovery, the invitation for bids will preferably be publicly solicited so as to enable participation of as many

prospective buyers as possible. In such cases, e-auction platforms may be used by the bank.

An open auction process, apart from attracting a larger set of borrowers, is expected to result in better price discovery. Bank will provide adequate time for due diligence by prospective buyers which may vary as per the size of the assets.

10.6 Insolvency and Bankruptcy Code, 2016 (the 'IBC')

The current economic downturn has resulted in increase in the number of Stressed Accounts in Banking Sector across various segments. In view of faster resolution process, The Insolvency and Bankruptcy Code, 2016 (the code, IBC) has been one of the biggest economic reforms in India in recent times. The code was formed with the following objectives:

- To balance the interest of all stakeholders by consolidating and amending the existing laws relating to insolvency and bankruptcy;
- To promote entrepreneurship
- To make credit available
- To reduce the time of resolution for maximizing the value of assets.

Bank may file petition with NCLT (National Company Law Tribunal) for Insolvency Resolution Process against following defaulted borrowers:

- Individual
- Partnership
- Sole Proprietor
- Limited Liability Partnership
- Limited Liability Company

10.6.1 Resolution of Stressed Assets – Revised Framework

The Reserve Bank of India vide its circular RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019 has set a new framework for the resolution of stressed assets in Banking system. The framework has been set with an objective of early detection of stressed assets and immediate action thereon, which is in synchronization with the Insolvency and Bankruptcy Code, 2016 (IBC). With this

new framework, Reserve Bank of India (the 'RBI') had promulgated a number of interim schemes for the resolution of stressed assets, namely -

1. Framework for Revitalizing Distressed Assets
2. Guidelines for Corporate Debt Restructuring (CDR Mechanism)
3. The Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries
4. Strategic Debt Restructuring Scheme (SDR)
5. Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)
6. Scheme for Sustainable Structuring of Stressed Assets (S4A)

10.6.2 The Implementation of a Resolution Plan (The 'RP'):

Implementation of RP: Resolution of stressed assets, involve any actions / plans / reorganization including, but not limited to,

- a. regularization of the account by payment of all over dues by the borrower entity
- b. sale of the exposures to other entities or investors,
- c. change in ownership, or
- d. Restructuring.

Conditions of Deemed Implementation of RP: An RP, shall be deemed to be 'implemented' only if specified conditions are fulfilled, namely, the borrower entity is no longer in default with any of the lenders. If the resolution involves restructuring then all related documentations are completed by the bank, along with, reflection of new capital structure and/ or changes in the terms of conditions of the existing loans in the books of all the lenders and the borrower.

Corporate Debtors: Two-Stage Process

To initiate an insolvency process for corporate debtors, the default should be at least INR 100,000. The Code proposes two independent stages:

- a) Insolvency Resolution Process, during which financial creditors assess whether the debtor's business is viable to continue and the options for its rescue and revival; and

- b) Liquidation, if the insolvency resolution process fails or financial creditors decide to wind down and distribute the assets of the debtor.

Insolvency Resolution Process (IRP)

The IRP provides a collective mechanism to lenders to deal with the overall distressed position of a corporate debtor. The Code envisages the following steps in the IRP:

(i) Commencement of the IRP

The Bank, individually or jointly with other financial creditors may file an application for initiating the insolvency resolution process against the corporate debtor at the National Company Law Tribunal (NCLT). If NCLT is satisfied about the default and all other parameters it accepts the application or else rejects by allowing 7 days' time to rectify mistakes.

(ii) Appointment of Resolution Professional

The NCLT/Banks appoints an insolvency professional or 'Resolution Professional' to administer the IRP. The Resolution Professional's primary function is to take over the management of the corporate borrower and operate its business as a going concern under the broad directions of a committee of creditors.

The Bank may appoint on a selective/case-to-case basis Insolvent Resolution Professionals (IRP) of repute for the purpose of Insolvency resolution process subject to approval by "Screening Committee" and noting by COC (Central Outsourcing Committee)

(ii) Moratorium

The NCLT orders a moratorium on the debtor's operations for the period of the IRP. This operates as a 'calm period' during which no judicial proceedings for recovery, enforcement of security interest, sale or transfer of assets, or termination of essential contracts can take place against the debtor.

(iv) Creditors Committee and Revival Plan

The Resolution Professional identifies the financial creditors and constitutes a creditors committee. Each decision of the creditors committee requires a majority vote

as per IBC guidelines from time to time. Decisions of the creditors committee are binding on the corporate debtor and all its creditors.

The creditors committee considers proposals for the revival of the debtor and must decide whether to proceed with a revival plan or liquidation within a period of 180 days (subject to a one-time extension by 90 days).

a) Liquidation

A corporate debtor may be put into liquidation in the following scenarios:

- (i) Majority as per IBC guidelines from time to time of the creditor's committee resolves to liquidate the corporate debtor at any time during the insolvency resolution process;
- (ii) The creditor's committee does not approve a resolution plan within 180 days (or within the extended 90 days);
- (iii) The NCLT rejects the resolution plan submitted to it on technical grounds; or
- (iv) The debtor contravenes the agreed resolution plan and an affected person makes an application to the NCLT to liquidate the corporate debtor.

Once the NCLT passes an order of liquidation, a moratorium is imposed on the pending legal proceedings against the corporate debtor, and the assets of the debtor (including the proceeds of liquidation) vest in the liquidation estate.

Information Utilities

A notable feature of the process includes creation of information utilities to collect, collate, authenticate and disseminate financial information of debtors in centralised electronic databases. CBO (Corporate Banking Operations) is the nodal department for submission of Information to NeSL.

Adjudicatory authorities

The adjudicating authority for corporate insolvency and liquidation is the NCLT. Appeals from NCLT orders lie to the National Company Law Appellate Tribunal and thereafter to the Supreme Court of India. For individuals and other persons, the adjudicating authority is the DRT, appeals lie to the Debt Recovery Appellate Tribunal and thereafter to the Supreme Court.

Additional conditions for accounts where the aggregate exposure of lenders is 1 billion and above:

Independent Credit Evaluation (the 'ICE'): The RPs involving restructuring / change in ownership in respect of large accounts require an ICE of the residual debt by credit rating agencies specifically authorized by the RBI. It may be noted that accounts with aggregate exposure of INR 5 billion and above require two (2) ICEs. The ICE is mandatory for even such restructuring(s) carried out before the 'reference date'. It is to be noted that the provision for independent evaluation had already been provided for the "large value restructuring(s)" under the Framework for Revitalizing Distressed Assets of the RBI.

Non-applicability of above guidelines

- The revival and rehabilitation of MSMEs as defined under 'The Micro, Small and Medium Enterprises Development Act, 2006' shall continue to be guided by the instructions contained in Circular No. FIDD.MSME & NFS.BC.No.21/06.02.31/ 2015-16 dated March 17, 2016, as amended from time to time.
- Restructuring of loans in the event of a natural calamity shall continue to be as per the directions contained in the RBI Guidelines vide circular no. RBI/FIDD/2018-19/64 FIDD.CO.FSD.BC No.9/05.10.001/2018-19 dated 17th October 2018 as amended from time to time or such other guidelines as shall be issued from time to time.

Framework for Relief Measures in Areas affected by Natural Calamities is provided in Annexure-X of the present policy.

10.7 Recovery through employing Outside Agencies

In view of the rise in the number of disputes and litigations against banks for engaging recovery agents in the recent past, Reserve Bank issued guidelines vide RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 01, 2015.

Bank may appoint outside/outsource collection/enforcement agencies for all portfolios, as the case may be, for collection & recovering the dues & repossessing

secured asset from the customers. The commission / payable grid, for the agencies to be duly approved by the competent authority.

Bank may also appoint on a selective/case-to-case basis outside agencies of repute for the purpose of ascertaining the real financial position of defaulters as also for possession and sale of assets under the SARFAESI Act subject to approval by COC (Central Outsourcing Committee) on basis of recommendation by SAMRV.

The commission and other expenses payable to the Recovery Agency would be negotiated by the Stressed Assets Group/Business Department on a case to case basis. The final rates of commission/expenses payable to the recovery agency would however be subject to approval by Annexure-VI - Delegation of Power.

Bank appoints advocates/legal counsels for filing suits against defaulting borrowers and defending the Bank against the suits/counter claims filed by the borrower against the Bank in various courts. Such advocates are generally appointed from the empanelled list of advocates. However, the Bank may, if circumstances warrant, appoint advocates from outside the panel for filing suits against defaulters, after obtaining approval from Head-Legal. Further, senior advocates/legal counsels, wherever warranted, shall be appointed on case to case basis from outside the empanelled list in the case of consortium/multiple banking accounts, where the suits are filed by the lead bank the Bank may give consent to the consortium leader/lead lender to appoint the advocate.

Valuation of securities shall be carried out generally by empanelled valuers only. However, in exceptional cases, where circumstances warrant, Head-Corporate Banking Department may approve appointment of valuers from outside the panel.

Wherever instances of exorbitantly inflated valuation of securities are noticed (based on the comparison of valuation of the securities at the time of loan origination and at the time of initiation of legal action), the details of such valuers who have given inflated valuation reports, shall be shared by Stressed Assets Group with Credit Operations Dept., who in turn shall take necessary action for blacklisting such valuers. In case required, such details will be shared with the Fraud Containment & Monitoring

Department team also for undertaking necessary investigation, based on which the further course of action will be finalized.

Complaints against the bank / its recovery agents

The Bank, as principal, is responsible for the actions of agents. Hence, it is to be ensured that agents engaged for recovery of dues should strictly adhere to the above RBI guidelines and instructions, including the BCSBI Code, while engaged in the process of recovery of dues.

Complaints received by Reserve Bank regarding violation of the guidelines and adoption of abusive practices followed by banks' recovery agents would be viewed seriously. Reserve Bank may consider imposing a ban on a bank from engaging recovery agents in a particular area, either jurisdictional or functional, for a limited period. In case of persistent breach of above guidelines, Reserve Bank may consider extending the period of ban or the area of ban. Similar supervisory action could be attracted when the High Courts or the Supreme Court pass strictures or impose penalties against any bank or its Directors/ Officers/ agents with regard to policy, practice and procedure related to the recovery process.

Bandhan Bank would, in the normal course ensure that employees also adhere to the RBI guidelines during the loan recovery process.

Periodical Review

A periodical review is to be implemented by the Bank to ascertain the experience and effect improvements, in the guidelines.

11. Allowing operations in the accounts for accounts with Stressed Assets (SA)

- In all the cases which are declared as non-performing assets (NPA), there will be an automatic debit freeze in all the accounts of the company. Any debit transactions allowed if any, to be approved by sanctioning authority only.
- Sanction of any fresh limits or restructuring of facilities will be in line with the existing credit policy.
- BG Renewal for the NPA accounts and the waiver of BG commission for NPA accounts may be approved by sanctioning authority.

12. Accounting for Recovery and Expenses related to Recovery

12.1 Appropriation of Recovery

As per RBI instructions, interest realized on NPAs may be taken to the income account provided the credits in the accounts towards interest are not out of fresh additional credit facilities sanctioned to the borrower concerned. The Bank proposes to follow this policy.

RBI has also stipulated that in the absence of a clear agreement between the Bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should exercise the right of appropriation of recoveries in a uniform and consistent manner. In case of recoveries in NPA accounts, bank would appropriate recoveries first against Fees/Charges dues from the borrower, then interest outstanding and then principal outstanding. The same policy already been approved by Board of Directors on 26th April 2017.

12.2 Incurring Expenses

Whenever an account is classified as NPA, efforts would be made to expeditiously recover the dues from the borrower. Towards this objective, the Bank may have to incur expenses towards filing of suit in DRT/Civil Courts, appointing recovery agencies in cases where action under SARFAESI Act is proposed. The Bank would debit such expenses to the charges account. Such charges would be debited to GL: Legal Charges (for all legal expenses incurred) or GL: Insurance premium (for insurance premium paid on assets in the case of NPAs). In all the cases with exposure of above Rs. 10 Lacs, Stressed Assets Group would maintain a borrower-wise data of such expenses with a view to ensure that these amounts are also recovered along with

the balances, on best effort basis. In all other cases of Retail Assets department, the overdue charges will be booked as income only on realization.

13. Provisioning

RBI has, from time to time, issued a number of circulars containing instructions / guidelines to banks on matters relating to prudential norms on Income Recognition, Asset Classification and Provisioning. Provisioning norms of our bank based on “Loan Classification, Provisioning and Write off Policy” dated 26th April 2017. The Bank would make provisions in the non-performing accounts (NPAs) based on these guidelines issued by RBI. The Bank may also make provisions higher than the minimum requirements prescribed by RBI, with the approval of Board of Directors, which would be done in a consistent manner.

13.1 Standard Assets

For micro lending portfolio, general provision on standard advances will be maintained by Bank at 1% which is higher than the minimum provisioning requirement specified in the RBI guidelines which is minimum of 0.25%.

Other than Micro lending portfolio, the bank will maintain general provision for standard assets (Other than the micro lending portfolio) at the following rates for the funded outstanding on global loan portfolio basis:

- (a) Farm Credit to agricultural activities and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent;
- (b) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;
- (c) Advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent
- (d) All other loans and advances not included in (a) (b) and (c) above at 0.40 per cent.
- (e) Further, RBI circular ref RBI/2016-17/282/DBR.No.BP.BC.64/21.04.048/2016-17 dated 18th April 2017, has prescribed the additional provisioning of standard advances at higher than the prescribed rate in respect of advance to stressed sector of the

economy and Bank may make provision for standard assets at a rate higher than the regulatory minimum based on the evaluation of risk and stress in various sectors. The review shall be requiring to review at least on quarterly basis.

13.2 Substandard, Doubtful and Loss Assets

Micro Lending Portfolio

| Asset Classification | Provisioning % |
|----------------------------|----------------|
| Substandard | 25% |
| Doubtful up to 1 Year | 100% |
| Doubtful 1-3 Years | |
| Doubtful more than 3 years | |
| Loss Assets | 100% |

13.3 SME / Corporate Lending/Agriculture/Mortgage Loans/Any Loans, except Project Loan)

In case of NPAs under SME / Corporate Lending/Mortgage Loans/ Any Loans other than Micro Loans, the Bank shall continue the prudential provisioning policy recommended by the RBI as listed below:

| Asset Classification | Secured Portion | Unsecured Portion |
|----------------------------|-----------------|-------------------|
| Substandard# | 15% | 25% |
| Doubtful up to 1 Year | 25% | 100% |
| Doubtful 1-3 Years | 40% | 100% |
| Doubtful more than 3 years | 100% | 100% |
| Loss Assets | 100% | 100% |

In case of sub-standard assets provision of 15% on total outstanding would be made irrespective of security value. However, if the advance is unsecured ab-initio, an additional provision of 10% i.e., total provision of 25% on outstanding balance would be made.

13.4 Project Loan

| | |
|--|-------|
| | 0.40% |
|--|-------|

| | |
|---|---|
| <p>If the revised DCCO is within two years/one year from the original DCCO prescribed at the time of financial closure for infrastructure and non-infrastructure projects respectively</p> | |
| <p>If the DCCO is extended:</p> <ul style="list-style-type: none"> • Beyond two years and up to four years or three years from the original DCCO, as the case may be for infrastructure projects depending upon the reasons for such delay. • Beyond one year and up to two years from the original DCCO. | <p>Project loans restructured with effect from June 1, 2013: 5.00 per cent - From the date of such restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later</p> <p>Stock of project loans classified as restructured as on June 1, 2013:</p> <ul style="list-style-type: none"> * 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14) * 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15) * 5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16) <p>The above provisions will be applicable from the date of restructuring till the revised DCCO or 2 years from the date of restructuring, whichever is later.</p> |

14. Upgradation of NPAs

NPAs would be upgraded to performing assets based on satisfactory recovery performance in such accounts, with or without restructuring. In case of NPAs, which are upgraded without restructuring, the specific-provision held against that account would be reversed. In case of restructured NPA accounts which are upgraded to standard assets consequent to the satisfactory performance of the account for the 'specified period', the specific prudential provision held against that account would be reversed upon up-gradation. However, the provision held against the diminution in fair value would be re-computed on each balance sheet date till the satisfactory completion of all repayment obligations and full repayment of the outstanding in the account so as to capture the changes in the fair value of the account restructured.

The up-gradation of the eligible customers (under all business segments) from NPA category to Standard Assets (performing assets) would be based on the following parameters/rules, which are set at account level in CBS system, which shall identify customers eligible for upgrade or otherwise.

14.1 Financial Parameters

- i) Term loans: Interest and/ or instalment of principal remaining overdue for a period of less than 1 day in respect of advances.
- ii) All Cash Credit & Overdraft Advance: Account doesn't remain 'out of order' in respect of Cash Credit / Overdraft facility (Balance outstanding is less than sanction limit / drawing power and credits are sufficient to cover interest debited during the period)
- iii) All Current & Savings Bank accounts: The debit balances in Current & Savings Bank Accounts are fully recovered.
- iv) Bills/Packing Credit Loans: None of the bills discounted/packing credit advances granted are overdue for more than one day.

14.2 Non- Financial Parameters

- i) All Cash Credit & Overdraft Advances: An account where limits have been reviewed / renewed within 180 days from the respective due date.
- ii) All Cash Credit & Overdraft Advances: Drawing power based on stock / book debts statement not more than 180 days old.

15. Prudential Write Off

As per the RBI Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 % of the outstanding should be provided for.

Considering the fact that RBI gives an option to the Bank to either write off loss assets or maintain full provision there against, the following policy would guide write offs:

15.1 Write Off Policy For Non-Micro Loans

(SME, Small Corporate and Corporate Segments, Retail Advances, Retail Agri, loans to Govt sponsored schemes)

The Bank would follow the broad guidelines on write off of NPAs under Non-Micro Loans (SME, Small Corporate, Retail and Corporate Segments) as follows:

- I. Where full provision has already been made, prudential writing off will be considered.

- II. Bank may fully write off accounts classified as loss assets or doubtful assets of more than 3 years (DIII) against which 100 % provision is being held.
- III. Further, Bank may write off unsecured portion of doubtful assets under DI and DII categories, against which it is holding 100 % provision.
- IV. The management may propose for writing off any NPA (either fully or partially) to the board. However, in the write-off proposal, management have to justify that adequate measures have been taken to recover the loan and these are the fit case (s) for the prudential write off.
- V. The final approval would rest with such authority as given under the delegation of powers in Annexure-VI - Delegation of Power.
- VI. Writing off may be considered in an NPA accounts if the Bank is of the view that dues in the account are not realisable and there is nil or negligible salvage value of the securities available to the Bank. In such cases, management may, if deemed fit on a case to case basis, recommend to the Board of Directors for prudential writing off of an NPA loan account even prior to aforesaid period of three years.
- VII. Collection efforts would continue similar to those for any other delinquent account.
- VIII. Recovery from prudential write-off shall be placed before RMCB.

15.2 Write Off Policy for Microfinance Advances

The Bank would follow the broad guidelines on write off of NPAs under Micro Loans as follows:

- I. Where full provision has already been made, prudential writing off will be considered.
- II. The Bank may prudential writing off Microfinance Advances in case of non-performing where full provision has already been made. Accounts which have remained overdue for a period of 30 days or more after expiry of its tenure, the bank is making 100% provision. The management may propose to write-off the same to the board. However, in the write-off proposal management have to justify that adequate measures have been taken to recover the loan and these are the fit case (s) for the prudential write off. Collection efforts would continue similar to those for any other delinquent account.

16. Valuation Policy for NPAs

Once an account is classified as NPA, the amount of provision to be held thereof is determined by the value of the underlying securities.

As per the extant RBI guidelines on provisioning for NPAs with outstanding dues exceeding Rs. 5 crores, its current assets are considered as security, stock audit has to be conducted on annual basis. The Bank would, in all working capital NPAs with balance exceeding Rs.5 crores, follow this policy. Wherever it is not possible for the Bank to obtain the stock audit conducted in such accounts, the value of the current assets would not be reckoned for arriving at the provision amount.

In all other NPAs (with balance less than Rs.5 crores), where current assets are considered as part of security, the stock/book debt statement would be less than three months old. If the stock/book debts statements are more than three months old, the value of current assets in such accounts shall be ignored while computing the provision amount.

The gross realisable value of stocks and book debts shall be considered for the purpose of arriving at the security value, without netting off the margin. However, any obsolete stock reported in the stock audit report shall be ignored while computing the value of current assets. Further, the entire book debts disclosed in the stock & book debts statements submitted by the borrower (which shall be less than 3 months old) shall be considered for reckoning the security value. However, any non-realizable/bad debts quantified by the auditors of the company/reported in the stock audit report shall be ignored while computing the security value.

In the case of fixed assets available as security, the Bank would endeavor to obtain the latest valuation report for such fixed assets. In the absence of any recent valuation report, the value of the fixed assets as mentioned in the last audited balance sheet of the borrower (which shall be less than three years old) shall be taken as the basis for valuation of fixed assets. The fixed assets, in such cases, shall be suitably depreciated to arrive at the written down value. If the audited balance sheet of the borrower is more than three years old, the value of fixed assets shall be ignored for computation of the provision amount.

Wherever immovable securities, either as primary or collateral, are available, the value of the same shall be considered for arriving at the provision amount, provided such valuation reports are less than three years old. If the valuation reports are more than three years old, the value of such immovable securities shall be ignored for

computation of the provision amount. The market value of securities, as mentioned in the valuation report shall be considered for computation of the security coverage.

In case shares of listed companies are pledged as security, the last quoted value of such pledged shares shall be considered for computation of the security value. In case of shares of unlisted companies/unquoted shares, the value of such shares shall be based on the break-up value based on the last audited accounts, which shall not be more than one-year-old. In case the audited accounts are over one-year-old, no value will be assigned to the Shares.

Valuation and sale of property repossessed by the Bank will be carried out as per law and in a fair and transparent manner. The valuation given by the approved valuer will be conveying to the borrower before proceeding with sale of property. Even while finalizing sale of the property the offer(s) received by the bank will be informed to the borrower and he will be having an opportunity to bring in a higher price bid. The bank will have right to recover from the borrower the balance due if any, after sale of property excess amount if any, obtained on sale of property will be returned to the borrower after meeting all the related expenses.

17. Organizational Structure for Recovery Efforts

The Bank shall set up a Stressed Assets Group at Head Office, which will be the focal point of Stressed Asset Management for all accounts exceeding Rs. 10.00 Lacs along with respective Business Department.

18. Delegation of Financial Powers

The proposed delegation of financial powers for approval of one-time settlement of NPAs and standard assets, write-off of bad debts, initiating legal action against borrowers, transfer of accounts to protested bills account incurring necessary expenses in NPAs etc. is indicated in Annexure-VI - Delegation of Power.

19. Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)

RBI vide circular no. FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated March 17, 2016 had issued guidelines on Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs). All MSME accounts having total exposure within Rs. 25.00 Crores will follow the said policy on Rehabilitation of Sick Micro and

Small Enterprises amended for the RBI circular mentioned above on 27.7.2016. The policy is attached here as Annexure - I.

20. Cases not covered by this policy

For all cases not covered by this policy, directions issued by the RBI will be followed. In the absence of directions from RBI, the matter will be referred to the Board of Directors of the Bank for their approval. Various Provisions in the Policy shall be in line with extant regulatory guidelines from time to time. Any change in Regulatory policy & guidelines shall supersede and prevail. In case of exigencies, any further change in the Policy due to changes in regulations shall be taken up for interim approval from MD & CEO and subsequently ratified in Board.

21. Review of Policy

This policy will be reviewed by the Board periodically, ideally once in a year. Last Policy on "Loan classification, Provisioning and Write-Off Policy approved by Board of Directors on 26th April 2017.

Annexure-1

FRAMEWORK FOR REVIVAL AND REHABILITATION OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES)

vide RBI vide circular no. FIDD.MSME & NFS.BC.No. 21/06.02.31/2015-16 dated
March 17, 2016.

1. Background

Micro and Small Enterprises are the growth engines of the Indian Economy due to their ability to create jobs, foster entrepreneurship and to provide depth to the industrial base of the economy. They contribute significantly to the GOP and exports from the country.

To ensure systematic and smooth growth of the MSME sector; the Government of India enacted the Micro, Small and Medium Enterprises Act 2006 on 16.06.2006 and implemented the act with effect from 02.10.2006. Due to this Act, the concept of Tiny/Small Scale Industries Sector was replaced by the expanded MSME sector which included Micro, Small, Medium Manufacturing as well as Service Enterprises. Since then, various policies have been formulated and implemented with regard to flow of Credit to MSE Sector, growth parameters, relief measures, etc.

2. Preamble

In spite of diligent appraisal, meticulous planning and careful execution at all levels, sickness is not an uncommon feature for an enterprise. A host of internal and external factors play vital roles in the success of manufacturing as well as service enterprises. Profitable operation of the enterprise' depends on several situations some of which are not within control of the entrepreneurs.

It is of utmost importance to take measure to recognize/ identify signs of sickness in a Unit and arresting it at incipient stage itself. The Bank officials will have to identify the early warning signals and initiate corrective steps promptly.

But like in any other sector, some units in MSE sector may become sick in spite of close monitoring, due to reasons beyond their control. Such units will have to be dealt with sympathetically and to be rehabilitated if the viability is established.

3. Objectives of the Policy

In order to provide a simpler and faster mechanism to address the stress in the accounts of Micro and Small Enterprises (MSMEs) the Government of India, vide their Gazette Notification dated May 29, 2015 had notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'. Accordingly, our Bank has already been adopted this framework and now putting this as a Policy. This policy guided by RBI vide their circular no. FIDD.MSME&NFS:BC.No. 21/06,02.31/2015-16 dated March 17, 2016, Circular No. FIDD.MSME & NFS.BC.No.21/ 06.02.31/ 2015-16 dated March 17, 2016, RBI vide circular RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019 and any amended from time to time as per

By this policy we propose to adopt these guidelines. The policy also covers Restructuring of loan accounts having exposure up to Rs.25 crores. Restructuring of loan accounts with exposure of above Rs.25 crores will continue to be governed by the circular RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019.

4. Eligibility

The provisions made in this framework shall be applicable to Micro, Small & Medium Enterprises (MSMEs) having loan limits up to Rs.25 crores, including accounts under consortium or multiple banking arrangement (MBA).

As per Reserve Bank of India vide Circular No. RBI/2020-2021/10 FIDD.MSME & NFS.BC. No. 3/06.02.31/2020-21 dated July 2, 2020, wherein new criteria have been issued for classifying the enterprises as Micro, Small and Medium enterprises, based on Government of India (GoI) Gazette Notification vide S.O. 2119 (E) dated June 26, 2020.

This policy basically intends to cover viable or potentially viable MSME units (both manufacturing and service) those are facing problems which can be overcome with timely remedial/corrective action. These problems may be due to cost/time overrun before commercial production, mismatch in cash flows resulting in temporary liquidity crunch, external factors etc.

While the prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances will continue to be as per the instructions consolidated in the Master Circular on IRAC Norms dated July 1, 2015 and as updated from time to time, the revival and rehabilitation of MSMEs having loan limits up to Rs. 25 crores will be in terms of these operating instructions. Restructuring of loan accounts with exposure of above Rs.25 crores will continue to be governed by the guidelines on circular RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019 on Resolution of Stressed Assets – Revised Framework.

5. Identification of incipient stress

Identification by banks or creditors - Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below:

| SMA Sub-categories | Basis for classification |
|---------------------------|---|
| SMA-0 | Principal or Interest payment not overdue for more than 30 days but account showing signs of incipient stress (Annexure-VIII) |
| SMA-1 | Principal or interest payment overdue between 31-60 days |
| SMA-2 | Principal or interest payment overdue between 61-90 days |

All accounts with aggregate credit limits (fund based + non-fund based) up to Rs.10 lakh identified as SMA-2, should be mandatorily examined for CAP by the respective Business Unit under the authority of respective Business Heads, without referring to CSMSME Committee. However, the cases, where the Bank has decided the option of recovery under CAP instead of rectification or restructuring, should be referred to a Committee (as mentioned in point. no. 6 below) for their

concurrency. The Business Head should also examine the accounts reported as SMA-0 and SMA-1, if it is deemed necessary.

Bank should closely monitor the accounts reported as SMA 0 or SMA 1 or SMA 2 as these are early warning signals of weakness in the account and take up the issue with the borrower to rectify the deficiencies.

All accounts with aggregate credit limits (fund based + non-fund based) more than Rs 10 Lacs and up to Rs 25 crores should be examined by a Committee for Stressed Micro, Small & Medium Enterprises (CSMSME).

In order to enable faster resolution of stress in an MSME account, the Bank has already formed " Committees for Stressed Micro, Small and medium Enterprises (CSMSME) vide approval dated 13th June 2016.

The CSMSME shall maintain records of meetings and adhere to the stipulated timelines.

All eligible stressed MSMEs shall have access to the CSMSME for resolving the stress in these accounts in accordance with regulations prescribed in this Framework.

Provided that where the CSMSME decides that recovery is to be made as part of the CAP, the manner and method of recovery shall be in accordance with the existing policies of the bank including the NPA Management & Recovery Policy/Retail Collections Policy, subject to any regulations prescribed by the Reserve Bank of India and extant statutory requirements.

6. Application to the CSMSME Committee for a Corrective Action Plan

The list of such accounts will also be generated by (Corporate Banking Operations) (CBO) on a monthly basis (as on the last day of every month) and sent to the Business department. The Business Head on identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, shall forward the cases having aggregate loan limits above Rs.10 lakh to the Committee/largest lender for convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above Rs. 10 lakh can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders.

Identification by the Borrower Enterprise - Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts or there is erosion

in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year, by making an application to the Hub/Centre/Unit or directly to the Committee. When such a request is received by the Bank, the account with aggregate loan limits above Rs. 10 lakh should be referred to the Committee. The Committee should convene its meeting at the earliest but not later than five working days from the receipt of the application to examine the account for a suitable CAP.

Where an application is filed by a bank/lender and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within five working days and require the enterprise to:

- (a) Respond to the application or make a representation before the Committee; and
- (b) Disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any, within fifteen working days of receipt of such notice;

Provided that if the enterprise does not respond within the above period, the Committee may proceed.

7. Corrective Action Plan by the Committee

The Committee may explore various options to resolve 'the stress in the account'. The committee shall not endeavor to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. While Techno-Economic viability of each account is to be decided by the concerned lender/s before considering restructuring as CAPs, for accounts with aggregate exposure of Rs.10 lacs and above, the Committee should conduct a detailed Techno-Economic Viability study before finalizing the CAP.

While deciding the CAP, the Committee may ensure that all the guidelines contained in RBI Circular no. RBI/2015-16-16/338 dt 17.05.2016 titled FRAMEWORK FOR REVIVAL AND REHABILITATION OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) pertaining additional finance, restructuring etc. be strictly followed.

During the period of operation of CAP, the enterprise shall be allowed to avail both secured and unsecured credit for its business operations as envisaged under the terms of CAP. The options under CAP by the Committee may include:-

7.1 Rectification: - Obtaining a commitment, specifying actions and times lines, from borrower to regularise the account so that the account comes out of Special Mention Account (SMA) status or does not slip into the Non-Performing Asset category and the commitment should be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders. The rectification process should primarily be borrower driven. However, the Committee may also recommend providing need based additional finance to the borrower, if considered necessary, as part of the rectification process. It should however be ensured that this need based additional finance is intended. Only for meeting, in exceptional cases, unavoidable increased working capital requirement. In all cases of additional finance for working capital, any diversion of funds will render the account as NPA. Further, such additional finance should ordinarily be an adhoc facility to be repaid or regularised within a maximum period of six months. Additional finance for any other purpose, as also any rollover of existing facilities or funding not in compliance with the above conditions, will tantamount to restructuring. Further, repeated rectification with funding, Within the space of one year will be treated as a restructuring and no additional finance should be sanctioned under CAP, in' cases where the account has been reported as fraud by any lender.

7.2 Restructuring: - Consider the possibility of restructuring the account, it is prima facie viable and the borrower is not a willful defaulter, i.e. there is no diversion of funds, fraud or malfeasance etc. Commitment from promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets may be obtained along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the Committee. Any deviation from the commitment by the borrowers affecting the security or recoverability of the loan may be treated as a valid factor for initiating recovery process.

7.3 Additional Finance: If the Committee decides that the enterprise requires financial resources to restructure or revive, it may draw up a plan for provision of such finance. Any additional finance should be matched by contribution by the promoters in appropriate proportion, and this should not be less than the proportion at the time of

original sanction of loans. Additional funding provided under restructuring / rectification part of the CAP will have priority in repayment over repayment of existing debts. Therefore, instalments of the additional funding which fail due for repayment will have priority over the repayment obligations of the existing debt. If the existing promoters are not in a position to bring in additional funds the Committee may allow the enterprise to raise secured or unsecured loans. Provided further, that the Committee may, with the consent of all creditors recognized, provide such loans higher priority than any existing debt.

The Eligibility for restructuring would be as listed below :- (a) Restructuring cases shall be taken up by the Committee only in respect of assets reported as Standard, Special Mention Account or Sub-Standard by one or more lenders of the Committee. (b) However, the Committee may consider restructuring of the debt, where the account is doubtful with one or two lenders but it is Standard or Sub-Standard in the books of majority of other lenders (by value). (c) Willful defaulters shall not be eligible for restructuring. However, the Committee may review the reasons for classification of the borrower as a willful defaulter and satisfy itself that the borrower is in a position to rectify the willful- default. The decision to restructure such cases shall have the approval of the Board of concerned bank within the Committee who has classified the borrower as willful defaulter.

Cases of Frauds and Malfeasance remain ineligible for restructuring.

The following are the conditions relating to restructuring under the Framework:-

- Under this Framework, the restructuring package shall stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios after a period of 6 months may be achieved.
- The Committee shall periodically review the account for achievement / non-achievement of milestones and shall consider initiating suitable measures including recovery appropriate.
- Any restructuring under this frame work shall be completed within the specified time periods.
- The Committee shall optimally utilize the specified time periods so that the aggregate time limit is not breached under any mode of restructuring.

- if the Committee takes a shorter time for an activity as against the prescribed limit, then it can have the discretion to utilize the saved time for other activities provided the aggregate time limit is not breached.
- The general principle of restructuring shall be that the stakeholders bear the first loss of the enterprise rather than the lenders. In the case of a company, the Committee may consider the following options, when a loan is restructured:
 - Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices:
 - Promoters infusing more equity into their companies.
 - Transfer of the promoters' holdings to a security trustee or an escrow arrangement till turnaround of enterprise to enable a change in management control, if lenders favour it.
 - In case a borrower has undertaken diversification or expansion of the activities which has resulted in the stress on the core-business of the group, a clause for sale of non-core assets or other assets may be stipulated as a condition for restructuring the account, if under the Techno-economic Viability study the account is likely to become viable on hiving off of non-core activities and other assets.
 - If the lenders' sacrifice is not fully compensated by Way of issuance of equities, the right of recompense clause, may be incorporated to the extent of shortfall.

In order to distinguish the differential security interest available to secured lenders, partially secured lenders and unsecured lenders, the Committee may consider various options, such as:

- Prior agreement in the Inter-Creditor Agreement among the above classes of lenders regarding repayments,
- A structured agreement stipulating priority of secured creditors,
- Appropriation of repayment proceeds among secured, partially secured and unsecured lenders in certain pre agreed proportion,
- The Committee shall, on request by the enterprise or any creditor recognized (as mentioned earlier), provide information relating to the proceeding as requested by the enterprise or such creditor.

Recovery- Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The Committee may recommend recovery in the account.

The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of the Inter- Creditor Agreement. If the Committee decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws or Acts shall be applicable.

8. Process to be followed by the Committee (CSMSME)

On receipt of information relating to the liabilities of the enterprise,

| Sr No | Activity | Responsibility |
|--------------|--|-----------------------------|
| 1 | Where an application is filed by a bank/lender and admitted by the Committee, the concerned enterprise shall be notified such application within 5 working days. | Respective CSMSME committee |
| 2 | Sending notice to statutory creditors as disclosed by the enterprise, informing the about the application under the Framework and permit them to make a representation regarding their claims before the committee within fifteen working days pf receipt of such notice. | Business Head |
| 3 | Within 30 days of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan (CAP) as given in preceding sections and notify the enterprise about such a decision, within five working days from the date of such decision. | Business Department |
| 4 | Conduct the detailed Techno-Economic viability (TEV) study if envisaged and finalize | Business Department |

| | | |
|---|--|-----------------------|
| | the terms of such a restructuring in accordance with the extant RBI prudential norms for restructuring & delegation of powers of the Bank, within 20 working days (for accounts having aggregate exposure up to Rs.10 crore) and within 30 working days (for accounts having aggregate exposure above Rs.10 crore and up to Rs.25 crores and notify the enterprise about such terms, within five working days | |
| 5 | Upon finalization of the terms of the corrective action plan, the implementation of that plan shall be completed by the Bank within 30 days (if the CAP is Rectification) and within 90 days (if the 'CAP is restructuring). In case recovery is considered as CAP, the recovery measures should be initiated at the earliest as per the Bank's Policy | Business Department |
| 6 | Minutes of the meeting of the CSMSME to be prepared and circulated to all the members. A copy of the same to be sent to Business department respectively. | CSMSME |
| 7 | Note to be put up to appropriate authority for approval - restructuring/recovery/TOD etc as recommended by the CSMSME committee. If final CAP is rectification the approval for the review note shall be submitted to Head-Business for approval of the rectification plan. If the rectification involves need based additional finance to the borrower, approvals for same has to be obtained from the appropriate authority as per the guidelines of Credit Policy / Delegation of Financial Powers as per the circular issued from time to time | Sanctioning authority |

| | | |
|----|---|-----------------------------|
| | If the final CAP is restructuring, the final decision on restructuring will be as per the delegation of powers stipulated in the CCP. If the final 'CAP is recovery, the decision will be as per the guidelines mentioned in the NPA Policy of the Bank. | |
| 8 | Follow up for implementation of CAP | Respective HUBs |
| 9 | Periodically review of the account for achievement/ non-achievement of milestones and consider initiating suitable measures including recovery measures as deemed appropriate. | Respective CSMSME Committee |
| 10 | Maintaining all MIS and records of the action taken on SMA 2 accounts | Respective CSMSME Committee |

9. Timelines:

Detailed time-lines, given for carrying out various activities under the framework should be strictly adhered to. If the committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing then restructuring package. However, they should not wait beyond this period and proceed with CAP.

10. Review:

In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of ten working days from the date of receipt of the decision of the Committee.

The request for review shall be on the following grounds:

- (a) A mistake or error apparent on the face of the record; or
- (b) Discovery of new and relevant fact or information which could not be produced before the Committee earlier despite the exercise of due diligence by the enterprise.

A review application shall be decided by the Committee within a period of thirty days from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan, it may do so.

Non-viable Units: units declared as 'unviable' after a viability study will be handed over to Stressed Assets Department for initiating appropriate recovery proceedings

11. Exclusions to the policy

A. Agri Loans:

Agri Loans are hypothecated/pledged based against agro commodities. As per existing RBI guidelines, these loans are classified either under farm credit (loans to farmers) or ancillary activities (loans to food processing units). In all commodity loans (farmers, traders and processors), in case of borrower default, the underlying security needs to be sold/auctioned immediately due to its perishable nature. Hence, commodities loans need to be excluded from "Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)".

B. Government Sponsored Schemes:

The loans under Government sponsored schemes (sponsored by various central/state government agencies) at times come under MSME classification. These schemes are mainly targeted at economically and socially weaker sections of the society. There is no promoter contribution or margin in any of these cases and loans are of relatively small value. Often these ventures fail due to lack of potential for the activity (as envisaged by the sponsoring govt agency), poor managerial skills of the borrower as well as lack of interest on the part of the borrower. Hence a need for carrying out Revival & Rehabilitation assessment study for the accounts under GSS will not arise and appropriate recovery measures shall be initiated in such cases.

C. Retail Assets

In case of Retail Assets, the loans extended to the MSME borrowers are backed by secured assets viz Commercial Vehicles, Cars hypothecated to bank and Mortgage of property in case of Loan against Property. These are essentially retail loans and not extended as a Working Capital Finance. In case of the retail loans becoming

delinquent, there should be a robust collection mechanism vide SMS/Telecalling and Field efforts to collect the over dues. If any loan becomes NPA, these collection efforts are supplemented with legal aids in the form of legal notice, repossession of the vehicles or SARFESAI Act in case of Mortgages.

In view of the above it is proposed that for Retail Assets portfolio, the concept of Revival and Rehabilitation will not apply. Strong efforts for recovery of dues will be initiated in such cases.

Annexure-II - Overdue and NPA Control Mechanism - Micro-Banking

Reason for Loan Overdue and Role to be played in case of Overdue:

In any DSC when overdue in Loan repayments starts with default of one or two borrowers, gradually it spreads in all directions in geometric progression. As the overdue starts, it has an adverse multiplier impact on all the activities. The reasons behind non-payment of loan and some steps to improve the overdue situation are detailed as follows:-

Deficiencies related to formation of Groups:

- Admission of people against bank's norms specified for group members and their families.
- Enrolling women living in distant locations / far away from the place where the Group functions
- Formation of Group with the help of local influential people and admit members of other Financial Institutions.
- Admission of dishonest people & people engaged in undesirable/antisocial activities.
- Admission of more than one member of a family into a group and form groups with floating or impermanent members.
- Inclusion of one customer in more than one group of same or different DSC of Bandhan Bank.
- Inclusion of more than one customer from same family

Group Management and staff related:

- Staff having inadequate presentation skill, lack of convincing skill and behavioral skill.
- Nepotism & biased relationship of staff with members or relatives in a leading to indulgence in unethical behavior & practice.

- If there is Overdue, little effort is made by the staff to rectify and tendency to exclude the member from the group after adjusting the dues from other members of the Group.
- The habit of lending money or taking bribe from group members or from other staff or Group President, at the time of disbursement of loan.
- Disbursing loan above the incremental ceiling fixed for repeat loans, disregarding Bank rules, which attracts penal action against the concerned staff.
- Admit new members in place of old members, who are excluded from the group against the laid out norms.
- Consequent to transfer of staff or in case of taking any disciplinary action against the staff by the Organization, the concerned staff involved in such case act in such manner that he/she dampens the spirit and enthusiasm of the Group by resorting to discouraging tactics of all kinds.

Purpose of Disbursement of loan:

- For purpose other than investing the loan amount to any income generating activities.
- For Repayment of customer's unpaid debt of old money lender from the amount of loan taken from bank.
- Giving loan to others (customer, staff) from the proceeds of new loan taken.
- Divert the loan money in market investments and interest earning scheme.
- Providing loan beyond loan ceiling and customer's capacity.
- Use of loan for marriage, medical treatment or any unproductive activity.
- Failure to build up confidence by the concerned DBO and his/her inability to build enthusiasm and trust in the members.
- Harm caused to crops/disruption of business due to natural calamity like flood, hailstorm, drought etc.

Responsibility of staff in overdue situation:

- All the staff of the DSC should act as a team with coordinated efforts. They must be tactful and seek help from the borrower's peers (in the group), having

good past records with the Bank. If required, they can take the necessary assistance of any guardian of the customer.

- If an overdue happens anytime, it is imperative for the staff concerned to find out the reason then and there on the spot and try to recover unpaid loan with the help of neighborhood people and respectable person of the locality.
- A problematic customer must be identified. Then the concerned customer should be removed from the group with the consent of all other customers in the group and the group would be rearranged, according to Bank's rules.
- In case of failure of all other techniques available to collect the repayment from defaulting customer, arrangement should be made for recovery of the loan with the help of the local administration and local representative body (Member of Panchayat / Head of Panchayat / Chairman of Municipality) by providing them the notice in advance.
- DSC staff should work as a Team, area wise and follow up in stages. If required, the higher Authorities at Head Office will be engaged to join the team work.
- If overdue further escalates because of inefficiency of staff, then the staff should be transferred from that Region elsewhere as soon as possible and steps should be taken to ensure that efficient staff should get posted in that place.
- To create awareness about overdue in the overdue-ridden villages, the members representing the team taking care of overdue will organize special meetings. The staff from Head Office going to Region will visit borrowers at field level and verify everything, where overdue is more.
- Sometimes it is seen that 01 or 02 customer(s) avails huge false loans from the Bank in various names and at the time of recovery of loan installments, they behave rudely and defiantly. The staff members become confused and perplexed to decide what course of action has to be taken. This delays matter in taking decision at their level when the facts & information of such complicated members are not communicated to H.O in time. Therefore in such cases, the concerned RM -MB & Cluster Head - MB will draw the attention of ZIC, Deputy Head - MB and Head - Micro Banking by mail without any delay to such complex issues and will take initiatives as per necessary advice.

- Sometimes, some customers of a DSC usurp the loan of 2 or 3 other customers. In that case, after repayment of 1st cycle loan if any loan is not disbursed again, the concerned customer can stop paying installments of other loans. Consequently, the staffs are baffled by such customer many a time. In this case, the staff will have to identify such customer and discuss with them the recovery process. Subsequently DH should inform the concerned Cluster Head – MB through RM-MB and DH seek advice whether or not to make further loan disbursement.

Unplanned stoppage of disbursement of loan:

For DSCs, having groups with large delinquent members, if Group is cancelled after their repayment of loan or if the regular members with good track record are denied fresh loans then such information spreads like wild fire in the Group/in the area and consequently mutual mistrust appears based on the fact that the members will not get fresh loans after full repayment of installment thus absence of trust will facilitate more overdue.

Therefore in the case of such problems, the loan disbursement to a good member cannot be stopped for the overdue/delinquency of other member. Based on needs, the concerned good member will be provided with loan. In case of collecting loan installments, quick action will have to be taken instantly. In this case, member-based communication will have to be strengthened to prevent good members being driven to become OD members.

Resorting to deception and false assurance by the staff:

Many a time, the staff takes recourse to the practice of getting the loan of Bandhan repaid by the borrower through taking loan at a very high interest from Money lenders by promising a mid-term loan or assurance of increasing the amount of loan in the next cycle. This type of deception and false promise is absolutely prohibited for the process of recovery of overdue and this is punishable offence. If this type of incident is noticed, Head Office should promptly be informed by official who notice this seeking action to be taken against the concerned employees.

Alternative arrangement for recovery of overdue:

- Wherever group meeting is not held in Groups of a DSC having large number of overdue borrowers, the staff has to collect overdue amount by visiting the houses of overdue borrowers. However Staff is advised to

generally avoid collections from individual borrower's house and always convince the borrowers to attend the group meetings for making repayments. However, DH and RM- MB will continuously follow up those overdue borrowers for payments and arrange for recovery of the amount in systematic way through proper group meeting.

- Special posting of staff may be arranged made for working in the excessively overdue-ridden areas from time to time.
- The probable candidates for promotion to DH & RM-MB may be given responsibility in DSCs /Region offices having large Overdue, of collecting overdue repayments. The success of their efforts in collecting overdue or any special contribution made for such collection will be duly considered as one of the parameters for their upcoming promotion.
- The old and experienced staff will be accorded priority for posting in DSCs having groups with higher Overdue, instead of posting of inexperienced staff.
- The staff at the level of RM-MB and Cluster Head-MB will have to set example by staying long hours for 1 or 2 days at those DSCs and visit the house of overdue members without which the activity related to recovery of overdue will not be strengthened.

Inclusion of overdue member again under purview of disbursement of loan:

- The borrowers who continue to remain as overdue borrowers for a long period should not normally be given a loan again. However a request may be considered for getting loan again, if the overdue is only up to 04 installments, due to Bank Holidays/borrowers illness/ death in the family. The fresh loan in such cases can be considered only on full repayment of overdue amount. The issues which should be considered for getting loan will be as under:
- To verify the earlier record of the customer's payment of installments during the cycle of loans provided to her. If she was found paying installments regularly, then one convincing reason should be cited in defense of bringing her within the purview of disbursement of loan.
- To verify whether the loan disbursed to the borrower was properly utilized and whether any wealth and financial sustainability had been created by

utilizing the loan provided. Alternatively, verification should be made whether the concerned borrower has made progress by proper utilization of loan and whether she feels benefited or not.

- It should also be verified that whether the member has been well behaved, trustworthy and loyal to Bank, which would be evident from her attitude towards the Bank.
- Verification should also be made with regard to the member's socio-economic condition, ability to work, potentiality to earn on regular basis through business/enterprise.
- To verify the authenticity of the justifications provided by borrower for continuing overdue.
- It should be known from which source the one-time payment of outstanding loan should be made. But it would be better to provide the loan to the member through the process of regularization.

In special circumstances, in some genuine cases, if granting of loan to overdue borrowers having default amount more than 04 installments has to be considered, then permission from RM-MB has to be obtained.

The concerned DBO/DH will be able to include such members under the purview of disbursement of loan again, subject to verification of the above mentioned issues. Also the credit bureau report must be attached with the loan application form. The concerned DH may approve the loan after verifying all facts including credit Bureau information.

Special Responsibility of DH:

Every Monday morning DH will check customer wise overdue report and thereafter he/she will make plan for recovery of overdue for the entire week as per the prevalent system. He has to also allocate target for recovery of NPA / Overdue to his/her all DBOs.

DH will be responsible for recovering overdue of relatively complicated members and note down the status on the Overdue Register. In every visit of RM-MB & CH-MB, They will monitor the progress of recovery of such overdue which I the work assigned to DH.

Special Responsibility of RM - MB:

While visiting DSC, RM-MB will identify the relatively complicated overdue member and will visit such borrower's house and collect the overdue installment. CH - MB & ZIC will monitor the progress of this work. As part of monitoring, RM-MB must visit 100% overdue/NPA customer's house every month.

Special responsibility of Cluster Head -MB:

Cluster Head -MB will accord priority to visiting DSC with more overdue liability than other DSC in the Cluster. In every month, the above officials will evaluate the progress of work in the concerned DSC. In this case, they will verify the role of DH/RM-MB in recovering overdue and if necessary, they will set example by doing the same themselves in 1 or 2 DSCs. Besides that, they will give priority to recovery of overdue as part of monitoring. All concerned will have to put in their full efforts so that increase of overdue amount is controlled to the barest minimum and overdue amount is recovered one after another in a serial manner. All staff at each level should meet the targeted recovery along with paying much attention to improve the quality of work.

Control of other risks:

For groups of a DSC which will be identified as risky, loan can be disbursed only in presence of DH, this case; proper prior planning must be there to execute the above. After identifying the Groups, a list of such groups should be preserved in the DSC after analyzing properly and after taking consent of RM-MB and Cluster Head -MB followed by the approval of the same by ZIC. In case RM-MB and other higher officials are present in the DSC, they must also be present in the Group at the time of disbursement of loan.

To control risks in the DSC at the time of disbursement of loan, Customers should be helped to get into the office one after the other and it is to be ensured that the outside gate is locked to prevent access of outsider into the office.

The concerned husband/ father or guardians who are accompanying the members will have to stay outside and will be in a position to help in controlling risk outside the premises, indirectly.

Definition of Portfolio at Risk (PAR):

The loan portfolio at risk is defined as the value of the outstanding balance of all loans in arrears (principal). The Loan portfolio at risk is generally expressed as a percentage rate of the total loan portfolio currently outstanding.

PAR Calculation =

Sum of unpaid principle balance of all loans with payments past due x 100

Total gross outstanding loan portfolio

Definition of On-time repayment (OTR)

OTR is measure of credit discipline and it helps in cash flow management. The ratio nearer to 100% indicates greater efficiency.

OTR Calculation =

(Total amount of loan installment collected from customers - advance installments) x
100

Total dues of the customers

Annexure-III - SARFAESI PROCEDURE

1. Introduction

Recovery activity can be defined as the process of following up with the customer whose loan EMI becomes overdue. The objective is to convince the customers to repay their overdue amount and getting the account to a non-overdue state or for preventing the account from ageing further. The policy guidelines shall also cover the other recovery recourse including legal action/SARFAESI to be undertaken in case customer is not regularizing the loan account even after follow ups. The purpose of documenting this documents is to ensure that there is a clear understanding of guidelines that need to be followed and ensuring consistency in practices across asset Centres/branches.

1.1. Objective

The objective of the collection is to focus on reducing the number of accounts that are turning delinquent, by regularly following up with the customer and facilitating the repayment of overdue by the customers.

1.2. Scope

The delinquency of the loan is based on Day Past Due or DPD. Delinquencies for instalment loans are computed in the bank on the basis of DPD at the end of the calendar month.

1.3. Verification of element of fraud

Accounts which have been classified as fraud, post investigation, will be classified as NPA even if account has not crossed default trigger.

1.4. Recommendation for resolution strategy

Once a stressed Asset is identified, the concerned person should follow step by step process as per follow-up mechanism depending on the delinquency days of the account-- to get the amount collected from the customer.

2. Resolution of stressed Assets

Once loan account is classified as NPA by the Bank, SARFAESI action shall be initiated as per provision of the SARFAESI Act' 2002.

PROCEDURE:

Under the SARFAESI Act, the Bank can enforce the security directly without the intervention of a court or tribunal after complying with the provisions of the Act. The aim being to start the proceeding under the act (to enforce the mortgaged security) and recover the outstanding loan amount by liquidating the asset of the borrower.

As per the provision of the Act, Authorized Officers appointed by the Bank to start the proceeding for loan account which are declared as NPA by the Bank. A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

After the loan is classified as NPA, a notice under section 13(2) as drafted and already provided to Retail Assets Department by Bank's Legal Department shall be sent to the customer intimating them that the account has been classified as NPA on(Date of NPA) and they are required to pay the entire outstanding within 60 days from the date of receipt of the notice. If the notice is undelivered with the reason of non-contractibility, the notice is affixed on the outer door of the premises of the last known address of the customer. The borrower is entitled to make an application of objection within 60 days after getting the notice. If the borrower has failed to make the payment within 60 days and has not raised any objection under Section 13(3A) of the SARFAESI Act 2002 or the objections has been duly rejected and communicated to the customer, the authorized officer shall take the possession under Section 13(4) read with Rule of 8 of the SARFAESI Act, 2002 of the secured assets of the borrower.

Conditions to be fulfilled for initiation of proceedings under the Act:

- There is a default in making repayment of the instalment and an account is classified as NPA.
- The amount due (Foreclosure amount) is above Rs 1 lakh.
- The amount due is not less than 20% of the principal amount and interest thereon i.e. the borrower has not repaid more than 80% of the principal amount and interest.
- Property mortgaged is not agricultural property.
- The claim is not barred by limitation.

- The necessary approval is obtained for initiating proceedings under the SARFAESI Act, 2002

Notice under Section 13(2)

- To be sent by the Authorized office by Registered post acknowledgement due or the notice should be sent through Speed post and the tracking sheet from the website of the India post should be preserved for further action.
- Time given should be 60 days from the date of the notice to repay the dues in full. However to be on safer side, 60 days should be counted from the date of receipt of the notice.
- If there is more than one borrower, notice should be send to each borrower individually.
- Notice should be send to guarantor/mortgagors also individually. This is mandatory as the definition of borrower in the Act includes guarantor also.
- If the notice is not served, or the Borrower is avoiding service of the notice, the demand notice under Section 13(2) shall be effected by affixing a copy on the outer door or some other conspicuous part of the place where the Borrower resides or carries business or personally work for gain and the same should also be published in two dailies, having circulation in the locality of the address. One daily must be in vernacular language with content also in vernacular language. Two entire set of newspapers shall be kept in record so if need arises, same is can be put as evidence in the court of law.
- Notice should invariably contain full address of the parties along with pin code loan amount, date of agreement, dues, rate of interest, date of classification as NPA, extend and boundaries of property kind of mortgage.
- If, after receipt of the notice, the Borrower/s make any representation or objection, the same should be considered and if the objection is not tenable, a reply should be sent under section 13(3A) through registered post acknowledgement due/speed post within 15 days of receipt of the objection raised by the borrower/s mentioning the details of non-acceptance of the objection/representation.

- In case the Borrower is a body corporate, the notice under Section 13(2) can be served either at the registered office or any other branches of such body corporate.

Possession under Section 13(4):

- If vacant possession has not been delivered on date and time, the authorized officer shall take the possession under Section 13(4) read with Rule 8 of the SARFAESI Act, 2002 for taking symbolic possession of the property. A possession notice, as defined in the act must be delivered/sent to the parties by the registered post acknowledgment due/speed post. A copy of the same must be affixed on the property. Photographs of the same must be taken.
- Possession notice should be published as soon as possible within 7 days from the date of taking possession in two dailies having circulation in the locality in which the property is situated of which one daily and contents of notice should be in vernacular language. Two entire sets of newspapers shall be kept on record.
- Even if after symbolic possession, no payments are forthcoming, a petition under Section 14 of the Act should be filed before the concerned Chief Metropolitan Magistrate/District Magistrate for taking physical possession of the property.
- Once the Order u/s 14 is obtained, the property should be taken possession with the help Police and local Authorities (Tehsildar/Patwari etc). The inventory of the entire immovable and movables in the property at the time of possession should be prepared and a Panchanama drawn up of the same. If movables that are not hypothecated to the bank are there in the property while taking possession, inventory of the same should be made and a notice should be send to the borrower/owner along with a copy of the inventory to take back the same from the custody of the bank. In all cases, the property must be sealed. Also, the board of the bank should be put up in a prominent place of the property. The entire process should be captured on video as well as still photograph.
- If in the opinion of the Authorized Officer, a Security is to be appointed for the preservation / safety of the property, the same can also be done

Post- Possession/Sale formalities:

- Valuation of the property must be obtained from an approved valuer (who is registered under the Section 34AB of Wealth Tax Act, 1957).
- Reserve price should be fixed in consultation with the secured creditors.
- Up-to-date search certificate of the property from the date of mortgage should be obtained, verified and kept on record.
- As per rule 8 (6), the Authorized Officer shall send a notice of thirty days to the borrower intimating the sale of the property.
- After the lapse of 31 days, a notice of sale shall be published in two dailies, one in vernacular language with vernacular content, having circulation in the locality in which the property is situated. Kindly note that the copy of the newspaper requires to be kept on record.
- Auction shall be conducted only after 30 days from the date of publication
- The minutes of the auction should be duly recorded.
- Notice of sale should be affixed on the property and photographs taken of the same.
- Sale is to be confirmed in favor of the highest bidder which shall be subject to confirmation by the bank.
- The purchaser should pay 25% of the sale price immediately. If the same is not paid, property is to be resold.
- The balance 75% is to be paid within 15 days from the date of confirmation of sale. The said period can be extended, as may be agreed by the purchaser and the Authorized officer, in writing but it cannot be extended beyond 3 months as per Rule 9 (4) of the SARFAESI Act, 2002.
- If the purchaser defaults to pay the balance 75% within the stipulated time, deposit of 25% remitted by the purchaser at the time of sale is to be forfeited and the property is to be resold.
- No sale shall be confirmed if the highest amount offered is less than the reserve price. In such case, the property has to be resold.
- If the Authorized officer fails to obtain a price higher than the reserve price, he can sell it for that price with the consent of the borrower and the bank. The consent of both is required to be obtained in writing.

- After confirmation of sale on behalf of the purchaser, the Authorized officer should issue a sale certificate in favor of the purchaser.
- The sale certificate thus issued by the Authorized officer is akin to that of a sale deed. The expenses for registration of the same including stamp duty must be borne by the purchaser.
- The Authorized officer shall deliver the property to the purchaser free from encumbrances known to the secured creditor on deposit of the entire sale consideration.

Notes:

The process is defined within the framework of SARFAESI Act applicable as of now. Any changes in the Act itself be deemed incorporated in the process and same shall be incorporated in the process note on next review.

Services of Enforcement agency

Since the SARFAESI process involves lots of co-ordination among various government bodies like CMM/DM office, Tehsildar or similar local authorities and Police and there is defined timeline for each of the activity, we shall involve the services of enforcement agency having requisite skillset for handling similar job with other Banks/Financial institutions for timely execution of the proceeding.

E-Auction

Bank may consider E-Auction mechanism for sale of property. E-Auctions are negotiations conducted via an online platform where Suppliers get the possibility of improving their proposals based on market feedback (e.g. rank in negotiation) and are considered to be the most transparent way of conducting negotiations.

Fixation of Reserve Price:

Reserve Price of the property to be fixed in consultation with the committee as assigned power in this regard before notice of auction being published. The initial reserve price shall be the average of fair market value & distress sale value of the property. No bid shall be accepted below the reserve price.

Re-fixation of reserve price after first failed auction:

In case there is no bidder for the property in the first auction, Bank shall decrease the Reserve Price by 10% of the initial Reserve Price.

Re-fixation of reserve price after second failed auction:

If there is no bidder in the second auction as well, Reserve Price to be fixed by a credit committee not below HOCC-II

Valuation Process:

Before auction notice of the property, valuation report of the property to be obtained from Bank emplaned valuer which is registered under wealth tax act.

Copy of the latest title document in favor of borrowers (Sale Deed/Sale agreement/lease deed etc.) along with other available supporting documents like building plan, property tax receipts etc to be provided to the valuer for valuation of the property. Since property is under possession of the bank and in sealed status, valuer shall visit the property from outside and provide his report or if required, the Valuer shall be allowed to visit the property from inside to examine the price of the property.

2.1. Compromise settlement/ One-time settlement

In case customer is NPA and contactable and willing to close the account by paying part principal / part principal+ interest, Bank can go for the settlement process on case to case basis , since the cost of recovery through an outside agency or legal recourse is higher and also time consuming activity due to interference of external factors. The percentage of waiver (both in principal and interest) will be as per authorization matrix as Annexure-VI - Delegation of Power.

Annexure - IV Composition of Committees

| Name of Committee | Members | Review Committee |
|--|--|---------------------------------|
| Willful Defaulter Identification Committee | <ol style="list-style-type: none"> 1. Head -Business (Chairman of the Committee)-¹ 2. CRO (Chief Risk Officer) 3. Head- Corporate Centre <p>Meeting Convener Head - CB</p> | (COD) Committee of Directors |
| Identification and Reporting of Non-Cooperative Borrowers | <ol style="list-style-type: none"> 1. Head -Business (Chairman of the Committee)-¹ 2. CRO (Chief Risk Officer) 3. Head- Corporate Centre <p>Meeting Convener: Head - CB</p> | Not Applicable |
| Committee for Stressed Micro, Small & Medium Enterprises (Approved dated 13 th June 2016) | <p>MSME (More than 10.00 Lacs and up to 25.00 Crs)</p> <ul style="list-style-type: none"> • Chief Risk Officer • Head of Business • Expert of MSME Sector empaneled by Bank • Retired Senior Executive from Banking Sector • Officer from other member bank in case of Loan under Multiple/ Consortium Banking <p>Convener: Segment Business Vertical Head (SME/SEL or any other Business Segment Vertical which caters MSME exposures as per above criteria)</p> | |

Annexure-V - List of incipient stress for categorization of SMA-0:

- 1) Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial
- 2) Delay of 90 days or more in non-renewal of facilities based on audited financials. The delay will be computed from the due date of renewal falling due post receipt of the audited financials.
- 3) Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more
- 4) Drop in internal risk rating by 2 or more notches in a single review.
- 5) Reduction of Drawing Power (DP) by 20% or more after a stock audit
- 6) Return of 3 or more bills / cheques discounted / negotiated on behalf of the borrower, and if the resultant bank dues are not paid within 10 days. Advance against collection bills, to be considered, if any such bills are returned.
- 7) Return of 3 or more bills / cheques discounted or sent under collection by the borrower, and if the resultant bank dues are not paid within 7 days.
- 8) Devolvement of Deferred Payment Guarantee (DPG) instalments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days
- 9) Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other mandatory/non-mandatory conditions of sanction
- 10) Non creation of security for a period >1 yr from the date of first disbursement.
- 11) Increase in frequency of overdrafts in current accounts/ overdrawn in cash credit accounts either continuously for 7 days or 3 times in any month
- 12) A single event of noncooperation
- 13) Prevention from conduct of stock audits by bank
- 14) Evidence of diversion of funds for unapproved purpose
- 15) The borrower reporting stress in the business and financials.
- 16) Promoter(s) pledging/ selling more than 25% of their shares in the borrower company due to financial stress.
- 17) For an Indian Borrower, in case the account is classified as Special Mention Account in any offshore geography, as per local regulations of the geography.

Annexure - VI - Delegation of Powers

| Approval of Compromise, Settlements including Haircut | | | | | |
|--|--|---|---|---|--|
| 1 For all Non-EEB Loans (SME, SEL, Small Corporate, Corporate, Retail, Agri Accounts, etc.) | | | | | |
| | | Boar d of Direc tors | COD (Committee of Directors) | Committee headed by MD/ CEO with presence of any two of below CFO /Head BOCS/Head business | Head-Ops & IT//Head- Business/Head-BOCS/ Head-Housing Finance Head-Stressed Assets Management & Recovery |
| A) | For all assets except Loss assets and doubtful assets | | | | |
| i) | Sacrifice of Principal Outstanding involved in compromise settlement proposals | NA | Full | 50% waiver on principal subject to maximum of INR 5 crs | Head-Ops & IT /Head Business 50% waiver on principal subject to maximum of INR 1 Cr Head BOCS/Head- Housing Finance - 50% waiver on principal subject to maximum of INR 50 Lacs Head-Stressed Assets Management & Recovery 50% waiver on principal subject to maximum of INR 1 Lac |
| ii) | Approval of Interest sacrifice | NA | Full | Full | Head-Ops & IT /Head- Business /Head-Housing Finance/Head-BOCS |

| | | | | | | |
|-----|--|------------|---------------------|---|--|--|
| | in compromise settlement | | | | | 100% of interest amount Head-Stressed Assets Management & Recovery – up to 2 lacs |
| B) | For Loss assets and doubtful assets where provision cover is 100% and for written off accounts | | | | | |
| | | BOD | COD | MD & CEO | Head-Business/ Head-Ops & IT | Head-Housing Finance/ Head- BOCS/ Head-Stressed Assets Management & Recovery Finance)* |
| i) | Sacrifice of Principal Outstanding involved in compromise settlement proposals | NA | Full | 75% waiver on principal subject to maximum of INR 5 crs | 75% waiver on principal maximum of INR 1 crs | Head- BOCS & Recovery/Head-Housing Finance 50% waiver on principal subject to maximum of INR 50 Lacs Head-Stressed Assets Management & Recovery 50% waiver on principal subject to max up to 1.00 Lac |
| | | COD | MD & CEO | Head-Business/ Head Ops & IT | Head-BOCS/ Head-Housing Finance | Head-Stressed Assets Management & Recovery |
| ii) | Approval of Interest sacrifice in compromise settlement in write off | Full | Full | Full | Full | Up to 2.00 Lacs |

However, in all above cases, Bank while entering into one-time settlement with borrowers should ensure that the minimum settlement amount is not less than the current NPV of the realizable value of available securities.

NPV

A=Fair Market Value of Property/Securities

B= Less: Cost/Expenses for realization of securities

C = Total Value (A-B)

D = NPV (Net Present Value) of above "C" @ discounted at maximum rate applicable to the borrower on the day of the proposal for tenor as per estimated realisable period of the assets

If payment of the compromise amount may be in instalments, the net present value of the settlement amount should be calculated and this amount should generally not be less than the net present value of the realisable value of securities.

Approval for Write-Off of residual amount in case of Compromise Settlements in Principal and/or Interest shall be vested with the same authority, who has originally approved the compromise settlement proposal as per DOP.

C) Approval for Write-Off & Sale of Portfolio proposals

| | | Board of Directors | COD (Committee of Directors) | MD&CEO | Head-Business/Head-Housing Finance/ Head-BOCS/ Head-Stressed Assets Management & Recovery/Head-Operations (Housing Finance)* |
|--|--|--------------------|------------------------------|--------|--|
| | | Full | Nil | Nil | Nil |

Approval for Write-Off & Sale of Portfolio proposals to be approved by Board with a recommendation from ACB.

2 For EEB Loans, including Micro Home Loans

| | | COD | MD & CEO | Head - EEB | Head - Group & individual loan |
|----|---|-----|----------|------------|--------------------------------|
| A) | For standard, Substandard and doubtful assets where provision cover is less than 100% | | | | |
| i) | Sacrifice of Principal Outstanding involved in | | | | |

| | | | | | |
|-----|---|----|------|------------------------------------|------------------------------------|
| | compromise settlement/write off proposals | NA | Full | Up to 50% of principal outstanding | Up to 25% of principal outstanding |
| ii) | Approval of Interest sacrifice in compromise | NA | Full | Up to 100% Interest outstanding | Up to 100% of Interest outstanding |
| B) | For Loss assets and doubtful assets where provision cover is 100% and for written off accounts: | | | | |
| i) | Sacrifice of Principal Outstanding involved in compromise settlement | NA | Full | Full | Up to 50% of Principal |
| ii) | Approval of Notional Interest sacrifice in compromise | NA | Full | Full | Up to 100% of interest |

Approval for Write-Off of residual amount in case of Compromise Settlements in Principal and/or Interest shall be vested with the same authority, who has originally approved the compromise settlement proposal as per DOP.

C) Approval for Write-Off & Sale of Portfolio proposals

EEB Portfolio including Micro Home Loans

| | Board of Directors | COD (Committee of Directors) | MD & CEO/ Head -EEB | Head - Group & individual loan |
|--|--------------------|------------------------------|---------------------|--------------------------------|
| | Full | NIL | NIL | NIL |

Approval for Write-Off & Sale of Portfolio proposals to be approved by Board with a recommendation from ACB.

Delegation of Powers for incurring expenses in NPAs for Non-EEB Loans which move to delinquent category due to certain operational/technical/other issues.

| Particulars | MD & CEO | Head-Ops & IT / Head-Business | Head-BOCS/ Head- | Head - Stressed Assets Management & Recovery |
|-------------|----------|-------------------------------|------------------|--|
| | | | | |

| | | | | |
|---|--|---------------|---|--------------|
| | | | Housing Finance | |
| A) For SME and Corporate accounts | Full | Up to 25 Lacs | Up to 15 Lacs | Up to 5 Lacs |
| B) For retail, agri, MFIs, Govt Sponsored Schemes, Retail Lending | Full | Up to 10 Lacs | Up to 5 Lacs | Up to 1 Lacs |
| Delegation of Powers for incurring expenses in NPAs for EEB Loans which move to delinquent category due to certain operational/technical/other issues. | | | | |
| Particulars | MD | Head -EEB | Head - Group & individual loan | |
| A) For EEB Loans | Full | Full | Up to 1 Lacs | |
| Expenses mentioned above are per borrower and not per instance. Expenses include, but not limited to legal expenses, security expenses, paper publication/ advertisement expense, insurance premium, valuation expenses, commission payable to SARFAESI agents etc. | | | | |
| 4. Delegation of Powers for filing suits/legal action, waiver of legal action, deferment of legal action | | | | |
| For SME/Corporate/Agri accounts and Mortgage Loans | | | | |
| i)Initiation of legal action, action under SARFAESI Act, action under sec 138 of N I act, | Head - Stressed Assets Management & Recovery/ Head-Operations (Housing Finance) for Housing Finance | | | |
| Any other legal action proposed(CIVIL Suit, Suits under DRT, IBC etc.) | Respective Sanctioning Authority/Committee | | | |
| Waiver/ Deferment of Legal action | Respective Sanctioning Authority/Committee | | Head- Ops & IT/ Head-Housing Finance | |
| Waiver/ Deferment of Legal action | > 5 Crs as per delegation of sanctioning power of respective sanctioning committee at one level higher | | Up to 5 Crs | |
| Other retail loans (Except Mortgage Loans), SEL, Govt Sponsored Schemes | | | | |
| Initiation of legal action, action under SARFAESI Act, action under sec 138 of N I act, | Head - Stressed Assets Management & Recovery | | | |
| Waiver of Legal Action | | | | |

| | |
|---------------------------|--|
| Deferment of Legal action | Owing to small value, legal action may not be initiated in above categories of borrowers. Hence waiver/ deferral shall not be needed for these products. |
|---------------------------|--|

5. Approval of restructuring of NPAs/Standard Account including COVID-19 Package as per RBI guidelines

| Particulars | COD (Committee of Directors) | HOCC-I | HOCC-II | Head-Business |
|---|----------------------------------|--|---|---------------|
| A) For SME (Non Schematic), NBFC, NBFC-MFI, Agri and Corporate accounts | Full | Rs 15 crore to Rs 100 crore for non-NBFC-MFI loans, exceeding Rs 5 crore to Rs 50 crore for Housing Finance proposals and exceeding Rs 50 crore to Rs 200 crore for NBFC-MFI loans | Rs 5 crore to Rs 15 crore for non-NBFC-MFI loans and up to Rs 50 crore for NBFC-MFI loans | Up to 5 Crs |
| B) For SME (Schematic) | Original Sanctioning Authority** | | | |
| C) For SEL | Original Sanctioning Authority** | | | |

**The Bank extends loans to SEL portfolio under commercial Banking segment. These loans are also extended to individual as well. The borrowers are engaged in Trading, manufacturing and agri activity coming under micro enterprise activity (agri, manufacturing or services). At times, these borrowers are facing financial difficulties because of frequent occurrences of natural calamities, liquidity hurdle, business issues, change in market dynamics etc. When such a unit fails it will be difficult for them to overcome the situation and a proper revival plan of these units needs to be implemented by bank as per regulatory guidelines. Hence, SEL segment is also proposed to be included under restructuring assessment and also admissible under regulatory guidelines provided for relief in COVID-19 package.

| Particulars | COD (Committee of Directors) | HOCC-I | HOCC-II (Housing Finance) | Head-Housing Finance |
|-------------|---------------------------------|--------|------------------------------|----------------------|
|-------------|---------------------------------|--------|------------------------------|----------------------|

| | | | | |
|---|---|---------------------------|----------------------|---|
| D) For Housing Finance | NA | Rs 5 crore to Rs 50 crore | Up to 5.00 Cr | Up to 50 Lacs |
| Particulars | COD (Committee of Directors) | HOCC-I | HOCC-II | Head-Business |
| E) For other retail, Govt Sponsored Schemes, Retail Lending | NA | Full | Up to 5.00 Cr | Up to 50 Lacs |
| Particulars | COD (Committee of Directors) | MD & CEO | Head - EEB | Head - Group & individual loan |
| F) EEB Loans | NA | NA | As mentioned below** | NA |

**The Bank extends loans of small value under EEB portfolio. These loans are extended to individual as well. The borrowers are engaged in a livelihood activity coming under micro enterprise activity (agri, manufacturing or services). At times, these borrowers are facing financial difficulties on account of frequent occurrences of natural calamities, liquidity hurdle, business issues, change in market dynamics etc. When such a unit fails it will be difficult for them to overcome the situation and a proper revival plan of these units needs to be implemented by bank as per regulatory guidelines. Hence, EEB segment is also proposed to be included under Revival & Rehabilitation assessment and also admissible under regulatory guidelines provided for relief in COVID-19 package.

Under Resolution Framework -1.0

For eligible cases, the restructuring may be permitted by way of moratorium/rephasing of instalments including interest up to a maximum period of one year beyond the original tenure of the loan with approval of original sanctioning authority of the loan. In exceptional cases the tenure may be more than one year to be approved by Head-EEB. However any restructuring plan/Package for the EEB segment to be approved by Head-EEB prior to implement.

Under Resolution Framework -2.0

The restructuring of existing loans may be approved by original sanctioning authority as per existing DOP, subject to overall restructuring plan/package of respective business segments to be approved as per following matrix, which shall subsequently be placed to the CRMC

- EEB Segment - Head-EEB
- Other Business segment- Head-Business

MD & CEO shall have the powers to change the individual power and constitution of the committees. It will be submitted to Committee of Directors (COD) for ratification.

Every approver or committee of Approvers under delegated authority shall report all compromise and settlement approvals, on the standard format of the Bank, to the next higher authority within the timeline specified under each business department. The submission of Control Return shall be the primary responsibility of the delegated authority.

**Annexure- VII - Framework for Relief Measures in Areas affected by
Natural Calamities**

vide RBI vide circular no. RBI/FIDD/2018-19/64 FIDD.CO.FSD.BC
No.9/05.10.001/2018-19 dated 17th October 2018

BACKGROUND

Periodical but frequent occurrences of natural calamities take a heavy toll on human life and cause wide spread damage to economic pursuits of human beings in one area or the other of our country. The devastation caused by such natural calamities calls for massive rehabilitation efforts by all agencies. The Central, State and local authorities draw programmes for economic rehabilitation of the affected people.

This framework currently recognizes twelve types of natural calamities viz. cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst, pest attack and cold wave/frost (added in August 2012). Of these 12 calamities, for 4 calamities i.e. drought, hailstorms, pest attack and cold wave/frost, the Ministry of Agriculture is the nodal ministry while for remaining 8 calamities Ministry of Home Affairs is required to make appropriate arrangements. A slew of measures for relief are undertaken by the Sovereign (Central/State Government) to provide relief to the affected persons which include, inter alia, provision for the input subsidies and financial assistance to marginal, small and other farmers.

Bank's contribution in providing relief relates to rescheduling of existing loans and sanctioning of fresh loans as per the emerging requirements of the borrowers. In order to enable bank to take uniform and concerted action expeditiously, these directions are issued covering four aspects viz. Institutional Framework, Restructuring of Existing Loans, Providing Fresh Loans and Other Ancillary Relief Measures.

Wherever the calamity is very severe, the relief measures initiated and undertaken should be reviewed periodically in the weekly/fortnightly

meetings of specially constituted Task Forces or sub Committees of the SLBC till such time as conditions are normalized.

Declaration of Natural Calamity

Declaration of a natural calamity is the domain of the Central/ State Governments. The inputs received from the State Governments revealed that there is no uniform procedure being followed for declaration of a natural calamity and issue of declarations/certificates such as Annewari, Paisewari, Girdawari, etc. in different States. The common thread to extend relief measures including reschedulement of loans by bank, is that the crop loss assessed should be 33% or more. For assessing this loss, while some States are conducting crop cutting experiments to determine the loss in crop yield, some others are relying on the eye estimates/visual impressions where extreme situations such as wide-spread floods, when it is largely evident that most of the standing crops have been damaged and/or land and other assets have suffered a wide-spread damaged.

Restructuring/Rescheduling of Existing Loans

- Restructuring/Rescheduling may be allowed under EEB business vertical.
- Restructuring/Rescheduling may be allowed to MSME and Agri business under General Banking as the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, relief in repayment of loans becomes necessary in areas affected by natural calamity and hence, restructuring of the existing loans will be required.

Restructuring of loans in the event of a natural calamity shall continue to be as per the directions contained in the RBI Guidelines vide circular no. RBI/FIDD/2018-19/64 FIDD.CO.FSD.BC No.9/05.10.001/2018-19 dated 17th October 2018 as amended from time to time or such other guidelines as shall be issued from time to time.

Framework for Relief Measures in Areas affected by Natural Calamities is provided in Annexure-X of the present policy.

Agriculture Loans

Short-term Production Credit (Crop Loans)

All short-term loans, except those which are overdue at the time of occurrence of natural calamity, are eligible for restructuring. The principal amount of the short-term loan as well as interest due for repayment in the year of occurrence of natural calamity may be converted into term loan.

The repayment period of restructured loans may vary depending on the severity of calamity and its recurrence, the extent of loss of economic assets and distress caused. A maximum period of repayment of up to 2 years (including the moratorium period of 1 year) is to be allowed if the loss is between 33% and 50%, and if the crop loss is 50% or more, the restructured period for repayment may be extended to a maximum of 5 years (including the moratorium period of one year).

In all cases of restructuring, moratorium period of minimum one year to be considered. Further, bank shall not insist additional collateral security for such restructured loans.

Agriculture Loans - Long term (Investment) Credit

The existing term loan installments will have to be rescheduled keeping in view the repaying capacity of the borrowers and the nature of natural calamity viz.

- a. Natural Calamities where only crop for that year is damaged and productive assets are not damaged.
- b. Natural Calamities where the productive assets are partially or totally damaged and borrowers are in need of a new loan.

In regard to natural calamity under category (a) above, bank may reschedule the payment of installment during the year of natural calamity and extend the loan period by one year. Under this arrangement the installments defaulted

wilfully in earlier years will not be eligible for rescheduling. Bank may also have to postpone payment of interest by borrowers.

In regard to category (b) i.e. where the borrower's assets are partially/totally damaged, the rescheduling by way of extension of loan period may be determined on the basis of overall repaying capacity of the borrower vis-a-vis his total liability (old term loan, restructured crop loan, if any and the fresh crop/term loan being given) less the subsidies received from the Government agencies, compensation available under the insurance schemes, etc. While the total repayment period for the restructured/fresh term loan will differ on case-to-case basis, generally it should not exceed a period of 5 years.

Other Loans

A view needs to be taken by SLBC/DCC depending on the severity of the calamity as to whether a general reschedulement of all other loans (i.e. besides the agriculture loans as indicated above) such as loans granted for allied activities and loans given to rural artisans, traders, micro/small industrial units or in case of extreme situations, medium enterprises is required. If such a decision is taken, while recovery of all the loans be postponed by the specified period, bank shall have to assess the requirement of the individual borrowers in each such case and depending on the nature of his account, repayment capacity and the need for the fresh loans, appropriate decisions shall be taken by the bank as per Credit Policy and RBI guidelines

Asset Classification

The asset classification status of these loans will be as under:

a. The restructured portion of the short term as well as long-term loans may be treated as current dues and need not be classified as NPA. The asset classification of these term loans would thereafter be governed by the revised terms and conditions. Nevertheless, bank is required to make higher provisions for such restructured standard advances as prescribed by Department of

Banking Regulation from time to time. Further, interest income from such restructured accounts classified as 'standard assets' will be recognized as per the norms prescribed in the DBR guidelines.

b. The asset classification of the remaining amount due, which have not been restructured, will continue to be governed by the original terms and conditions. Consequently, the dues from the borrower shall be classified by the bank under different asset classification categories viz. standard, sub-standard, doubtful and loss.

c. Additional finance, if any, shall be treated as "standard asset" and its future asset classification will be governed by the terms and conditions of its sanction.

The benefit of asset classification of the restructured accounts as on the date of natural calamity will be available only if the restructuring is completed within a period of three months from the date of natural calamity. In the event of extreme calamity, when the SLBC/DCC is of the view that this period will not be sufficient for the banking sector to reschedule all the loans, they should immediately approach RBI giving the reasons for seeking extension. These requests will be considered on the basis of merit of each case.

The accounts that are restructured for the second time or more on account of natural calamities would retain the same asset classification category on restructuring. Accordingly, for once restructured standard asset, the subsequent restructuring necessitated on account of natural calamity would not be treated as second restructuring, i.e., the standard asset classification will be allowed to be maintained. All other restructuring norms, however, will apply.

Sanctioning of Fresh Loans

Once the decisions on the rescheduling of loans is taken by SLBC/DCC, pending such conversion of short-term loans, bank shall grant fresh crop loans

to the affected farmers which will be based on the scale of finance for the particular crop and the cultivation area, as per the extant guidelines.

The bank assistance in relation to agriculture and allied activities (poultry, fishery, animal husbandry, etc.) would also be needed for long term loans for a variety of purposes such as repair of existing economic assets or acquisition of new assets. Similarly, rural artisans, self-employed persons, micro and small industrial units, etc. in the areas affected by natural calamities may require the credit to sustain their livelihood. Bank shall assess and decide on the quantum of fresh loans to be granted to the affected borrowers taking into consideration, amongst others, their credit requirements and the due procedure followed for sanctioning of loans.

Bank shall also grant consumption loans up to Rs. 10,000/- to existing borrowers without any collateral. The limit may, however, be enhanced beyond Rs. 10,000/- at the discretion of the bank.

Terms and Conditions

Guarantee, Security and Margin

Where the bank's existing security has been eroded because of damage or destruction by floods, assistance will not be denied merely for want of additional fresh security. The fresh loan shall be granted even if the value of security (existing as well as the asset to be acquired from the new loan) is less than the loan amount.

Where the crop loan (which has been converted into term loan) was earlier given against personal security/ hypothecation of crop and the borrower is not able to offer charge/mortgage of land as security for the converted loan, borrower should not be denied conversion facility merely on the ground of his inability to furnish land as security. If the borrower has already taken a term loan against mortgage/charge on land, bank should be content with a second

charge for the converted term loan. Bank shall not insist on third party guarantees for providing conversion facilities.

Where land is taken as security, in the absence of original title records, a certificate issued by the Revenue Department officials may be accepted for financing farmers who have lost proof of their titles i.e. in the form of deeds, as also the registration certificates issued to registered share-croppers.

Margin requirements may be waived or the grants/ subsidy given by the concerned State Government may be considered as margin.

Rate of Interest

The rates of interest will be in accordance with the directives of the Reserve Bank. Within the areas of their discretion, however, bank shall extend a concessional treatment to calamity-affected people. In respect of current dues in default, no penal interest will be charged. Bank shall also defer the compounding of interest charges. Bank may not levy any penal interest and consider waiving penal interest, if any, already charged in regard to the loans converted/rescheduled. Depending on the nature and severity of natural calamity, the SLBC/ DCC shall take a view on the interest rate concession that could be extended to borrowers so that there is uniformity in approach among bank in providing relief.

As notified by the Government of India Subject to inclusion in the Interest Subvention Scheme on short term crop loans from time to time, to provide relief to farmers availing short term crop loans and affected by a natural calamity, an interest subvention of 2 percent per annum shall be made available to bank for the first year on the restructured loan amount. Such restructured loans shall attract normal rate of interest from the second year onwards.

Other Ancillary Relief Measures

Know Your Customer Norms - Relaxations

It needs to be recognized that many persons displaced or adversely affected by a major calamity may not have access to their normal identification and personal records. In such cases a small account based on the photograph and

signature or thumb impression rendered in front of the bank official shall be opened. The above instructions will be applicable to cases where the balance in the account does not exceed Rs. 50,000/- or the amount of relief granted (if higher) and the total credit in the account does not exceed Rs.1,00,000/- or the amount of relief granted, (if higher) in a year.

Providing access to Bank Accounts

In areas where the bank branches are affected by natural calamity and are unable to function normally, bank shall operate from temporary premises, under advice to RBI. For continuing the temporary premises beyond 30 days, specific approval may be obtained from the concerned regional office (RO) of RBI. Bank shall also ensure rendering of banking services to the affected areas by setting up satellite offices, extension counters or mobile banking facilities under intimation to RBI.

To satisfy customer's immediate cash requirements, restoration of the functioning of ATMs at the earliest or making alternate arrangements for providing such facilities may be given due importance. Bank shall consider putting in place arrangements for allowing their customers to access other ATM networks, Mobile ATMs, etc.

Other measures that bank may take, at our discretion, to alleviate the condition of affected persons could be waiving ATM fees, increasing ATM withdrawal limits; waiving overdraft fees; waiving early withdrawal penalties on time deposits; waiving late fee for credit card/other loan installment payments and giving option to credit card holders to convert their outstanding balance to EMIs repayable in 1 or 2 years. Besides, all charges debited to the farm loan account other than the normal interest may be waived considering the hardship caused to farmers.

Applicability of the guidelines in the case of riots and disturbances

Bank shall follow RBI advises and guidelines towards extend rehabilitation assistance to the riot/ disturbance affected persons. It should, however, be ensured that only genuine persons, duly identified by the State Administration as having been affected by the riots/ disturbances, are provided assistance as per the guidelines. In the event of large scale riots where most parts of the State/Area are affected and the State Administration is not in a position to identify the riot/disturbance affected persons and subject to SLBC's specific decision, the onus of identifying 'genuine persons' will rest with bank.

Utilization of Insurance Proceeds

While the above measures relating to rescheduling of loans are intended to provide relief to the farmers, the insurance proceeds shall, ideally compensate the losses. Under the Prime Minister Fasal Bima Yojana (PMFBY), all Seasonal Agricultural Operations (SAO) loans for notified crops in notified areas are to be compulsorily provided insurance cover for all stages of the crop cycle including post-harvest risks in specified instances.

While restructuring loans in an area affected by a natural calamity, bank shall also take into account the insurance proceeds, if any, receivable from an insurance company. The insurance proceeds shall be adjusted towards the 'restructured accounts' in cases where fresh loans have been granted to the borrower.

Discretionary Powers to Regional Head (Credit)/Credit Head of Bank

Regional Credit Heads of bank in concurrence from Head-Credit Underwriting shall be vested with certain discretionary powers such scales of finance, extension of loan periods, sanction of new loans keeping in view the total liability of the borrower (i.e. arising out of the old loan where the assets financed are damaged or lost on account of natural calamity as well as the new loan for creation/repair of such assets), margin, security, etc.

Meetings of State Level Bankers' Committee/District Consultative Committee

In the event of the calamity covering entire State/ larger part of a State, the convener of the State Level Bankers' Committee will convene a meeting immediately after the occurrence of natural calamity to evolve a coordinated action plan for implementation of the relief programme in collaboration with the State Government authorities. However, in case the calamity has affected only a small part of the State/few districts, the conveners of the District Consultative Committees of the affected districts should convene a meeting immediately. In these special SLBC/DCC meetings, the position in the affected areas should be assessed to ensure speedy formulation and implementation of suitable relief measures by bank.

Natural Calamities Portal: Monthly Reporting

- The Reserve Bank of India has developed a dedicated portal (<https://dbie.rbi.org.in/DCP/>) for collection and compilation of data on natural calamities on a real time basis through a centralized system. The portal provides facility for uploading data files relating to relief measures extended by bank and notification issued by State Government with regard to natural calamities.
- CBO [Corporate Banking Operations] department of Bank shall upload the actual data on relief measures every month by the 10th of the following month. In case there is no natural calamity and/or relief measures extended, a 'NIL' statement shall be uploaded.
- The SLBC Convener Bank shall upload the notification(s) issued by State/District Authorities on declaration of a natural calamity for which relief measures were implemented by SLBC/banks.

Annexure-VIII - Inclusion of Provisions of RBI Circular on Prudential Framework for Resolution of Stressed Assets

RBI, vide notification no RBI/2018-19/2013 DBR. No. BP.BC.45/21.04.-48/2018-2019 dated June 7, 2019 had issued direction on Prudential Norms for resolution of Stressed Assets as per Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019. In order to implement the framework at Bank level, we append below the guidelines which are to be followed. The circular is in compliance with the provisions of IRAC norms laid down by RBI Circular bearing no. RBI/2015-6/101 DBR.No.BP.BC.2/21.04.048/2015-16 dated 01.07.2015 and Bank's Stressed Assets Management Policy dated 14th November 2019 and modified policy dated 29th August 2019.

The direction are to be followed by bank to providing a framework for early recognition, reporting and time bound resolution of stressed assets and for initiation of insolvency proceedings against specific borrowers under the Insolvency and Bankruptcy Code, 2016 (IBC).

Eligibility

The Framework is applicable in cases where the aggregate exposure of a borrower to lenders (scheduled commercial banks, all-India financial institutions and small finance banks) is

- Rs. 2,000 crore and above, the Resolution Plan (“RP”) has to be implemented within 180 days from the end of the review period, and the reference date has been set as June 7, 2019;
- Rs. 1,500 crore and above but less than Rs. 2,000 crore category, January 1, 2020 has been set as the reference date for implementing the RP and
- Less than ₹1,500 crore category, RBI shall announce the reference date in due course.

Early identification and reporting of stress

Bank shall recognize incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories:

| SMA categories | Sub- | Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between |
|-----------------------|-------------|--|
| SMA-0 | | 1-30 days |
| SMA-1 | | 31-60 days |
| SMA-2 | | 61-90 days |

In the case of revolving credit facilities like cash credit, the SMA sub-categories will be as follows:

| SMA categories | Sub- | Basis for classification - Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of: |
|-----------------------|-------------|---|
| SMA-1 | | 31-60 days |
| SMA-2 | | 61-90 days |

Reporting in CRILIC-Main and weekly reporting of Default borrower will be continuing as guided in Stressed Asset Management Policy 2018.

Implementation of Resolution Plan

- In case, a borrower is reported under default, bank shall undertake a prima facie review of the borrower account within thirty days from such default (“**Review Period**”). During this Review Period of thirty days, Bank shall decide on the resolution strategy, including the nature of the Resolution

approach, the approach for implementation of the Resolution Plan, etc. Bank shall also choose to initiate legal proceedings for insolvency or recovery if required.

- In cases where RP is to be implemented under consortium or multiple, Bank shall enter into an inter-creditor agreement [ICA] (Annexure-I) along with other lenders, during the review period, to provide for ground rules for finalisation and implementation of the RP in respect of borrowers with credit facilities from more than one lender. The ICA shall provide that any decision agreed by lenders representing 75 per cent by value of total outstanding credit facilities (fund based as well non-fund based) and 60 per cent of lenders by number shall be binding upon all the lenders. Additionally, the ICA may, inter alia, provide for rights and duties of majority lenders, duties and protection of rights of dissenting lenders, treatment of lenders with priority in cash flows/differential security interest, etc. In particular, the RPs shall provide for payment not less than the liquidation value due to the dissenting lenders.
- In respect of accounts with aggregate exposure above a threshold with the lenders, as indicated below, on or after the 'reference date', RP shall be implemented within 180 days from the end of Review Period. The Review Period shall commence not later than:
 - (a) The reference date, if in default as on the reference date; or
 - (b) The date of first default after the reference date.

The reference dates for the above purpose shall be as under:

| Aggregate exposure of the borrower to lenders mentioned at 3(a), 3(b) and 3(c) | Reference date |
|--|----------------|
| Rs. 20 billion and above | June 7, 2019 |

| | |
|---|-------------------------------|
| Rs.15 billion and above, but less than Rs. 20 billion | January 1, 2020 |
| Less than Rs.15 billion | To be announced in due course |

- The RP may involve any action / plan / reorganization including, but not limited to, regularization of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership and restructuring be clearly documented by Bank even if there is no change in any terms and conditions.

Implementation Conditions for RP

RPs involving restructuring / change in ownership in respect of accounts where the aggregate exposure of lenders is Rs. 1 billion and above, and requirement of independent credit evaluation (ICE) of the residual debt by credit rating agencies (CRAs) would be continuing as per Stressed Assets Management Policy, 2018

A RP in respect of borrowers to whom the bank continues to have credit exposure, shall be deemed to be 'implemented' only if the following conditions are met:

- (a) A RP which does not involve restructuring/change in ownership shall be deemed to be implemented only if the borrower is not in default with any of the lenders as on 180th day from the end of the Review Period. Any subsequent default after the 180 day period shall be treated as a fresh default, triggering a fresh review.
- (b) A RP which involves restructuring/change in ownership shall be deemed to be implemented only if all of the following conditions are met:
 - I. all related documentation, including execution of necessary agreements between Bank and borrower / creation of

security/charge / perfection of securities, are completed by the Bank in consonance with the RP being implemented;

- II. the new capital structure and/or changes in the terms of conditions of the existing loans get duly reflected in the book so fall the Bank and the borrower; and,
- III. Borrower is not in default with any of the lenders.

(c) A RP which involves lenders exiting the exposure by assigning the exposures to third party or a RP involving recovery action shall be deemed to be implemented only if the exposure to the borrower is fully extinguished.

Delayed Implementation of Resolution Plan

Where a viable RP in respect of a borrower is not implemented within the timelines given below, Bank shall make additional provisions as under

| Timeline for implementation of viable RP | Additional provisions to be made as a % of total outstanding, if RP not implemented within the timeline |
|---|--|
| 180 days from the end of Review Period | 20% |
| 365 days from the commencement of Review Period | 15% (i.e. total additional provisioning of 35%) |

The additional provisions shall be made over and above the higher of the following, subject to the total provisions held being capped at 100% of total outstanding:

- (a) The provisions already held; or,
 - (b) The provisions required to be made as per the asset classification status of the borrower account.
- The additional provisions shall be made by Bank with exposure to such borrower.

- The additional provisions shall also be required to be made in cases where bank has initiated recovery proceedings, unless the recovery proceedings are fully completed.
- The above additional provisions may be reversed as under:
 - I. Where the RP involves only payment of overdues by the borrower – the additional provisions may be reversed only if the borrower is not in default for a period of 6 months from the date of clearing of the overdues with bank;
 - II. Where RP involves restructuring/ change in ownership outside IBC – the additional provisions may be reversed upon implementation of the RP;
 - III. Where resolution is pursued under IBC – half of the additional provisions made may be reversed on filing of insolvency application and the remaining additional provisions may be reversed upon admission of the borrower into the insolvency resolution process under IBC; or,
 - IV. Where assignment of debt/recovery proceedings are initiated – the additional provisions may be reversed upon completion of the assignment of debt/recovery.

Disclosures

Bank shall make appropriate disclosures in financial statements, under 'Notes on Accounts, relating to RPs implemented

Exceptions

- a) Restructuring in respect of projects under implementation involving deferment of date of commencement of commercial operations (DCCO), shall continue to be covered under the guidelines contained at paragraph 4.2.15 of the Master Circular No. DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 on 'Prudential norms on Income Recognition, Asset Classification and provisioning pertaining to Advances.

- b) The framework shall not be applicable to revival and rehabilitation of MSMEs covered by the instructions contained in Circular No. FIDD.MSME & NFS.BC.No.21/ 06.02.31/ 2015-16 dated March 17, 2016, as amended from time to time.
- c) Restructuring of loans in the event of a natural calamity shall continue to be as per the directions contained in the Master Directions FIDD.CO.FSD.BC No.8/05.10.001/2017-18, as amended from time to time.
- d) The framework shall not be available for borrower entities in respect of which specific instructions have already been issued or are issued by the Reserve Bank to the banks for initiation of insolvency proceedings under the IBC. Lenders shall pursue such cases as per the specific instructions issued to them.
- The lenders shall not reverse the provisions maintained as on April 2, 2019 in respect of any borrower unless the reversal is a consequence of an asset classification upgrade or recovery or resolution following the instructions of this circular. Any RP under consideration as on the date of this circular may be pursued by lenders under this revised framework subject to meeting the requirements/conditions specified in this framework.

Annexure - IX - Micro, Small and Medium Enterprises (MSME)
sector - Restructuring of Advances

In wake of the RBI notification circular DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020 on Micro, Small and Medium Enterprises (MSME) sector - Restructuring of Advances and subsequent modification vide RBI notification no. RBI/2020-21/17 DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020, there is need for continued to support the viable MSME entities on account of the fallout of Covid-19. To align these guidelines with the Resolution Framework for COVID 19 - related Stress announced for other advances, RBI has permitted bank to extend the scheme permitted in terms of the aforesaid circular as already adapted in the current Stressed asset management policy of our Bank.

Accordingly, existing loans to MSMEs given by our Bank, classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions:

- I. The aggregate exposure, including non-fund based facilities, of Banks and NBFCs to the borrower does not exceed ₹25 crores as on March 1, 2020.
- II. The borrower's account was to be 'standard asset' as on March 1, 2020.
- III. The restructuring of the borrower account if any, is to be implemented by Bank by March 31, 2021.
- IV. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 1, 2020.
- V. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.

VI. As hitherto, for accounts restructured under these guidelines, our Bank shall maintain additional provision of 5% over and above the provision already held by them.

All other instructions specified in the circular DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020 on Micro, Small and Medium Enterprises (MSME) sector - Restructuring of Advances shall remain applicable.

Annexure – X - Resolution Framework for COVID-19 - Related Stress

The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019 ("Prudential Framework") provided a principle-based resolution framework for addressing borrower defaults under a normal scenario. Any resolution plan implemented under guidelines of "Prudential Framework"

- I. Which involves granting of any concession on account of financial difficulty of the borrower entails an asset classification downgrade, except when it is accompanied by a change in ownership, which allows the asset classification to be retained as or upgraded to Standard, subject to the prescribed conditions.
- II. The economic fallout on account of the Covid-19 pandemic has led to significant financial stress for borrowers across the board. The resultant stress can potentially impact the long-term viability of many firms, otherwise having a good track record under the existing promoters, due to their debt burden becoming disproportionate relative to their cash flow generation abilities. Such wide spread impact could impair the entire recovery process, posing significant financial stability risks.
- III. Considering the above, with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, under the Prudential Framework of RBI, Bank will be implemented a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The details of the facility are given in the Annex-A.
- IV. Bank has to ensure that the resolution under this facility is extended only to borrowers having stress on account of Covid19. Further, Bank will be required to assess the viability of the resolution plan, subject to the prudential boundaries laid out in this Annex-A.
- V. Accounts which do not fulfill the required eligibility conditions to be considered for resolution under this framework may continue to be

considered for resolution under the Prudential Framework, or the relevant instructions as applicable to specific category of our Bank where the Prudential Framework is not applicable.

- VI. Bank's exposures shall also be included for any resolution under this facility. Consequently, without prejudice to the specific conditions applicable to this facility, all the norms applicable to implementation of a resolution plan, including the mandatory requirement of Inter-Creditor Agreements (ICA) and specific implementation conditions, as laid out in the Prudential Framework shall be applicable to bank for any resolution plan implemented under this facility. Terms used in this document, to the extent not defined herein, shall have the same meaning assigned to them in the Prudential Framework.

Annex-A Conditions for the Resolution Framework for COVID-19-related Stress

1. The framework shall be applicable to eligible borrowers - corporate persons or otherwise - subject to the conditions specified herein. Part A of this Annex pertains to requirements specific to resolution of personal loans and Part B pertains to resolution of other eligible borrowers. Part C prescribes the prudential treatment of the exposures in respect of which resolution plans are implemented under this facility while Part D lists the disclosure requirements for the Bank with respect to the resolution plans implemented under this framework
2. Without prejudice to the exceptions of the Prudential Framework, the following categories of borrower's / credit facilities shall not be eligible for a resolution plan under this framework:
 - a) MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs.25 crore or less as on March 1, 2020.
 - b) Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as

updated) or other relevant instructions as applicable to specific category of lending institutions.

- c) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
 - d) Exposures of lending institutions to financial service providers.
 - e) Exposures of lending institutions to Central and State Governments; Local Government bodies (e.g. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.
 - f) Exposures of housing finance companies where the account has been rescheduled in terms of para 2(1) (zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under this framework has been invoked by other lending institutions. However, from the date of this circular, any resolution necessitated on account of the economic fallout of Covid-19 pandemic, shall be undertaken only under this framework.
3. The resolution framework to be approved by Board pertaining to implementation of viable resolution plans for eligible borrowers under this framework, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19. The policy shall, inter alia, detail the eligibility of borrowers in respect of whom Bank may be willing to consider the resolution, and Bank will lay down the due diligence considerations to be followed by the to establish the necessity of implementing a resolution plan in respect of the concerned borrowers.
4. The reference date for the outstanding amount of debt that may be considered for resolution shall be March 1, 2020.

A. Resolution of Stress in Personal Loans*

1. This part shall be applicable to resolution of personal loans sanctioned to individual borrowers by our Bank. However, credit facilities provided by our Bank to our own personnel/staff shall not be eligible for resolution under this framework.
2. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days with the lending institution as on March 1, 2020.
3. The eligible borrowers' accounts should continue to be classified as Standard till the date of invocation of resolution under this framework. For this purpose, the date of invocation shall be the date on which both the borrower and the Bank have agreed to proceed with a resolution plan under this framework.
4. Resolution under this framework may be invoked not later than December 31, 2020 and must be implemented within 90 days from the date of invocation. However, bank shall strive for early invocation.
5. The resolution plans may inter alia include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of two years. Correspondingly, the overall tenor of the loan may also get modified commensurately. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.
6. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:
 - a) all related documentation, including execution of necessary agreements between our Bank and borrower and collaterals provided, if any, are completed by the bank concerned in consonance with the resolution plan being implemented;
 - b) the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,

- c) borrower is not in default with the lending institution as per the revised terms.
7. Any resolution plan implemented in breach of the above stipulated timeline shall be fully governed by the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

*Personal loans', for the purpose of Circular RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21 August 6, 2020 shall have the same meaning as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns - Harmonization of Banking Statistics". Personal loans refer to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.).

B. Resolution of Other Exposures

8. This part shall be applicable to all other eligible exposures of our Bank not covered in Part 'A'.
9. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020. Further, the accounts should continue to remain standard till the date of invocation.
10. In case where exposure to the borrower is under Sole Banking with Our Bank, the decision regarding the request for resolution by the borrower may be taken by the Bank as per the Board approved policy and within the contours of this framework. For this purpose, the date of invocation shall be the date on which both the borrower and Bank have agreed to proceed with a resolution plan under this framework.

11. If there are multiple lending institutions with exposure to the borrower including our Bank, the resolution process shall be treated as invoked in respect of any borrower if lending institutions representing 75 per cent by value of the total outstanding credit facilities (fund based as well non-fund based), and not less than 60 per cent of lending institutions by number agree to invoke the same.
12. Resolution under this framework may be invoked not later than December 31, 2020 and must be implemented within 180 days from the date of invocation.
13. In all cases involving multiple lending institutions including our Bank, where the resolution process is invoked and consequently a resolution plan has to be implemented, ICA shall be required to be signed by all lending institutions within 30 days from the date of invocation.
14. In cases where the resolution process has been invoked but lending institutions representing not less than 75 per cent by value of the total outstanding credit facilities (fund based as well non-fund based) and not less than 60 per cent of lending institutions by number, do not sign the ICA within 30 days from the invocation, the invocation will be treated as lapsed. In respect of such borrowers, the resolution process cannot be invoked again under this framework.
15. Lenders to the borrower which are other than the lending institutions as per this circular may also sign the ICA, if they so desire. If such lenders sign the ICA, they shall be fully bound by the stipulations of the ICA.
16. All disputes, if any, between signatories to the ICA regarding the resolution process shall be settled as per the provisions of the ICA and the Reserve Bank will not intermediate any such disputes. Bank shall ensure that the ICA contains such a dispute redressal mechanism that clearly lays down the recourse available to a signatory to the ICA who wants to raise a dispute.
17. As the resolution process requirements and the prudential treatment subsequent to the implementation are applied collectively to all lenders,

including those to which the Prudential Framework is not applicable, the ICA should provide for suitable mechanisms for information sharing amongst lending institutions during and after implementation of the resolution plan.

18. If any of the above timelines are breached at any point, the resolution process ceases to apply immediately in respect of the borrower concerned. Any resolution plan implemented in breach of the above stipulated timelines shall be fully governed by the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable, as if the resolution process was never invoked under this framework.

Expert Committee

19. The Reserve Bank had constituted an Expert Committee which has recommend a list of financial parameters which, in their opinion would be required to be factored into the assumptions that go into each resolution plan, and the sector specific benchmark ranges for such parameters. The parameters is inter alia cover aspects related to leverage, liquidity, debt serviceability etc.
20. The Expert Committee had already submitted such list of financial parameters and the sector-specific desirable ranges for such parameters to the Reserve Bank, which has accepted and circulated by RBI to bank vide circular RBI/2020-21/34 DOR.No.BP. BC/13/21.04.048/2020-21 dated September 7, 2020 - Resolution Framework for COVID-19-related Stress – Financial Parameters. The key ratios are given in Annexure - B
21. Accordingly, bank shall mandatorily consider the key ratios while finalizing the resolution plans in respect of eligible borrowers under Part B of the Annex to the Resolution Framework:
22. The Expert Committee shall also have the responsibility of vetting the resolution plans to be implemented under this window in respect of all accounts where the aggregate exposure of the lending institutions at the

time of invocation of the resolution process is Rs.1500 crore and above. The Committee shall check and verify that all the processes have been followed by the parties concerned as desired without interfering with the commercial judgments exercised by the lenders.

23. The Expert Committee shall have its secretariat at the Indian Banks' Association.

Permitted features of the resolution plan

24. The resolution plan may involve any action as provided above of the "Prudential Framework", except compromise settlements which shall continue to be governed by the provisions of the Prudential Framework or the relevant instructions, if any, applicable to specific category of lending institutions where the Prudential Framework is not applicable. The resolution plan may also include sanctioning of additional credit facilities to address the financial stress of the borrower on account of Covid19 even if there is no renegotiation of existing debt.
25. The Bank may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.
26. The revised assumptions that go into the plan shall, at the minimum, factor in the financial parameters decided by the Expert Committee and the ranges for such parameters, as notified by the Reserve Bank.

Conversion into other securities and valuation

27. The resolution plan may provide for conversion of a portion of the debt into equity or other marketable, nonconvertible debt securities issued by the borrower, provided the amortization schedule and the coupon carried by such debt securities are similar to the terms of the debt held on the books of the lending institutions, post implementation of the resolution plan. The holding of such instruments by the respective

lending institutions shall be subject to the extant instructions on investments as applicable to them.

28. The valuation of equity instruments issued, if any, shall be governed by the provisions of Paragraphs 19(c) and 19(d) of the Annex to the Prudential Framework whereas debt securities shall be valued as per the instructions compiled at Paragraph 3.7.1 of the Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015 (as amended from time to time), or other relevant instructions as applicable to specific category of lending institutions.
29. In case the lending institutions convert any portion of the debt into any other security, the same shall collectively be valued at Re.1.

Other features

30. Resolution plans in respect of accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is Rs.100 crores and above, shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA) authorized by the Reserve Bank under the Prudential Framework.
31. The resolution plan shall further provide that in accounts involving consortium or multiple banking arrangements, post implementation of the plan, all receipts by the borrower, all repayments by the borrower to the lending institutions, as well as all additional disbursements, if any, to the borrower by the lending institutions as part of the resolution plan, shall be routed through an escrow account maintained with one of the lending institutions.
32. To ensure that the above operations are carried out smoothly, lending institutions shall enter into a formal agreement with the escrow manager detailing the duties and responsibilities of the escrow manager and the lending institutions, as well as the enforcement mechanism that will be contractually available to the escrow manager to ensure that lending institutions service their disbursement obligations on a timely basis.

C. Asset classification and provisioning

32. Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, may be classified as 'standard asset' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities in the interim.

33. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to the additional finance or the rest of the credit facilities, whichever is worse.

34. If a resolution plan is implemented in adherence to the provisions of this facility, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the plan

35. In respect of personal loans where a resolution plan is implemented under this facility, the lending institutions shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt).

36. In other cases where a resolution plan is implemented under this facility, the lending institutions, which had signed the ICA within 30 days of invocation, shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 signed the ICA within 30 days of invocation, shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms

immediately before implementation, or 10 percent of the total debt, including the debt securities issued in terms of clause 30, held by the ICA signatories post-implementation of the plan (residual debt).

37. However, lending institutions which did not sign the ICA within 30 days of invocation shall, immediately upon the expiry of 30 days, keep provisions of 20 per cent of the debt on their books as on this date (carrying debt), or the provisions required as per extant IRAC norms, whichever is higher. Even in cases where the invocation lapses on account of the thresholds for ICA signing not being met, in terms of clause 18, such lending institutions which had earlier agreed for invocation but did not sign the ICA shall also be required to hold 20 percent provisions on their carrying debt.

38. The additional provisions maintained, if any, by lending institutions in terms of the circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020 in respect of such borrowers, to the extent not already reversed, may be utilized for meeting the provision requirements in all cases under this facility.

38. Any additional provisions maintained in terms of Paragraph 17 of the Prudential Framework, wherever applicable, may be reversed at the time of invocation of the resolution plan under this facility. However, if the plan is not implemented within 180 days from invocation, provisions as per the Prudential Framework shall be required to be maintained, as if a resolution process was never invoked under this window.

Reversal of Provisions

39. In case of personal loans resolved under this facility, half of the above provisions may be written back upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.

40. In case of resolution of other exposures, the provisions maintained by the ICA signatories may be reversed as prescribed in clause 39. However, in respect of the non-ICA signatories while half of the provisions may be reversed upon repayment of 20 percent of the carrying debt, the other half may be reversed upon repayment of another 10 per cent of the carrying debt, subject to the required IRAC provisions being maintained.

Post Implementation Performance

41. For personal loans, after implementation of the resolution plan in terms of this facility, the subsequent asset classification will be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to specific category of lending institutions.

42. In respect of exposures other than personal loans, any default by the borrower with any of the signatories to the ICA during the monitoring period shall trigger a Review Period of 30 days.

43. Monitoring period, for this purpose, is defined as the period starting from the date of implementation of the resolution plan till the borrower pays 10 percent of the residual debt, subject to a minimum of one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.

44. If the borrower is in default with any of the signatories to the ICA at the end of the Review Period, the asset classification of the borrower with all lending institutions, including those who did not sign the ICA, shall be downgraded to NPA from the date of implementation of the resolution plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.

45. In all cases, further upgradation shall be subject to implementation of a fresh restructuring under the Prudential Framework, or the relevant

instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

46. Upon completion of the monitoring period without being classified as NPA, the asset classification norms will revert to the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to specific category of lending institutions.

47. The provisions required to be maintained under this window, to the extent not already reversed, shall be available for: (i) the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA; as well as, (ii) the additional provisioning requirements on account of Paragraph 17 of the Prudential Framework, as and when the Prudential Framework becomes applicable in respect of the particular account.

48. In Bank' quarterly statements disclosures as per the format prescribed in Format-A in the financial statements for the quarters ending March 31, 2021, June 30, 2021 and September 30, 2021, shall have to be made. Disclosures in the format prescribed in Format-B every half-year, i.e., in the financial statements as on September 30 and March 31, starting from the half-year ending September 30, 2021 till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into NPA, whichever is earlier, shall have to be made.

49. The credit reporting by the Bank in respect of borrowers where the resolution plan is implemented under this facility shall reflect the "restructured" status of the account if the resolution plan involves renegotiations that would be classified as restructuring under the Prudential Framework. The credit history of the borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

The above relief measures for the borrower shall be approved by respective sanctioning authorities across all business segments.

Annexure - B - Key Ratios

| <u>Key Ratios</u> | <u>Definition</u> |
|--|---|
| Total Outside Liabilities / Adjusted Tangible Net Worth (TOL/ATNW) | Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities. |
| Total Debt / EBITDA | Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortisation. |
| Current Ratio | Current assets divided by current liabilities |
| Debt Service Coverage Ratio (DSCR) | For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges. |
| Average Debt Service Coverage Ratio (ADSCR) | Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges. |

- The sector-specific thresholds (ceilings or floors, as the case may be) for each of the above key ratios that should be considered by the bank in the resolution assumptions with respect to an eligible borrower are given in the Annex. In respect of those sectors where the sector-specific thresholds have not been specified, bank shall make its own internal assessments regarding TOL/ATNW and Total Debt/EBITDA. However, the current ratio and DSCR in all cases shall be 1.0 and above, and ADSCR shall be 1.2 and above.
- Bank is free to consider other financial parameters as well while finalizing the resolution assumptions in respect of eligible borrowers apart from the above mandatory key ratios and the sector-specific thresholds that have been prescribed. The above requirements are applicable even in cases when there is only one lending institution with exposure to an eligible borrower.
- The ratios prescribed above are intended as floors or ceilings, as the case may be, but the resolution plans shall take into account the pre-Covid-19 operating and financial performance of the borrower and impact of Covid-19 on its operating and financial performance at the time of finalizing the resolution plan, to assess the cash flows in subsequent years, while stipulating appropriate ratios in each case.
- Given the differential impact of the pandemic on various sectors/entities, bank, at its discretion, adopt a graded approach depending on the severity of the impact on the borrowers, while preparing or implementing the resolution plan. Such graded approach may also entail classification of the impact on the borrowers into mild, moderate and severe, as recommended by the Expert Committee.
- Bank is expected to ensure compliance to TOL/ATNW agreed as per the resolution plan at the time of implementation itself. Nevertheless, in all cases, this ratio shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter. However, wherever the resolution plan envisages equity infusion, the same may be suitably

phased-in over this period. All other key ratios shall have to be maintained as per the resolution plan by March 31, 2022 and on an ongoing basis thereafter.

- The compliance in regard to meeting the agreed ratios should be monitored as financial covenants on an ongoing basis, and during subsequent credit reviews. Any such breach not rectified within a reasonable period, in terms of the loan contract, will be considered as financial difficulty.

Other Clarifications - Applicability of ICA and Escrow account

- The various requirements of the Resolution Framework, especially the mandatory requirement of ICA, wherever applicable, and maintenance of an escrow account after implementation of a resolution plan, shall be applicable at the borrower-account level, i.e. the legal entities to which the Bank has exposure to, which could include a special purpose vehicle having a legal-entity status, set up for a project.
- Signing of ICA is a mandatory requirement for Bank in all cases involving multiple lending institutions, where the resolution process is invoked, and the requirement of additional provisions if the ICA is not signed within 30 days of invocation does not substitute for the mandatory nature of ICA. Compliance with this regulatory requirement shall be assessed for Bank as part of the supervisory review.

Annex C - Sector-specific thresholds (ceilings or floors, as applicable) of key ratios for 26 sectors

| Sectors | TOL / ATN | Total Debt/ EBITDA | Current Ratio | Average DSCR | DSCR |
|----------------------------------|------------------|---------------------------|----------------------|---------------------|-------------|
| Auto Components | ≤ 4.50 | ≤ 4.50 | ≥ 1.00 | ≥ 1.20 | ≥ 1.00 |
| Auto Dealership | ≤ 4.00 | ≤ 5.00 | ≥ 1.00 | ≥ 1.20 | ≥ 1.00 |
| Automobile Manufacturing* | ≤ 4.00 | ≤ 4.00 | NA | ≥ 1.20 | ≥ 1.00 |

| | | | | | |
|---------------------------------------|---------|---------|---------|--|--------|
| Aviation** | <= 6.00 | <= 5.50 | >= 0.40 | NA | NA |
| Building Materials - Tiles | <=4.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| Cement | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| Chemicals | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| Construction | <=4.00 | <=4.75 | >=1.00 | >=1.20 | >=1.00 |
| Consumer Durables / FMCG | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| Corporate Retails Outlets | <=4.50 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| Gems & Jewellery | <=3.50 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| Hotel, Restaurants, Tourism | <=4.00 | <=5.00 | >= 1.00 | >=1.20 | >=1.00 |
| Iron & Steel Manufacturing | <=3.00 | <=5.30 | >=1.00 | >=1.20 | >=1.00 |
| Logistics | <=3.00 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| Mining | <=3.00 | <=4.50 | >=1.00 | >=1.20 | >=1.00 |
| Non Ferrous Metals | <=3.00 | <=4.50 | >=1.00 | >=1.20 | >=1.00 |
| Pharmaceuticals | <=3.50 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| Plastic Products Manufacturing | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| Port & Port Services | <=3.00 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| Power | | | | | |
| - Generation | <=4.00 | <=6.00 | >=1.00 | >=1.20 | >=1.00 |
| - Transmission | <=4.00 | <=6.00 | >=1.00 | >=1.20 | >=1.00 |
| -Distribution | <=3.00 | <=6.00 | >=1.00 | >=1.20 | >=1.00 |
| Real Estate## | | | | | |
| - Residential | <=7.00 | <=9.00 | >=1.00 | >=1.20 | >=1.00 |
| - Commercial | <=10.00 | <=12.00 | >=1.00 | >=1.20 | >=1.00 |
| Roads | NA | NA | NA | >=1.10 | >=1.00 |
| Shipping | <=3.00 | <=5.50 | >=1.00 | >=1.20 | >=1.00 |
| Sugar | <=3.75 | <=4.50 | >=1.00 | >=1.20 | >=1.00 |
| Textiles | <=3.50 | <=5.50 | >=1.00 | >=1.20 | >=1.00 |
| Trading – Wholesale @ | <=4.00 | <=6.00 | >=1.00 | Instead Interest Coverage Ratio > = 1.70 | |

Note: Some of the key ratios have been marked as not applicable in the case of certain sectors in line with the recommendations of the Expert Committee which has concluded that those ratios may not be relevant for the respective sectors to which they have been made as not applicable.

*No threshold has been prescribed for Current Ratio due to the “just in time inventory” business model for raw materials and parts, and finished goods inventory is funded by channel financing available from the dealers.

**DSCR thresholds have not been prescribed since most of the airline companies work on refinancing of debt as a financing strategy. Consequently, average DSCR threshold is also not prescribed.

##In the roads sector, the financing is cash flow based and at SPV level where the level of debt is decided at the time of initial project appraisal. The working capital cycle in this sector is also negative. Accordingly, ratios like TOL / ATNW, Debt/EBITDA and Current ratio may not be relevant at the time of restructuring in this sector.

@Most of the companies in the sector do not use long term debt for funding their operations and are unlisted. Hence DSCR and average DSCR may not be relevant for the sector.

Annexure - XI - Resolution Framework 2.0 - Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)

In continuation to the circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 on restructuring of advances to the MSME borrowers and ref to Bank's "Stressed Assets & Recovery Policy", due to uncertainties created by the resurgence of the Covid-19 pandemic in India in the recent weeks, RBI has permitted bank for extending the facility for restructuring existing loans without a downgrade in the asset classification subject to the following conditions:

- i. The borrower shall be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
- ii. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 31, 2021.

- iii. The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹50 crores as on March 31, 2021.
- iv. The borrower's account was a 'standard asset' as on March 31, 2021.
- v. The borrower's account was not restructured in terms of the circulars DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; or DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019 (collectively referred to as MSME restructuring circulars) or the circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress."
- vi. The restructuring of the borrower account is invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when the bank and the borrower agree to proceed with the efforts towards finalizing a restructuring plan to be implemented in respect of such borrower. The decisions on applications received by the bank from customers for invoking restructuring under this facility shall be communicated in writing to the applicant by the bank within 30 days of receipt of such applications. The decision to invoke the restructuring under this facility shall be taken by bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- vii. The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- viii. If the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented.
- ix. Upon implementation of the restructuring plan, bank shall keep provision of 10 percent of the residual debt of the borrower.

- x. All other instructions specified in the circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.

In respect of restructuring plans implemented as per above, asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.

In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, bank is permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by bank by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review by the bank at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.

The above measures shall be contingent on the bank after satisfying that the same is necessitated on account of the economic fallout from Covid-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from Covid-19.

Annexure - XII - Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses

RBI vide circular ref DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on Resolution Framework for COVID-19-related Stress ("Resolution

Framework - 1.0") had provided a window to enable bank to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions. The required and suitable amendment in Stressed Assets Management & Recovery Policy has already made to implement the resolution framework under Annexure-XII, "Resolution Framework for COVID-19-Related Stress".

In continuation to the above Circular and due to resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures to check the spread of the pandemic may impact the recovery process and create new uncertainties, RBI has introduced "Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses" vide Circular ref RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021. The objective of alleviating the potential stress to individual borrowers and small businesses, the following set of measures are being announced. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications. There are several reference to the earlier circular of resolution framework as per Stressed Assets Management & Recovery Policy has already made to implement the resolution framework under Annexure-XII, "Resolution Framework for COVID-19-Related Stress".

The circular is divided into three parts as below:

Part A - Pertains to requirements specific to resolution of advances to individuals and small businesses;

Part B - Pertains to working capital support for:

- (i) Individuals who have availed of loans for business purposes, and
- (ii) Small businesses, where resolution plans were implemented previously.

Part C - lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented under this window.

Part A - Resolution of advances to individuals and small businesses

1. Bank is permitted to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan subject to the conditions specified hereafter.
2. The following borrowers shall be eligible for the window of resolution to be invoked by the Bank:
 - a) Individuals who have availed of personal loans (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on “XBRL Returns - Harmonization of Banking Statistics”), excluding the credit facilities provided by lending institutions to their own personnel/staff.
 - b) Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.50 crores as on March 31, 2021.
 - c) Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

Provided that the borrower accounts / credit facilities shall not belong to the categories listed in sub-clauses (a) to (e) of the Clause 2 of the Annex-A “Conditions for the Resolution Framework for COVID-19 related stress under Annexure-XII of Bank`s Stressed Asset Management & Recovery Policy to the Resolution Framework 1.0, read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020).

Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at Clause 20 below.

Provided further that the credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021.

3. Any resolution plan implemented in breach of the stipulations of this circular shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 (“Prudential Framework”), or the relevant instructions as applicable to specific category of Bank where the Prudential Framework is not applicable.

Invocation of resolution process

4. This Board approved policy pertaining to implementation of viable resolution plans for eligible borrowers under this framework, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19. The detail the eligibility of borrowers in respect of whom the bank shall be willing to consider the resolution, and shall lay down the due diligence considerations to be followed by the bank to establish the necessity of implementing a resolution plan in respect of the concerned borrower as well as the system for redressing the grievance of borrowers who request for resolution under the window and / or are undergoing resolution under this window to be approved in Credit Risk Management Committee (CRMC) before implementation of Plan. Once approved, the relevant portion of the approved policy shall be sufficiently publicised and should be available on the website of the Bank in an easily accessible manner.
5. The resolution process under this window shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower. In respect of applications received by the Bank from customers for invoking resolution process under this window, the

assessment of eligibility for resolution as per the instructions contained in this circular and the approved policy put in place as above shall be completed, and the decision on the application shall be communicated in writing or through digital channel to the applicant by the Bank within 30 days of receipt of such applications. In order to optimise the processing time, Bank shall prepare product-level standardized templates as part of approved policies with approval from Credit Risk Management Committee (CRMC), as above, for resolution under this window.

6. The decision to invoke the resolution process under this window shall be taken by bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
7. The last date for invocation of resolution permitted under this window is September 30, 2021.

Permitted features of resolution plans and implementation

8. The resolution plans implemented under this window inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as a resolution plan for this purpose.
9. The moratorium period, if granted, will be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities shall also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.

10. The resolution plan shall also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, and the same shall be governed in terms of Paragraphs 27-29 under Annexure-XII (“Resolution Framework for COVID-19-Related Stress”) of Stressed Assets Management & Recovery Policy.
11. The instructions contained in the circular DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020 on “Resolution Framework for COVID-19-related Stress - Financial Parameters” shall not be applicable to resolution plans implemented under this window.
12. The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions in Paragraph 6 under Annexure-XII (“Resolution Framework for COVID-19-Related Stress”) of Stressed Assets Management & Recovery Policy are met.

Asset classification and provisioning

13. If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers’ accounts classified as Standard may be retained as such upon implementation, whereas the borrowers’ accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.
14. The subsequent asset classification for such exposures will be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to specific category of lending institutions (“extant IRAC norms”).

15. In respect of borrowers where the resolution process has been invoked, Bank is permitted to sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance may be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.
16. Bank shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt). Residual debt, for this purpose, will also include the portion of non-fund based facilities that may have devolved into fund based facilities after the date of implementation.
17. Half of the above provisions may be written back upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.
18. Provided that in respect of exposures other than personal loans, the above provisions shall not be written back before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.
19. The provisions required to be maintained under this window, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

Convergence of the norms for loans resolved previously

20. In cases of loans of borrowers specified in Clause 1 under A-Resolution of Stress in Personal Loans as per Annexure-XII (“Resolution Framework for COVID-19-Related Stress”) of Stressed Assets Management & Recovery Policy in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratorium or moratorium of less than two years and / or extension of residual tenor by a period of less than two years, Bank is permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps in Clause 9 above, and the consequent changes necessary in the terms of the loan for implementing such extension. The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years.
21. This modification shall also follow the timelines specified in Clauses 4, 7 and 12 above. For loans where modifications are implemented in line with Clause 20 above, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

Part B - Working capital support for small businesses where resolution plans were implemented previously

22. In respect of borrowers specified at sub-clauses (b) and (c) of Clause 2 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, Bank is permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by bank by September 30, 2021, with the margins and working capital limits being restored to the

levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.

23. The above measures shall be contingent on the bank satisfying that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.
24. Once approved, the relevant portion of the approved policy shall be sufficiently publicized and should be available on the website of the Bank in an easily accessible manner.

Part C - Lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented under this window

25. Bank publishing quarterly financial statements shall, at the minimum, make disclosures as per the format prescribed in Format-X in financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of Part A of this framework should also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework – 1.0.
26. The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 20 above, and the aggregate exposure of the Bank to such borrowers shall also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
27. Bank that are required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures.
28. The credit reporting by the bank in respect of borrowers where the resolution plan is implemented under Part A of this window shall reflect the “restructured due to COVID-19” status of the account. The credit history (CIC) of the borrowers shall consequently be governed by the

respective policies of the credit information companies as applicable to accounts that are restructured.

Format - X

Format for disclosures to be made in the quarters ending September 30, 2021 and December 31, 2021

| Sl. No | Description | Individual Borrowers | | Small businesses |
|--------|--|----------------------|----------------|------------------|
| | | Personal Loans | Business Loans | |
| (A) | Number of requests received for invoking resolution process under Part A | | | |
| (B) | Number of accounts where resolution plan has been implemented under this window | | | |
| (C) | Exposure to accounts mentioned at (B) before implementation of the plan | | | |
| (D) | Of (C), aggregate amount of debt that was converted into other securities | | | |
| (E) | Additional funding sanctioned, if any, including between invocation of the plan and implementation | | | |
| (F) | Increase in provisions on account of the implementation of the resolution plan | | | |

*Personal loans', for the purpose of Circular RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21 August 6, 2020 and RBI/2021-22/31

DOR.STR.REC.11/21.04.048/2021-22 May 5, 2021 shall have the same meaning as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns - Harmonization of Banking Statistics". Personal loans refer to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.).

Resolution plans as per Annexure-XI and XII can be done by way of

- Alteration of repayment period
- Alteration in amount of installment
- Alteration in rate of interest
- Moratorium on repayment
- Any one or any combination of all of above

.....END.....