



Recovery Policy



The Sundargarh District Central Co-operative Bank Ltd.,

AT – REGENT MARKET, PO/DIST. – SUNDARGARH

PIN – 770001, ODISHA



STRESSED ASSET MANAGEMENT AND RECOVERY POLICY

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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/2015-16/101 DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1,2015.

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.

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 at least 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.

ii. 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-overrun 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:

- Bank may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories.
- 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.
- 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.
- 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.
- Cases of frauds and malfeasance will not be eligible for restructuring.
- BIFR cases are not eligible for restructuring without their express approval.

Asset Classification:

- 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.
- 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.
- 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.
- "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.
- 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 sub-standard 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.

Department 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 under Odisha Cooperative Societies Act, 1962 in the Court of Registrar of Cooperative Societies.

b) 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.

c) Enforcement of securities through SARFAESI under Enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act (SARFAESI), 2002 as amended. In order to effectively monitor the actions taken by the Branches against NPA Accounts under SARFAESI Act, a web based package called "SARFAESI Module" may be introduced. Under the package, Branches need to punch in the details of actions initiated under the SARFAESI Act, account-wise, which will be monitored centrally at Head Office.

Eligible accounts under SARFAESI Act will be directly captured from the CBS to the package every month end, automatically. Once the account is reflected in the package, the concerned Branch will have to update further details with all necessary information such as Demand Notice, Date of possession, valuation of the property etc. on a regular basis. The data updated by the Branches shall be saved centrally. Head Office will be able to monitor these individual NPA account details. The SARFAESI Module can be accessed through SuVikas CBS login. The Module must follow maker-checker concept, where the data punched in needs to be authorised.

d) Filing of criminal suit under Amendment of Negotiable Instrument Act making bouncing of cheques.

e) 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. || NA

f) 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 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 || NA, 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 by RBI and 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 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/FIs/others, wherever feasible.

In order to enable greater focus on high value NPAs, it has been decided that Recovery Department would handle NPA accounts

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.

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.

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 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.

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

The Bank shall follow the guidelines stipulated by the RBI with respect to identification and reporting of wilful defaulters. Towards this end, the Bank shall adhere to the following process for identification and reporting of wilful 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 wilful defaulter, based on the criteria laid down by the RBI as stated below.

- A "wilful 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 meeting 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 wilful defaulter, the proposal shall be forwarded to the Wilful Defaulter Identification Committee as given Annexure-VII.

- If the Committee concludes that an event of wilful 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 Wilful 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 Wilful 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 wilful 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 wilful defaulters would rest with the Review Committee (MD & CEO and at least 2 independent directors) of Wilful 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 *supra*. 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 wilful 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 Wilful 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 Master Direction RBI/DoR/2024-25/125

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

- I. No additional/new facilities would be granted by the Bank to the borrowers reported as Wilful 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 Wilful Defaulters, wherever necessary.
- IV. In cases where guarantees furnished by associate companies on behalf of wilful defaulters units are not honored when invoked. Such associate companies would reckon as Wilful 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 Wilful Defaulter.

VI. Except in very rare cases, a non-whole time director should not be considered as a wilful defaulter unless it is conclusively established that (a) he/she was aware of the fact of wilful 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 wilful 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 Flogged 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 SARFAESI 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 legal department.

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 wilful 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 whether 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 be 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 .



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/SARFAESI 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:

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 RDBFI 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 filling, 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 from 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 into 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 and / or 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 conveyed 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

SARFAESI 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).

The commission and other expenses payable to the Recovery Agency would be negotiated by the Stressed Assets Group/Recovery 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 competent authority. 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, other than empanelled Valuers may be appointed.

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.

The 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. Accounting for Recovery and Expenses related to Recovery

11.1 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.

11.2 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).

12. 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. 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.

12.1 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.

12.2 Substandard, Doubtful and Loss Assets

Asset Classification	Secured Portion	Unsecured Portion
Substandard (up to 1 year)	15%	25%
Doubtful I (2 nd year)	25%	100%
Doubtful II (3 rd & 4 th year)	40%	100%
Doubtful III (5 th year onwards)	100%	100%
Loss Assets	100%	100%

13. 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 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.



13.1 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.

13.2 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.

14. 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. 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.

16. Organizational Structure for Recovery Efforts

The Bank shall set up a Recovery Cell with sufficient manpower at Head Office, which will be the focal point of Recovery Management for all accounts exceeding Rs. 10.00 Lacs along with respective Branches.

17. 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.

18. 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.


Chief Executive Officer
12/07/2015