SAURASHTRA GRAMIN BANK

NPA MANAGEMENT POLICY

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NPA MANAGEMENT POLICY

1. INTRODUCTION:

NPA Management has great significance in the present day banking. Banking sector reforms & IRAC guidelines of RBI over the period of more than one and a half decade, has brought about change in the loan asset management system. It has specifically directed banks not only to maintain good quality of their assets but also to retrieve the deteriorated loan with massive efforts. Infect, in a banking company, the NPA management begins from the very day when borrower is identified. Management of all levels has to keep a close watch on each loan account on an almost day-to-day basis so that it does not turn out to be NPA. Even then, occurrence of NPA can not be altogether eliminated; it can be well controlled with concerted and focused attention by all especially the branch functionary. When the loan goes bad, a series of avenues are available for bank to retrieve such account and bring it back to performing track. In cases where retrieval is not possible, legal actions become imminent. In short, the efficacy of NPA Management depends much on efficiency of the operational staff, quick decisions at appropriate time strong supervision and control systems of the bank. With this background in mind, we have framed the NPA Management policy of our bank.

Saurashtra Gramin Bank's (SGB) NPA Management Policy (NMP) seeks to lay down the Bank's policy on management and recovery of non performing assets (NPAs), and proactive initiatives to prevent slippages in asset portfolio. The aim of the policy is to maintain NPAs of Bank at minimum.

2. Objectives of the Policy

2.1. The basic objectives of the policy are to lay down a system for management of NPAs and to develop the system into an effective tool to contain NPAs within prudential limits.

2.2. The policy outlines the strategies to meet the goals in tune with RBI directives, loan Policy and other instructions received from SBI /NABARD, etc. on the subject.

2.3. The Policy lays stress on a system of early identification and reporting of all existing and potential; Special Mention Accounts (SMA) as a first step towards management of NPAs.

2.4. Preventive & timely corrective actions are of prime importance in management of NPAs. Therefore, the policy proposes to have special thrust on loan review mechanism, which will be on the lookout for early warning signals to ensure effective and expeditious corrective measures. Time norms are stipulated for identification and analysis of "Special Mention Accounts" to be followed by prompt corrective actions.

2.5. The policy lay down a broad approach for recovery of NPAs through various methods & finally through compromise settlement.

3. DEFINITIONS

3.1. Non Performing Assets

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

3.1.2. A non performing asset (NPA) is a loan or an advance where;

i. interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

ii. the account remains 'out of order' as indicated at paragraph 3.2 below, in respect of an Overdraft/Cash Credit (OD/CC),

iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

iv. the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

v. the installment of principal or interest thereon remains overdue for one crop season for long duration crops,

vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

3.1.3. In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

In addition, an account may also be classified as NPA in as per guidelines issued by RBI time to time.

3.2. ‘Out of Order’ status

An account should be treated as **'out of order'** if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as **'out of order'**.

3.3. ‘Overdue’

Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.

4. INCOME RECOGNITION

4.1. Income Recognition Policy

4.1.1. The policy of income recognition has to be objective and based on the record of recovery. Internationally income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the bank should not charge and take to income account interest on any NPA. This will apply to Government guaranteed accounts also.

4.1.2. However, interest on advances against Term Deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

4.1.3. Fees and commissions earned by the banks as a result of renegotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

4.2. Reversal of income

4.2.1. 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 realised. This will apply to Government guaranteed accounts also.

4.2.2. 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.

4.2.3. Leased Assets

The *finance charge* component of finance income [as defined in 'AS 19 Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became non performing, and remaining unrealised, should be reversed or provided for in the current accounting period.

4.3. Appropriation of recovery in NPAs

4.3.1. Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

4.3.2. 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), bank should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

4.4. Interest Application

On an account turning NPA, bank should 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.

4.5. Computation of NPA levels

Compute of Gross Advances, Net Advances, Gross NPAs and Net NPAs are as per the RBI guidelines.

5. ASSET CLASSIFICATION

5.1. Categories of NPAs

It is required to classify non performing assets further into the following three categories based on the period for which the asset has remained non performing and the realisability of the dues:

i. **Substandard Assets**
ii. **Doubtful Assets**
iii. **Loss Assets**

5.1.1. Substandard Assets

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

5.1.2. Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

5.1.3. 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 wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

5.2. Guidelines for classification of assets

5.2.1. Broadly speaking, classification of assets into above categories should be done taking into account the degree of well-defined credit weaknesses and the extent of dependence on collateral security for realisation of dues.

5.2.2. Accounts with temporary deficiencies

The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc. In the matter of classification of accounts with such deficiencies bank may follow the following guidelines:

i) Bank should ensure that drawings in the working capital accounts are covered by the 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. However, considering the difficulties of large borrowers, stock statements relied upon by the banks 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 borrowal 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.

ii) Regular and ad hoc credit limits need to be reviewed/ regularised 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 borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is 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.

5.2.3. Upgradation of loan accounts classified as NPAs

If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts.

5.2.4. Accounts regularised near about the balance sheet date

The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the bank must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

5.2.5. Asset Classification to be borrower-wise and not facility-wise

i) It is difficult to envisage a situation when only one facility to a borrower/one investment in any of the securities issued by the borrower becomes a problem credit/investment and not others. Therefore, all the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular.

ii) If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning.

iii) The bills discounted under LC favoring a borrower may not be classified as a Non-performing assets (NPA), when any other facility granted to the borrower is classified as NPA. However, in case documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.

5.2.6. Advances under Consortium Arrangements

Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

5.2.7. Accounts where there is erosion in the value of security/frauds committed by borrowers

i) In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment, the asset should be straightaway classified as doubtful or loss asset as appropriate:

a. Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank. Such NPAs may be straightaway classified under doubtful category.

b. If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset.

ii) Provisioning norms in respect of all cases of fraud:

a. The entire amount due to the bank (irrespective of the quantum of security held against such assets), or for which the bank is liable (including in case of deposit accounts), is to be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected;

b. However, where there has been delay, beyond the prescribed period, in reporting the fraud to the Reserve Bank, the entire provisioning is required to be made at once.

5.2.8. Advances against Term Deposits, NSCs, KVPs/IVPs, etc.

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

5.2.9. Loans with moratorium for payment of interest

i. In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

ii. In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.

5.2.10. Agricultural advances

i. A loan granted for short duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for one crop season. For the purpose of these guidelines, “long duration” crops would be crops with crop season longer than one year and crops, which are not “long duration” crops, would be treated as “short duration” crops. The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers’ Committee in each State. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed by him.

ii. Where natural calamities impair the repaying capacity of agricultural borrowers for the purposes specified RBI, bank may decide on own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines of RBI.

iii. In such cases of conversion or re-schedulement, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA. The asset classification of these loans would thereafter be governed by the revised terms & conditions and would be treated as NPA if interest and/or installment of principal remains overdue for two crop seasons for short duration crops and for one crop season for long duration crops. For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not 'long duration" would be treated as "short duration" crops.

iv. While fixing the repayment schedule in case of rural housing advances granted to agriculturists under Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, the interest/installment payable on such advances may be linked to crop cycles.

6. <u>NPA Management – Requirement of Effective Mechanism and Granular Data</u>

(i) Asset quality of bank is one of the most important indicators of their financial health. Bank should, therefore put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level (asset class, industry, geographic, size, etc.). Such early warning signals should be used for putting in place an effective preventive asset quality management framework, including a transparent restructuring mechanism for viable accounts under distress within the prevailing regulatory framework, for preserving the economic value of those entities in all segments.

(ii) The banks' IT and MIS system should be robust and able to generate reliable and quality information with regard to their asset quality for effective decision making. There should be no inconsistencies between information furnished under regulatory / statutory reporting and the banks' own MIS reporting. Bank should also have system generated segment wise information on non-performing assets and restructured assets which may include data on the opening balances, additions, reductions (upgradations, actual recoveries, write-offs etc.), closing balances, provisions held, technical write-offs, etc.

7. QUICK MORTALITY (Quick mortality are those account which becomes NPA within 24 months from day of sanction)

7.1. It is obligatory on every person concerned to appraise the proposal with due care, take necessary steps to ensure that the borrower comply with all the terms of sanction, appropriate end-use of funds, adequate and close monitoring of accounts, etc., so that quality of advance account does not deteriorate. However, instances of quick mortality have thrown light on inadequacy of proper care at various stages of the loan, viz. Pre-sanction Appraisal, Post-sanction Monitoring, etc.

7.2. Branches shall take sufficient and utmost care in case of all new advances accounts, so that they do not become cases of quick mortality and extant guidelines with regard to compliance of terms and conditions should be strictly adhered to.

7.3. The Staff accountability should examined immediately on an account turning into NPA in cases of quick Mortality. However the competent authority may order examination of the staff accountability at any stage, if he/she deems necessary.

8. Review and Management of Stressed Assets (Special Mention Accounts (SMAs) , NPAs and AUCs)

A. Integrate approach to review and management of stressed assets (SMAs, NPAs and AUCs)

B. Modified approach to rehabilitation / Restructuring-Holding on operations and reliefs / concessions.

8.1. With a view to streamline the multiple review processes and to integrate the Bank's approach to management of stressed assets including their restructuring, following guidelines should be followed as new integrated approach.

8.2. The new integrated approach, being detailed herein, would supersede all existing instructions on review of problem loans / SMAs/ NPAs(including AUCs) and such review would here after comprise two separate tracks as under;

i. Review of stressed assets (SMAs and substandard assets) with focus on restructuring of loans to viable unit wherever feasible

ii. Review of Doubtful / Loss assets and AUCs with focus on quick recovery action.

8.3. Special Mention Accounts (SMAs) : Definition

As per Bank's extant approach, the following two categories of accounts have been designated as SMAs :

i. **Category - I** :
Accounts where interest / installment has not been serviced for 30 days. (IRAC Status 2 or 3 in CBS System)

ii. **Category – II** :
Accounts which are not in default but are showing early warning signals such as frequent return of cheques, deteriorating financials, etc. (An illustrative list of warning signals as advised by RBI is given in **Annexure-I**)

8.4. Stressed Assets Review (SAR)

i. Coverage :
SAR would cover loan assets which have the potential for quick turn around, i.e. SMAs, (category-I & II) and sub standard assets.

ii. Cut-off :
Rs. 3.00 lacs and above (outstanding)

(Accounts below the cut-off level will not be covered by the structured reporting norms and also related guidelines on holding on operation etc. However, in these cases, Branches would formulate and pursue account specific action plans, with the approval of the sanctioning authority. In addition, a report on all stressed account above Rs. 1.00 lac but below Rs. 3.00 lacs may be submitted monthly, on a consolidated basis by the branches to the controllers / Regional Manager. The Regional Manger / controllers may also put in place a suitable mechanism for review of these accounts (Rs. 1.00 lac to Rs. 3.00 lacs) taking into account the local requirements.)

iii. Stressed Assets Review Report (SAR Report)

The basic strategy underlying the Bank's approach to restructuring would be to initiate appropriate corrective actions at the right time. Soon after an account is identified as SMA or an account turns sub-standard, the branch should take immediate steps to analyse the problems based on fact and circumstances by means of a review at the branch as per SAR Report format given in Annexure-2. Such reports are to be submitted to reviewing authority as detailed later.

The important parameters of the branch level review would be following:

a. Diagnose reasons for the account being identified as SMA / deterioration in asset quality.
b. Revalidate the assumptions made at time of credit: actions particularly in regard to assessment of credit risk.
c. Verify completeness and correctness of documentation including revival position, creation / registration of charges, insurance cover etc and rectify deficiencies, if any.
d. Discuss the unit's problems with the promoters / guarantors and find out whether they have a future plan for the unit.
e. Identity and study the existing, primary and secondary sources of cash flow and determine whether the unit is intrinsically viable.
f. Determine whether the problems faced by the unit are of a temporary nature or whether any proactive action from the Bank is required to sustain its viability.
g. Assess whether the promoter(s) / management has genuine intent to rehabilitate the unit.
h. Assess the ability of the promoters / management to turn around the unit.

After taking a view on the, viability of the unit / feasibility of restructuring, the branch should also decide on the need to immediately put the unit on "holding on operations". If the branch is satisfied that the unit needs to be put on holding on operations, pending finalization and implementation of the restructuring package, the branch may extend the same immediately as detailed later in Para 8.5. No separate approval would be required for extending the same.

iv. Organizational set for up the stressed assets review

At the Regional Office level, Administrative Officer, Credit (AO(Credit)) will be Nodal Officer for handling SMAs and NPAs.

As SAR report from branches would be account-wise, the reports would continue to flow to the respective departments depending upon whether the A/c is SMA or sub-standard. However, Administrative Officer, Credit (AO(Credit)) is a nodal officer at the R.O. as a single point of contract for all stressed assets related matters. The nodal officer would also handle all related correspondence with the R.O., under overall supervision of Regional Manager.

v. Reviewing Authority :

The SAR Report would be submitted by the branch to the controllers at monthly intervals. The reports would thereafter be reviewed by the following authorities;

Brno.	**To be Monitored by**	**Cut off point for accounts with Outstanding of**
01	Branch Manager *	Account upto Rs. 3.00 lacs
02	Regional Manager	Above Rs. 3.00 lacs and upto 10.00 lacs
03	General Manager	Above Rs. 10.00 lacs and upto 20.00 lacs
04	Chairman	Above Rs. 20.00 lacs

*This will not be a part of structured reporting and after reviewing such accounts at branch level, a consolidated quarterly report will have to be submitted to the respective controllers as per format prescribed by Competent Authority time to time. While accounts above Rs. 3.00 lacs report (SARR) will have to be submitted to the respective controllers. For monitoring by General Manager, Regional Manager will send SAR, with his observations & action plan to Head Office, after receiving from branches. While accounts above Rs. 10.00 lacs for reviewing purpose, branch will have to submit to Region Office & Region Office will submit the same to Head Office with their observations and recommendation to the Head Office.

vi. **Action by the reviewing authority** :

The reviewing authority would take the SAR Report on record and give necessary directions to the branch on the recommended action plan. If the unit is considered intrinsically viable and if the reviewing authority concurs with the branch views in this regard, the holding on operations already Initiated by the branch would continue and the branch would proceed with the action plan, subject to directions of the reviewing authority. The purpose of the structured review is only to examine the viability and approve the action plan for proceeding with restructuring / rephasement effort.

The financial sanction for the restructuring proposal would be separate as per extant delegation of financial powers. If after the structured review, the unit is not considered potentially viable, recovery efforts are to be immediately initiated. The reviewing authority would give necessary directions to the effect.

vii. **Time Norms :**

The speed with which problems are diagnosed and the package is implemented is vital to the success of any restructuring plan. Similarly, in cases where restructuring is not considered feasible, the speed with which recovery steps are initiated is equally critical. Accordingly and keeping in view the 90 day IRAC norm, the following revised time norms may be followed for review of stressed assets and for obtaining sanction for rehabilitation package :

Process	Time frame*
Submission of SAR Report	10 days
Approval for action plan (by reviewing authority)	05 days
Completion of viability study, if necessary and for submission of restructuring / rehabilitation package and obtaining of sanction from sanctioning authority	45 days
TOTAL	**60 days**

***Time frame from turning account in IRAC status 1 in respective category**

viii. After first reporting of stressed assets, if account continues to remain irregular, review of such stressed assets should be done at least on quarterly basis till account becomes regular or final outcome occurs.

ix. **Monitoring by Controllers :**
The controller (RM/GM/Chairman) is to monitor the progress in implementation of the approved action plan and subsequent restructuring. A monthly progress report may be submitted by the Branch to the controller as per the format given in **Annexure-3**.

8.5. Holding on Operations :

i. Holding on operations would commence from the date branch identifies as SMA – Category I & II or a Sub-standard account as 'potentially viable'. (Such holding on operations would not require any Administrative Clearance / approval / sanction and would need to be only reported as per the Report format being laid down.)

ii. The prescribed reviewing authority would take the report on commencement of holding on operations on record and give necessary directions to the branch on the proposed action plan.

iii. The holding on operations would consist of freezing the bank's exposure at the sanctioned limit or average daily exposure during the previous one month prior to the date of reporting. Whichever is higher and allowing operations such frozen limit. However in cases like willful defaulter, diversion of fund etc., normally, no withdrawal should be allowed and efforts should be made to reduce our exposure.

iv. Holding on operations may in deserving cases continue for a maximum period of three months from the date of identification of SMA. Category I & II or a Sub-standard account as 'potentially viable' and for a maximum period of one month from the date of approval of the restructuring package. (The 4 months period is being prescribed as the outer limit for holding on operations in larger accounts. Ordinarily, the branches should endeavor to strictly complete the review and restructuring exercise within 60 to 90 days in view of the current IRAC norms.)

8.6. Review of Doubtful Loss assets / AUCA :

(I) Coverage :

(i) Doubtful / Loss assets / AUCA being generally considered, amenable to any rehabilitation efforts, these assets should be clubbed so that the focus of the review will shift entirely to various means of recovery, i.e. legal action, compromises, assignment of decree, etc. AUCA is also included for structured review, as recovery efforts in these accounts may not have been fully exhausted.

(ii) Further, there may be accounts which have deteriorated to Doubtful / Loss asset category due to mere passage of time and not due to deterioration of security and are still viable. In such cases also, restructuring should be examined as the first option. Review may be put up in format as given in **Annexure-5**.

(iii) **Cut-off point** : (Rs. 3 lacs and above Outstanding)
(Accounts below the cut-off level may not be covered by the, structured reporting norms. However, in these cases, branches would formulate and pursue the account specific action plans, as hitherto, with the approval of the sanctioning authority. In addition, all accounts above Rs. 1 lac but below Rs. 3 lacs may be reported monthly, on a consolidated basis by the branches to the controller for purpose of monitoring. The Controllers may also put in place a suitable structured review of these accounts (Rs. 1 lac to Rs. 3 lacs), taking into account the local situation and requirements).

(iv) **Reviewing Authority** :
The authority structure for review of Doubtful/ Loss/ AUCA. Assets would be as under ;

Br No.	To be Monitored by	Cut off point for accounts with Outstanding of
01	Branch Manager *	Account upto Rs. 3.00 lacs
02	Regional Manager	Above Rs. 3.00 lacs and upto 10.00 lacs
03	General Manager	Above Rs. 10.00 lacs and upto 20.00 lacs
04	Chairman	Above Rs. 20.00 lacs

*This will not be a part of structure reporting and after reviewing such accounts at branch level, a consolidated monthly report will have to be submitted to the respective controllers.

- Account below the cut-off level are not covered by the formal reporting. However, in these cases, branches and their controller would formulate and pursue the account specific action plans as hitherto.

- Doubtful / Loss assets may also be considered for restructuring, subject to their viability.
- The existing authority structure prescribed for removal of entries from AUCA would continue separately.

8.7. Rationale for the above integrated approach :

The primary intent behind the new integrated approach detailed above is to ensure that a SMA does not slip to sub-standard or a sub-standard account to Doubtful /Loss category due to lack of timely finance or reliefs / concessions. The first step to achieve this objective would be to identify stressed assets quickly and to determine whether the problems are of the temporary nature or whether they are likely to persist and affect the asset quality if proactive action is not taken. The restructuring plan thereafter should be aimed at units whose intrinsic liability is beyond doubt and which have genuine cash flow problems and which have defaulted for reasons beyond their control. It may be ensured that only borrowers with genuine intent to restructure the units are supported. The Management's ability to turnaround the unit would also be a critical consideration.

The integrated approach being introduced is expected to bring greater focus on review of stressed assets so as to quickly identify accounts amenable to restructuring. The Bank's policy would be that in cases where restructuring is considered feasible, branches would consider restructuring as the first option in management of stressed - assets. To give the desired thrust to restructuring across the Bank, a uniform approach to holding on operations and relief / concessions, but with necessary in-built flexibility is being put in place. It is also expected that wherever restructuring is not considered feasible on account of non-viability or any other Reason, the branches would quickly consider exit option or the usual steps for recovery.

8.8. Relief and concessions – a uniform approach :

Extension of RBI norms on relief and concessions to weak / sick SSI units to potentially viable units in other sectors :

Given the RBI's simple and easily implementable approach to relief / concessions, the some may be extended across the Bank to various categories of advances as given below :

(i) In SSI sector, units falling within the RBI's definition of a sick SSI unit would continue to be eligible for relief and concessions as per RBI guidelines. SSI units which do not readily fall within the RBI's definition of sick SSI unit may also be extended relief and concessions as per RBI guidelines (details are given in

Annexure-4) if they require immediate support through restructuring etc. to retain their viability. In other words, complying with the RBI's definition of a sick SSI unit need not be necessarily reckoned as pre-condition for extending holding on operations and rehabilitation / restructuring with relief and concessions to otherwise deserving SSI units.
(In all cases above, relief and concessions as per RBI guidelines may also be extended to SMAs)

(iii) Though RBI's norms for relief and concessions to potentially viable units are primarily intended for manufacturing units, non-manufacturing sectors such as Trade & Service, Small Business and Personal Segment may also be considered for rehabilitation / restructuring. In such cases, rescheduling of term loans, if any, and / or stipulating repayment / regularization programme in cash credit facility would generally suffice. Interest concessions may be extended only highly selectively.

(iv) For rehabilation of seek MSE Units, Bank have formulated MSE Rehabilation Policy (Head Office Circular CRD/36 dared 17.07.2015)

9. <u>Recovery through compromise with borrower : Compromise Settlement.</u>

9.1. Compromise settlement refers to a negotiated settlement where a borrower offers to pay and the Bank agrees to accept in full and final settlement of its dues, an amount less than the total amount due (total dues as per loan contract and other charges upto the date of compromise, i.e. interest to be calculated at contracted rate or as per decree) to the Bank under the relative loan contract. Thus, the settlement invariably involves certain sacrifice (total dues minus offer) by the Bank (by way of write-off and/or waiver) of a portion of its dues.

The Policy recognizes that it is not possible to lay down precise guidelines which can be followed uniformly in all compromise offers as each offer is unique in the context of circumstances necessitating its – consideration as a recovery option. The Policy reiterates principles which are to be kept in view while compromise offers are accepted.

There are several cases where the borrower / guarantor themselves Come forward to settle the Bank's dues to avoid botheration of prolonged legal proceedings. Some time we also encourage offers from the debtors to pay of the Bank's due through compromise.

9.2. Approach to Compromise :

(i) Bank's approach to compromise as a recovery option will be based on an analysis of the strengths and weaknesses in a given case. The parameters for such an analysis are as under ;

a. Genuineness of the Borrower
b. Quality of Assets charged and Collateral Cover
c. Means of Borrower & Guarantor's
d. Stage of legal action

(ii) Hence, compromise proposals may be considered in cases where

a. Genuine economical problems of Borrowers
b. Security position is weak
c. Title / documents are defective
d. Realizable value of assets are declining
e. Difficulties anticipated in realizing the assets
f. Business activity is closed and rehabilitation is not possible.
g. Legal recourse is time consuming.

9.3. Bank may organize One Time Settlement Camp (*Samadhan* Camp) for reduction of NPA amount through compromise or One Time Settlement Scheme for small borrowers financed under Government Sponsored Scheme & others than Govt. Sponsored Scheme on the line of RBI guidelines.

9.4. For the purpose of compromise in One Time Settlement Camp (*Samadhan* Camp), Regional Manager should appoint a officers for this camp. Branch Manager and officer appointed by Regional Office will constitute committee for compromise camps. One among two committee member would be of scale – III. Senior officer among two will be head of committee. Competent Authority may devise Compromise formula for compromise in One Time Settlement Camp (*Samadhan* Camp) and also delegate powers for compromise settlement to this committee.

9.5. The Bank branches should go for vide publicity of the Scheme and also give notice to the eligible defaulting borrowers to avail the opportunity for One Time Settlement of their outstanding dues in terms of RBI guidelines.

9.6. Further, As advised by the Sponsor Bank, Bank have constitutes new committees with nomenclature Head Office Credit Write Off Committee (HOCWC). Discretionary Powers for write off of Bad Debts may be decided by Competent Authority time to time.

9.7. All compromise proposals will clearly spell out the basis on which the negotiated amount of settlement has been arrived at.

9.8. The quantum of sacrifice involved in a compromise offer per-se would not hinder consideration of the offer. The opportunity cost of funds locked up in the loan will be a significant factor. The opportunity cost of funds in hand vis-à-vis that of funds, which could be in hand at a later period, will be calculated to establish the comparative advantage of "Now or Later".

9.9. Documentation & Legal Formalities:

After concluding the compromise arrangement, the settlement will be documented as appropriate as per legal requirement.

(a) In respect of suit filed cases, which have so far not been decreed, the compromise should be put through in the form of consent decree through appropriate court so that decisions remain binding on borrower / guarantor and in the event of default, decree can be executed.

(b) In cases other than mentioned in 9.6 (a) above, the compromise settlement should be well documented in legal terms and all the parties concerned including guarantors should sign the agreement so as to keep the documents alive and to have a legal recourse in case the terms of compromise are not adhered to by the parties concerned. It should also be mentioned clearly in the agreement that Bank will be free to withdraw all the concessions agreed to on failure / non adherence of the terms of the agreement and can sue the parties concerned.

(c) Where amount is to be paid in installments, and where release of some securities and/or extension of some other relief/concessions are involved, it is necessary to have the following irrevocable provisions in the Bank's favor, (incorporated in consent decree/ compromise proposal) in the event of default in meeting compromise commitment on the part of borrower / guarantor :-

i. Entitlement of the Bank to recover the entire balance due, without further notice to the borrower / guarantor.

ii. Withdrawal of all remissions granted in respect of interest, legal charges, penal interest liquidated damages etc.

9.10. EXCLUSIONS :

a. Compromise proposals involving willful default, fraud and malfeasance should not be entertained.

Note: However, whether "willful" default has been recorded as reason for default, it may be reviewed to decide whether the default is actually "willful" so as to ensure that the opportunity for compromise is not denied to such borrowers. Such a review is considered necessary against the backdrop of the fact that in the past, practically all NPA accounts used to be branded as "willful" defaulters, as a routine while transferring the account to the PB account. It is necessary that on review, the authority (Branch Manager, Regional Manager, Controller etc. as the case may be having the powers to sanction the loan) is convinced that the default is not "willful" and it is recorded so.

b. However, if any compromise proposal is accepted with such defaulters, compelling reasons for agreeing to the same should be recorded.

9.11. RELIEFS :

Following relief and concessions may generally be considered on a case to case basis :-

a. Waiving of penal interest partly / fully, if charged.

b. Charging of interest / concessionary rates from date of transfer to PB account or date when unit started incurring cash losses or date of closure of business activities.

c. Partial or complete waiver of interest charged after the unit ceased functioning.

OR

Partial or complete waiver of interest charged after the unit became sick.

d. Waiver / Sacrifice of a part of Principal, which is justifiable on the basis of the analysis of the strength / weaknesses mentioned in Part-I and II above. However, such justification should clearly be spelt out in the proposal.

9.12. REPAYMENT :

a. The repayment should ordinarily be in one lumpsum.

b. Where recovery of entire amount in one lumpsum is not feasible, amount may be recovered in installments within a period of 12 months normally. Extension in the repayment period may be allowed by the competent authority on the basis of merit of the case.

9.13. PROCEDURAL ASPECTS :

a. Each compromise proposal is required to be examined and recommended by Branch Manager before the same is put to up to appropriate sanctioning authority for sanction. The authority approving the compromise will not be the one who sanctioned the advance in question in his individual capacity. While ascertaining appropriate sanctioning authority for considering a compromise, the total dues should be notionally reworked out applying rate of interest (compounded) with effect from the date of account becoming NPA. Such reworked out total dues should be taken into account to decide appropriate sanctioning authority as per structure of power of delegation.

b. Approved compromise proposals should be properly reported to the next higher authority for review.

c. It is presumed that the aspect of staff accountability in each case would have been examined. However, in case it is not done, it should not hold up the process of the compromise settlements. The same should be examined within a reasonable time.

9.14. CANCELLATION :

If the compromise proposal is not implemented as per terms of compromise settlement within 6 months from the date of sanction, the same will be treated as cancelled.

10. Recovery through Legal Process :

Litigation will normally be resorted to after ensuring that prospects for Recovery through litigation are strong and the action will be cost effective.

10.1. Recalling up of advances and filing of civil suits / application under GPMR/ GAC Act for Recovery of dues.

If it is not possible to recover the Bank's dues normally or through a mutually acceptable compromise settlement it is better to recall the advance at an early stage instead of waiting for a long time. Undue delay may result in deterioration of the security available. Further if it is not possible to sell the security without court order civil suits may be filed in the court of low or recovery application be filed under the Gujarat Public Money (Recovery of dues) Act, 1979 or the Gujarat Agricultural Credit (Provision of facilities) Act, 1981 as the case may be.

10.2. Monitoring of suit file/ GPMR/ GAC Cases :

The status of each suit filed / GAC & GPMR case accounts at branches shall be reviewed by the Branch Manager at quarterly interval in consultation with the advocate / revenue authority concerned. Report thereof be submitted periodically to Region Office / Head Office.

10.3. Filling execution petition and monitoring Decreed cases:

In case where decree has been awarded in our favour execution petition should be filed at the earliest. In case of any difficulty in filing execution petition branch should immediately refer to Region Office / Head Office.

11. WRITING OFF OF BAD DEBTS:

11.1. Policy for Write-off of NPAs and Transfer of Protested Bills Accounts to Advances under Collection Account (AUCA) :

The policy for write-off of NPAs and transfer of protested bills accounts to Advances Under Collection Account is detailed as follows:

I. **COMMON PARAMETERS**:-

(a) While seeking approval from the appropriate authority for write-off of the outstanding in any account, it should be generally ensured that accounts should be in Protested Bills, IRAC status D3 or Loss, fully provided.

(i) The appropriate authority has taken a decision regarding the initiation of legal action and suit/recovery proceedings have been filed, wherever ordered.

(ii) The accounts are otherwise eligible for write off as per approved policy.

(iii) Doubtful and Loss assets held in live ledgers should be first transferred to Protested Bills account and then written off, with the approval of the appropriate authority.

(iv) The exercise of examination of staff accountability is either completed and a final view has been taken by the competent authority or the process of examination of staff accountability has been initiated and is likely to be completed in the next two months.

(v) For **all** Write-off accounts, Advance Under Collection Account (AUCA) to be opened in CBS System and Write-off amount should be parked in AUC account. It is to ensure proper follow-up and also to continue the suit / recovery proceedings. For not parking Write-off amount in AUCA, proper justification to be given and permission for not parking Write-off amount in AUCA should be obtained from the General Manager at Head Office.

(b) Where write-off is justified based on the parameters contained in the Policy, even though full provision has not been made, such cases can also be considered for write-off with the approval of appropriate authority.

(d) The outstanding in the Protested Bills Account (prior to crediting therein the amount of Subsidy from any agency, DICGC/ECGC/CGTMSE claim settled and amount held in Interest on NPA Account) should be transferred to Advances Under Collection Account. The contra voucher for the Branch General Ledger should also be passed for above amount.

(e) The outstanding in the Protested Bills proforma Account, with interest computed and recorded upto the date of transfer of the Account to AUCA, must be shifted to AUC proforma Account. Please note that this is very important because such computation and record will be very relevant at the time of Finally Dropping off of the Account from AUC, since the powers delegated for Final Drop-off of the Accounts from AUC are related to such computation only.

(f) In deserving cases, write off of bad loan accounts where compromise is settled may also be considered.

11.2. Policy of Advances Under Collection Accounts (AUC) : for Follow up , Review and Final Drop off :

Write-off of the accounts is permitted on certain conditions in terms of the NPA Management Policy. It is also permitted that all Protested Bills accounts may be parked in Advance Under Collection (AUC) account. Such accounts when transferred to AUC are further followed up for recovery without any laxity or let up. As per the existing instruction, the AUC account should be allowed to continue till the eventual outcome of the legal proceedings is known. However, non parking of Write-off amount in AUCA or reversal of AUCA amount without recovery to be permitted by General Manager at Head Office.

12. BUDGETING FOR NPA MANAGEMENT / AUC RECOVERY :

12.1. Along with annual budgeting for Profit and business under various heads, a system of budgeting for NPA management/ AUC account recovery will be put in place. The objectives of this exercise will be :-

(i) Achieving targeted standard assets ratio by containing fresh accretion of NPAs.

(ii) Achieving targeted reduction in NPAs/AUC Accounts obtaining as at the beginning of the year.

(iii) Review of recovery at quarterly intervals with controllers.

(iv) Budget will be settled branch-wise and account-specific for NPA reduction as well as AUC Account recovery.

(v) Budgeting exercise will include preparation of branch-wise annual action plan for recovery / reduction of NPAs and reduction of outstanding NPA Interest account, recovery of undebited interest recorded in the mirror Account besides recovery of advances earlier written off and held in Advances Under Collection Account.

13. STAFF ACCOUNTABILITY :

While staff accountability will be handled as an administrative issue, the status of examination of the same will not be a consideration while taking decisions covering rehabilitation of units, or compromise settlements or write-off of loans. Where staff accountability has not been examined, it should be ensured that the same is completed expeditiously within a time frame. Staff accountability provisions should comply directives of RBI in this behalf.

14. Guidelines for Compromise settlement of dues of the Bank through *Lok Adalats*.

The *Lok Adalat* has been given legal status through chapter VI of the 'Legal Services Authorities Act, 1987' and has jurisdiction to determine and to arrive at a compromise or settlement between the parties to a dispute in respect of any case pending before the court or any matter which is falling within the jurisdiction of and is not brought before any court.

The *Lok Adalat* disposes the case or the matter and arrives at a compromise or settlement between the parties. The compromise / settlement arrived at the *Lok Adalat* is documented in the form of an Award and shall be deemed to be a decree of a Civil Court.

There are certain advantages in using the forum of *Lok Adalat* by Banks and Financial Institutions. There are no court fees involved when fresh disputes are referred to it. It can take cognizance of any existing suit in the court as well as look into and adjudicate upon fresh disputes. If no settlement is arrived at, the parties can continue with the Court proceedings. Its decrees have legal status and are binding upon the parties concerned.

The value of security, the repaying capacity of the borrowers / guarantors and cost of recovery etc. as set out in the compromise criteria at the material time will continue to be the basic parameters to be applied to the cases falling within the purview of the *Lok Adalats*.

14.1. Delegation for sanction:

Since the *Lock Adalats* settle cases on the spot and the objective of the whole exercise is to settle pending cases expeditiously, the suggestion of the Presiding Officer of the *Lok Adalats* should be responded to pro-actively. With a view to ensuring prompt disposal of cases higher powers to the Regional Manager and Branch Managers (Branch/Regions) for writing off/waiver of the Bank's dues under this Scheme. Competent Authority may delegate powers for settlement through *Lok Adalat*.

As per the delegation of powers applicable for write-off/forgo, the Branches will require to obtain PRIOR mandate of the competent authority on the amount of settlement, sacrifice, write-off etc. so that the officer representing the case in *Lok Adalat* can accept the compromise on the spot.

14.2. Other important Points :

(a) A decree should be sought from the *Lok Adalat* for the principal amount and interest claim in the court and after full payment of the decree amount, a discharge certificate should be issued by, the Bank.

(b) The negotiated agreement with the borrower should contain a default clause in terms of which if the borrower does not pay the installments due regularly, within the repayment period, the entire debt will fall due for payment and bank may initiate legal proceedings.

SGB Samadhan Manch: It will be operative through out the year in the line of *Lok Adalat*. It will accept cases through out the year from the branches. Any NPA account or any stressed account even if in live ledger can be put up for compromise or *Samadhan*.

15. <u>Disposal of assets in NPA A/c. under decree.</u>

Assets in Bank's charge can be disposed off under Execution of Decree of Court and the Bank may also consider disposal of assets in NPA account with the consent of the borrower /guarantor and concerned court or even if suit is not decreed.

The System to be followed is as under:

(1) Such disposal of assets may be in full or in part (i.e. for total set of assets or in part- i.e. one or more assets out of total assets charged)

(2) Reviewing authority of the captioned account (i.e. one step higher authority than the Sanctioning Authority of the account) can approve the deal.

(3) Disposal of assets may be as under :

(a) Public auction -	Assets should be disposed off in favor of highest bidder.
(b) Inviting tender -	Assets should be disposed off in favor of highest bidder.
(c) Through Private Treaty -	This option should be adopted only for those assets which are having valuation of Rs. 5.00 lacs and below as per latest approved valuer report.

(4) While deciding sale price of the assets to be disposed off, if needed, the latest valuation report to be obtained from bank's approved valuer and meaningful market inquires regarding the value to be made with aim of getting maximum price. To expedite sale of assets, criteria prescribed by Competent Authority time to time in accordance with guidelines of Reserve Bank of India should be followed.

(5) The amount recovered should be credited fully to the NPA account

(6) In case of SARFAESI and Seizure actions, guidelines of SARFAESI Act and other instructions issued by Bank time to

time should be followed in case of SARFAESI and Seizure cases.

(7) In all NPA cases where immovable property is mortgage with Bank as security, SARFAESI notice should invariably issued.

16. <u>Appropriation of recovery in NPAs</u>

Except the cases of clear agreements with the borrowers (i. e. the accounts wherein repayment in Equated Monthly Installments (EMI) is stipulated or accounts wherein principal is to be recovered first like staff housing / vehicle / consumer loan etc.) or where the terms for appropriation of recoveries are specified like in compromise proposal approved, the Bank has adopted following policy, for appropriation of recovery in NPA accounts in view of no specified directives by RBI:

ITEM	
01	**<u>In case of NPA accounts in live ledger</u>** : Though the recoveries are necessary routed through the account, the outstanding in 'Interest on NPA account' and 'Mirror account' are also appropriated simultaneously indicating that unrealized interest (whether debited (INCA/UIPY) in the account or not(Accrued Interest)) is appropriated first and remaining, if any, towards principal.
02	**<u>In case of accounts in Protested Bills</u>** : (i) Though the recoveries are necessary routed through the PB A/c. the outstanding in 'Interest on NPA A/c.' is also appropriated simultaneously, indicating that unrealized interest (which is already debited to the account) is appropriated first with simultaneous effect on the P.B. Proforma account, in case of non-suit filed cases. (ii) Recoveries thereafter are credited to the Protested Bills account till it is liquidated, barring retaining a small outstanding (say Rs. 10.00 or so) in the P.B. A/c. with simultaneous effect on the P.B. Proforma account. (iii) Recoveries thereafter, though routed through the P.B. Proforma account, are taken directly to respective Income or Expenditure A/c.

Exception:

Where, however, clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. Principal or interest dues) is made, bank will continue to act according to the terms of agreement.

17. <u>Other Relevant Policies of Bank :</u>

a. Bank's Loan Policy (Head Office Circular CRD/90 dared 01.02.2016)
b. MSE Rehabilation Policy of the Bank (Head Office Circular CRD/36 dared 17.07.2015)

18. <u>Review of NPA position to the Board :</u>

Bank will prepare a review of NPA advances, at quarterly intervals and put to the Board for information.

****

WARNING SIGNALS:

(a) Delay in submission of stock statement/ other control statements / financial statements.
(b) Return of cheques issued by borrowers. Non-payment within a reasonable period
(c) Frequent non-payment within a reasonable period.
(d) Return of cheque discounted
(e) Non-payment of bills discounted or under collection.
(f) Poor financial performance in terms of declining sales and profits, cash losses, net losses, erosion of net worth etc.
(g) Incomplete documentation in terms of creation / registration of charge / mortgage etc.
(h) Non-compliance of terms and conditions of sanction
(i) Persistent irregularity in account.
(j) Default in Repayment obligation
(k) Lower Credit summations in the account.
(l) Opening of accounts with other bank without knowledge of Bank
(m) Operating losses / Net losses
(n) Erosion of tangible net worth
(o) Low activity level's
(p) Disposal of assets
(q) Closure of the business
(r) Migration.
(s) Diversion of fund
(t) Avoids contract with the Bank.
(u) Adverse change in Government Policy.

Annexure - 2

Stressed Asset Review Report
Category I & II SMAs and Sub-standard Assets

REGION: **BARNCH:** **BRANCH CODE:**
INDUSTRY: (Rs. in lacs)

1. Name & Address of the Company/ Borrower :
2. Date and Amount of limit sanction :
3. Purpose & segment :
4. Amount outstanding :
5. Date of identification as SMA / Sub-standard. :
   If SMA: category thereof :
6. Banking with us :
7. Present exposure
   Date of last renewal :
   Continuation valid up to :

08 Financial arrangement: Multiple banking / Sole Banking / Consortium

Indebtedness	Existing	Proposed	Name of the Bank	Share (%)
Fund based			S.G.B.	
Non-Fund Based			Others	
TOTAL			**TOTAL**	

Limits (position of accounts as on ___________________)

Fund based	Limit	Drawing power	Outstandings	Irregularity
CC				
WCDL				
Book debts / others /				
TL				
TOTAL FB				
Non-fund based				
LC (inland/import)				
BG				
Total NFB				
Total FB + NFB				
Performance & Fin. Indicators as on				
Net Sales				
PBT				
Pbt / Net Sales (%)				
TNW				
TOL / TNW				
Current Ratio				

Other Group Companies Dealing with Saurashtra Gramin Bank – Brief details thereof ;

Cont..2..

Name of Company	FB Limit	NFB Limit	CRA	IRAC	Date of last renewal / sanction

BRIEF REASONS FOR THE UNIT BECOMING SUB-STANDARD / FOR IDENTIFYING THE ACCOUNT AS A SMA :

WHETHER THE PROBLEMS ARE OF A TEMPORARY NATURE OR ARE LIKELY TO AFFECT THE ASSET QUALITY, IF PROACTIVE ACTION IS NOT TAKEN (Clear rationale to be given) :

COMMENTS ON VIABILITY (Give specific reasons, why you consider the unit need to be supported through restructuring)

IMMEDIATE ATION PLAN (Holding on operations (where already commenced, detail may be indicated), need for feasibility study, time frame for submission of detailed restructuring plan to the appropriate authority etc.)

SECURITY POSITION :

	Description	Estimated realizable value	Date of last valuation on / review of the means
(a) Primary			
(b) Collateral			

RECOMMENDATIONS :

BRANCH MANAGER

Annexure - 3

Stressed Assets Review

Progress Report for the month ended
(To be submitted in duplicate)

1. Name of the borrower :

2. Refer SAR dated :

3. Holding on operations commenced from :

4. Position of accounts :

(Rs. in lacs)

Facility	O/s. when the implementation of the Corrective action Commenced	O/s. as at the end of Previous month / Quarter	O/s. as at the end of The current month / Quarter.

5. Comments on the progress in the implementation of the corrective action indicate whether the rehabilitation proposal has been finalized / submitted / sanctioned.

6. If rehabilitation proposal has been approved, implemented since :

7. Brief comments on progress / impact of the package etc.

DATE : ____________ Field Officer / Manager **Branch Manager**

Observation of the Controllers :

REGIONAL MANAGER

Annexure 4

Relief and Concessions which can be extended To Potential Viable Units under Rehabilitation

(RBI guidelines for sick SSI units suitably adopted for implementation across the Bank)

The viability and the rehabilitation of a sick SSI unit would depend primarily on the unit's ability to continue to service its repayment obligations including the post restructured debts. It is, therefore, essential to ensure that ordinarily there is no write
Off or scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. The guide lines on various parameters on reliefs and concessions are given below.

i) Interest Dues on Cash Credit and Term Loan:
If penal rates of interest or damages have been charged, such charges should be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability and funded. No interest may be charged on funded interest and repayment of such funded interest should be made within a period not exceeding three years from the date of commencement of implementation of there habilitation programme.

ii) **Unadjusted Interest Dues**:
Unadjusted interest dues such as interest charged between the date upto which rehabilitation package was prepared and the date from which actually implemented, may also be funded on the some terms as at (i)above.

(iii) **Term Loans**
The rate of interest on term loans may be reduced, where considered necessary, in the case of tiny / decentralized sector units and other SSI units.

iv) **Working Capital Term Loan (WCTL)**

After the unadjusted interest portion of the cash credit account is segregated as indicated at (i) and(ii) above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capita Term Loan (WCTL)with a repayment schedule not exceeding 5 years. The rate of interest applicable would be normal rate to all sick SSI units including tiny and decentralized units.

(v) **Cash Losses**

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. Such cash losses excluding interest as may be incurred during the nursing prograrrme may also be financed by the bank of the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses. Interest may be charged on the funded amount at Normal rate.

Future cash losses in this context will refer to losses *fro*m the time of implementation of the package upto the point of cash break-even as projected. Future cash losses as above ,should be worked out before interest on working capital etc., due to the banks and should be financed by the financial institutions. The interest due to the bank should be funded by it separately. Where, however, Saurashtra Gramin Bank alone is the financier, the future cash losses including interest will be financed by it. The interest on the funded amounts of cash losses / interest will be at normal rate.

(vi) **<u>Working Capital :</u>**
Interest on working capital may be charged at normal rate. Additional working capital limits may be extended at same rate as per limit.

(vii) **<u>Contingency Loan Assistance</u>**

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, the banks may provide, where considered necessary, appropriate additional financial assistance upto 15 percent of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at normal rate.

[viii) **<u>Funds for Start-up Expenses and Margin for Working capital</u>**
There will be need to provide the unit under rehabilitation with funds for start-up expenses(including payment of pressing creditors) or margin money for working capital in the form of long-term loans. Where a financial institution is not involved, banks may provide the loan for start-up expenses at a normal rate.

(ix) **<u>Promoters' Contribution</u>**

As per the extant RBI guidelines, promoter's contribution towards the rehabilitation package is fixed at a minimum of 10 percent of the additional long-term requirements under the rehabilitation package in the case of tiny sector units and at 20percentof such requirements for other units. In the case of units in the decentralized sector, promoter's contribution may not be insisted upon. In line with the RBI guidelines, the Bank may stipulate a higher promoters' contribution where warranted. At least 50 percent of the above promoters' contribution should be brought in immediately and the balance with in six months. For arriving at promoters' contribution, the monetary value of the sacrifices from banks together with financial institutions and Government may be taken into account, in addition to the long- term requirement of funds under the rehabilitation package.

(x) **<u>Right of recompense</u>**

While evolving packages, it should be made a precondition that the promoters should bring in their contribution within the stipulated time frame. Further, in regard to concessions and relief made available to sick units, banks should incorporate a 'Right of Recompense' clause in the sanction letter and other-documents to the effect that when-such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the Bank should be recouped from the units out of their future profits/cash accruals.

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Annexure – 5

SAURASHTRA GRAMIN BANK
HEAD OFFICE : RAJKOT

PROFILE OF INDIVIDUAL NPA ACCOUNTS (DOUBTFUL / LOSS) AND AUC ACCOUNTS WITH OUTSTANDING OF Rs. 3.00 LACS AND ABOVE FOR THE MONTH ENDED ______________________

Whether suit filed	
Whether willful defaulter	

IRAC Status	
W.E.F.	

01	Name of the Branch	
02	a) Name and address of the borrower (Registered office in case of corporate borrowers) Telephone Nos..	
	b) Names of partners / directors	
	c) Date of Original Sanction	
03	Constitution	
04	Line of activity	
05	Market Segment (C&I / SSI/SBF/P & SB)	
06	Date of NPA	
07	IRAC Status	
08	a) Consortium leader (if any) and its classification	
	b) Names of other member Banks / FIs financing the unit	

09. ***Credit facilities*** (Rs. in lacs)

Nature of the facility	Date of last sanction	Limit sanctioned	Balance O/S. as on	Interest on NPA Account	Remarks
Fund Based					
TOTAL					
Non-Fund Based					
TOTAL					
Grand TOTAL					

10.	**Details of securities :**	**(Rs. in lacs)**	
Nature of Security (Residential/commercial, Address, Ownership, Plot No. S. No., Shop No. etc.)		Value	Date of Valuation
(i) Primary			
(ii) Collaterals :			

11.	**CGTMSE / ECGC coverage :**	
12.	**Provision required as on :**	

13. **Outcome of examination of staff accountability :**

14. **Brief history with reasons for account turning NPA :**

15.	**Recoveries during the month**	

16.	a) In the case of Protested Bills A/cs. / AUC A/cs,	P.B. Ac.	AUC A/c.
	i. Date of transfer to PB / AUC		
	ii. Date of suit filed		
	iii. Date of decree		
	iv. Present position of the suit		
	b) In case suit is not filed, whether the documents are Current / Enforceable / Valid		

17. **Remarks and steps taken for up gradation / recovery & comments on viability of the unit :**

18. Status and impact of rehabilitation proposal if approved and implemented :

19. Development during the last month :

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