



**SAURASHTRA GRAMIN BANK**  
**LOAN AND NPA MANAGEMENT POLICY 2021-22**

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## **CHAPTER-1**

### **PREAMBLE**

1.1. The Loan and NPA Management policy, at a holistic level, is an embodiment of the Bank's approach to sanctioning of loans, managing and monitoring credit risk, and aims at making the systems and controls effective. It is guided by the highest standards of commercial prudence and ethical business practices. While formulating the Loan and NPA Management policy, the overall risk appetite of the Bank has been taken into consideration.

1.2. The Loan and NPA Management policy provides a broad framework for management of the loan portfolio of the Bank with emphasis on creating products and services as well as maintaining asset quality. It helps our customers in achieving their goals and fulfilling the Bank's vision of "Building a professionally sound institution to cater the Banking needs of the People of Saurashtra region Inter alia covering Disadvantaged masses "

1.3. The Board has authorized HOCC-I at the head office level for dealing with all issues relating to Loan and NPA Management policy and procedures. Accordingly, the HOCC-I prepares policies for managing credit risk covering loan appraisal for assessment of need based credit, exposure limits, loan management and for NPA management including industrial rehabilitation, compromises and taking the accounts off balance sheet and parking in Advances under Collection Account (AUCA). All new loan products are also approved by the HOCC-I. All decisions of HOCC-I are put up to Board for review. However, Credit Risk Assessment models and Exposure Limits for various industries are approved by Risk Management Committee.

1.4. While this Loan and NPA Management policy document articulates the broad guidelines and approach to administration of the credit portfolio, the Bank recognizes that there may be occasions when it would be appropriate and necessary, based on sound commercial considerations that are agreed after careful evaluation of individual cases, to permit waiver from the prescribed norms. Accordingly, authority structure covering delegation of power to permit such waivers has been laid down (approved by the appropriate authority). The policy document shall be read in conjunction with circular instructions, periodic guidelines and codified instructions, where procedural aspects are covered in detail.

1.5. The changes made, if any, on account of regulatory guidelines, annual policy guidelines issued by the Chairman and requests received from Regions / Branches etc. and approved by HOCC-I form part of the policy and are all incorporated in the annual review. The revised guidelines of the policy are made effective/enforceable from the date of approval by the Board. All regulatory guidelines would be effective from the date advised in the guidelines.

1.6. All loan products are to be reviewed annually. In order to ensure compliance, Risk Management Committee shall monitor progress of reviewed products of the Bank, at quarterly intervals.

1.7. The Bank is not averse to acquiring quality business from other banks and Financial

Institutions. Accordingly, norms for takeover of accounts are formulated, broad features of which are incorporated in this Policy document.

1.8. The Bank recognizes the importance of trained and adequately skilled personnel for building and maintaining quality of the credit portfolio. Appropriate placement and training of personnel and development of requisite skills are the responsibility of the line managers, in co-ordination with the Personnel Department of the Bank.

1.9. The Bank recognizes the importance of Risk Adjusted Return on Capital (RAROC). The policy aims at pricing the risk appropriately through RAROC. Aspiration of the Bank should be to achieve a minimum aggregate RAROC of 20%.

1.10. Fair Practices Code (FPC): The Bank has continuously been striving to maintain transparent and fair practices, and stand by its commitments made to customers under the Fair Practices Code, as envisaged and overseen by the Banking Codes and Standards Board of India, in respect of acknowledging receipt of loan applications, their timely processing, appraisal and sanction, stipulation of terms and conditions, post disbursement supervision, changes in terms and conditions, recovery efforts etc., The Bank has also put in place a mechanism for redressal of grievances of borrowers. An annual review of compliance with FPC for lenders, and functioning of the grievance redressal mechanism is to be put up to the Board by Credit Department.

1.11. The policy is for internal circulation only.

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## **CHAPTER-2**

### **ORGANISATION OF BUSINESS**

2.1 The Bank recognizes the need for a differentiated approach to marketing, risk management and service delivery to different categories of borrowers. Taking this into account, different Branch categories have been created, and rules framed in regard to the type of the business that they will normally handle. While the benchmarks and business rules are reviewed from time to time based on administrative requirements, the branches are allowed flexibility so that issues relating to customer convenience are taken care of.

#### **2.2 Group Accounts**

Group accounts should preferably be housed in one branch or, at the most, within the Region which has the highest exposure on the group. Based on business considerations, RMs of the two Business Regions involved would jointly agree on migration of accounts which cross the prescribed threshold limits. Retention of accounts at variance with the prescribed threshold limits can be approved by the RMs of respective Region.

#### **2.3 ASSET MANAGEMENT CUM SALES HUB FRAMEWORK:-**

This model is based on having a centrally located, full-service branch that's supplemented by smaller, more automated locations. The hub-and-spoke model offers many advantages for banks and their employees. By having smaller locations, banks spend less on space, utilities, labor and other fixed costs. Customers are able to access the services and products they need, with minimal waiting and run-around. Spoke Branches will act as Sales & Service Branches.

It is need of hour in this highly competitive market to adapt to changes and reengineer our service delivery mechanism. This model will bring major operational change at grassroots level with main emphasis on maximizing output with minimum input by centralizing work of specific nature. Implementation of this model in true spirit will certainly increase efficiency and productivity of concerned branches.

- Branches will be categorized depending upon the capacity and infrastructure to dispense credit.
- Branches authorized to dispense all type of credit will be fewer, say on at district of large block centers, which will be sufficiently equipped both in terms of skilled staff and infrastructure. Such branches will be categorized as 'Hub Branches'
- Other branches will be basically Sales and Service Outlets but will be providing templated loans (as per Bank requirements) like Personal/Pension loans, Xpress Credit, Gold Loans and loans against specified securities. These will be categorized as 'Spoke Branches'
- The convenience of customers will be kept in mind for mapping Spoke Branches to Hub Branches, the distance between these Branches (Hub & Spoke) will generally not be more than 15-20 kms.
- Every Hub branch will act as credit branch for 10-12 Spoke Branches linked to it on the basis of geographic proximity, operational convenience and business level.

Hence, they will essentially function as Asset Management cum Sales Hub (AMSH).

- The concept of AMSH (Asset Management cum Sales Hub) will be implemented at Hub Branches who will be responsible for all sanctioning process, for all loans other than template loans.
- Spoke Branches will act as Sales & Service Branches. The discretionary powers of these Branches will be restricted to loans against specified security and template loans viz. Personal/Pension loans, Xpress Credit, Gold Loans only to their customers, existing and prospective.
- Hub Branch will act AMSH branch for these Branches and it will process all the proposals as received from mentioned spoke branches. It will carry all the formalities related to sanction. Branch manager/Credit Officer of Hub branch will utilize his discretionary powers as per extent circular instructions. Proposal not falling under discretionary power of Branch Manager of Hub branch need to be send to higher sanctioning authority via Hub Branch.

#### **2.4 SME Loans – Relationship Manager (Medium Enterprises) RMME Channel:**

SME loans require different skill sets and are more complicated in nature. Recognizing the complexities involved, SME loans above a certain cut off value are handled by RMME, specially set up for this purpose. The key guidelines defined separately and will be updated time to time.

#### **2.5 Retail Loans in Personal Segment:**

The Bank aims at providing diverse loan products to meet people's credit needs in the retail sector. The Bank's brand image, extensive network, computerized operations and a large customer base are significant strengths that enable leveraging so as to garner a higher share of the available retail market. In view of the Bank's thrust on Personal Segment Loans and the steady and significant growth witnessed, the Bank will periodically undertake assessment of concentration risk in housing loans, auto/personal loans etc. The risk management parameters i.e. Credit risk/market risk/operational risk in respect of lending to P-segment borrowers are examined and reviewed by the Credit Department in consultation with the Risk Management Committee.

#### **2.6 Advances to Rural Sector**

2.6.1 The Bank has been a pioneer in agricultural banking in the Saurashtra region. With large number of branches in rural and semi-urban areas, Bank has been the undisputed leader in disbursement of agricultural credit.

2.6.2 However, with changing demography and lifestyles in rural India, a strong need for providing comprehensive financial services encompassing savings, credit, remittance, insurance and pension products to the rural populace, has been felt by the Bank. To drive and enlarge the Bank's business in rural and semi-urban areas, Asset management hub is set up which comprises group of spoke branches, viz. are known as AMSH. Among other things, the credit requirements for not only farming activity, but also for those relating to agro based industrial activity, trade and services and for personal consumption needs of the target group are addressed by the AMSH.

2.6.3 All products offered by the Bank for agriculture segment are in alignment with rules by and large prescribed by the regulator, NABARD and the State Level Bankers' Committee (SLBC).

2.6.4 Bank has recognized that setting up of high value/ hi-tech agricultural projects has been engaging the attention of entrepreneurs and projects covering agro / food-processing, biotechnology, agri-value chain, agri-marketing infrastructure etc. With a view to responding to emerging opportunities, the Bank extends support in a planned way to these avenues. Further, Bank has also been identifying the thrust areas for short-term business opportunities and devising area/activity specific loan products.

## **2.7 Employment Generation Program of GoI**

Bank is also implementing schemes/ programs launched by the Government for alleviation of poverty and employment generation both in urban and rural areas.

## **2.8 Micro Credit / Financial Inclusion**

Of late, provision of micro credit is acting as a catalyst for inclusive development primarily focusing on uplifting the poor and for the benefit of low income people in the society. The Bank has been supporting many NGOs who are active in the formation and development of volunteer groups known as 'Self Help Groups' (SHGs). The Bank is committed to timely and adequate credit to SHGs in order to facilitate upliftment of the poor. Further, to increase its outreach to a large number of low-income people, Bank is also financing MFIs/NGOs engaged in microfinance activities, for on-lending to SHGs/JLGs (Joint Liability Group) and Individuals.

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## CHAPTER-3

### DUE DILIGENCE, STATUTORY AND OTHER RESTRICTIONS ON LOANS & ADVANCES

3.1 All credit proposals are subjected to due diligence processes in regard to the credentials of the borrower, purpose of the loan, financial position of the borrower, need based requirement of credit facilities for working capital and capital expenditure, capability to service the loans and security offered. The loan proposals should normally be supported by a request letter/ application duly signed by an authorized person of the borrowing unit. In case of renewal at existing level/reduced level, if request letter is not available, arrangement letter/letter of continuity is to be exchanged with the borrower(s) / guarantor(s).

3.2 Careful selection of borrowers is essential to maintain asset quality. Hence, scrutiny of past credit history of all Borrowers/Promoters/Directors/Guarantors needs to be carried out with a view to being satisfied about their credentials, and for ensuring compliance with the guidelines on KYC and AML under Prevention of Money Laundering Act or similar such act of host country. Due diligence in relation to promoters and management should also reckon/cover aspects like experience, professionalism, integrity, vision, track record of meeting commitments to lenders, industry experience, history of strategic initiatives, governance practices and record of adherence to covenants. Bank's approach in granting credit facilities to companies whose directors are in the Defaulters' List of RBI / Credit Information Companies/SEBI Banned list / Central Fraud Registry of RBI/ IBG defaulters is also to be taken care of.

3.3 There are many established groups having multiple companies/SPVs/JVs dealing with the Bank. For such groups, the branch head may decide regarding obtention of Credit Information Report on group companies, provided the due diligence procedure outlined above to check the credentials/conduct of accounts has been meticulously followed and recorded in the proposal and there are no accounts appearing in default/SMA/caution list etc. If any of the accounts of the group company appears in the above lists, CIR from existing banker(s) must be obtained.

#### **3.4 Financial Due Diligence**

- i) The financials of the main company and its major associate / sister concerns should be reviewed, as far as possible, on the basis of audited financials of the concerns on a common date.
- ii) Balance Sheet should be free from any material adverse remarks of the auditors. Any adverse comments must be separately discussed in the evaluation / appraisal process.
- iii) Verification of Income Tax and GST return etc. must also be ensured.

##### **3.4.1 Membership of Credit Information Companies (CICs)**

As per RBI guidelines, the Bank has obtain membership of 4 Credit Information companies named as Credit Information Bureau (India) Limited, Equifax Credit Information Services Private Limited, Experian Credit Information Company of India



Private Limited and CRIF High Mark Credit Information Services Private Limited. The Technology department of our Bank is submitting data (including historical data) in requisite periodicity to all four CICs.

### **3.5 Dealing with Intermediaries :**

Any request for credit facilities should normally be entertained from borrowers directly. However, in some cases where borrowers do not have in-house capability to handle large / complex proposals, they do engage the services of intermediaries. All proposals received from these types of intermediaries would be subject to the same due diligence and scrutiny as would normally be applicable to proposals received directly from borrowers / prospective borrowers. It must be ensured that there is no waiver in standards, scope and coverage of our own internal due diligence procedures as well as in independent assessment of the relative proposal/project.

### **3.6 Third Party Entities (TPEs)**

Bank relies on reports or certificates of a number of professionals for due diligence or appraisal. These professionals referred to as TPEs or Third Party Entities. At present, Bank do have system of Third party Entities for relying on reports or certificates of a number of professionals for due diligence or appraisal like advocates for (For TIR/TCR), valuers (For Valuation Report) etc . These professionals referred to Third Party Entities (TPEs) include Chartered Accountants, Lawyers and Valuers. Bank engages services of TPEs and may, in future, engage TPEs which includes Chartered Accountants, Advocates/ Law Firms and Valuers, within the framework of Bank's internal controls.

### **3.7 Dealing with Wilful Defaulters**

Pursuant to the instructions of the Central Vigilance Commission for collection of information on wilful defaults of Rs.25 lac and above from the list of defaulter issued by RBI and dissemination to the reporting banks and FIs, a scheme was framed by RBI with effect from 1st April 1999 under which the banks and notified All India Financial Institutions were required to submit to RBI the details of the willful defaulters. The scheme was modified in May 2002, based on recommendations of Working Group on willful defaulters, which was also revised from time to time as per the recommendations of the Committee on Data Format for Furnishing of Credit Information to Credit Information Companies and various feedbacks received from different stakeholders.

#### **3.7.1 Willful default**

A 'willful default' would be deemed to have occurred if any of the following events is noted:

- i) Default in repayment obligations by the unit to the Bank even when it has the capacity to honor the said obligations.
- ii) Default in repayment obligations by the unit to the Bank and has not been utilizing the credit facility (ies) availed from the Bank for the specific purposes for which it was availed of but has diverted the funds for other purposes.
- iii) Default in repayment obligations by the unit to the Bank and siphoned off the funds so that the funds have not been utilized for the specific purpose for which credit facility was availed of, nor are the funds available with the unit in the form of other assets.

- iv) Default in repayment obligations by the unit to the Bank and disposal of or removal of the movable fixed assets or immovable property given by it for the purpose of securing a term loan without the knowledge of the Bank.

#### **3.7.1.1 Diversion of funds:**

Diversion of funds referred to as above, would include:-

- i) utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction;
- ii) deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;
- iii) transferring funds to the subsidiaries / Group companies or other corporate by whatever modalities;
- iv) opening of current account / routing of funds through any bank other than the lender bank or members of consortium without prior permission of the Bank/lenders;
- v) investment in other companies by way of acquiring equities / debt instruments without approval of the Bank/lenders;
- vi) Shortfall in deployment of funds vis-à-vis the amounts disbursed / drawn and the difference not being accounted for.

#### **3.7.1.2 Siphoning of funds:**

Siphoning of funds referred to at para 3.7.1 (iii) above is construed to occur if any funds borrowed from the Bank are utilized for purposes un-related to the operations of the borrower, to the detriment of the financial health of the entity or of the Bank.

3.7.2 The identification of the willful default should be made keeping in view the track record of the borrowers and should not be decided on the basis of isolated transactions/incidents. The default to be categorized as willful must be intentional, deliberate and calculated.

#### **3.7.3 Cut-off Limits for Identification of Willful Defaulter**

While the penal measures would normally be attracted by all the borrowers identified as willful defaulters or the promoters involved in diversion / siphoning of funds, keeping in view the present limit of Rs. 25 lacs or its equivalent fixed by the Central Vigilance Commission for reporting of cases of willful default by the banks / FIs to CICs, any willful defaulter with an outstanding balance of Rs. 25 lacs or its equivalent or above, would attract the penal measures stipulated at paragraph 3.7.5 below.

#### **3.7.4 Process for identification of Willful Defaulter**

- i) The identification of willful defaulter will be done by the HOCWC-II constituted for this purpose. The identified borrower will be given an opportunity for personal hearing before the HOCWC-II. The decision of the HOCWC-II will be reviewed by the HOCWC-I. Thereafter, list of willful defaulters (both, suit filed and non-suit filed cases) will be advised to all Credit Information Companies, on a monthly or more frequent basis. The names of Independent/ Nominee Directors should not be reported /considered in the willful defaulter list at all, unless the Bank has an evidence of their complicity in the default / willful default.
- ii) The Bank has put in place a procedure for deletion of the names of the borrowers

from the list of willful defaulters through the mechanism of reference to the HOCWC I constituted, for this purpose, at various verticals.

- iii) In case a Letter of Comfort or guarantee furnished by the companies within a Group in favour of a willful defaulting unit is not honored when invoked by the Bank, such Group companies also to be considered as willful defaulters.

### **3.7.5 Penal Measures:**

The penal measures are applicable without any exception to all willful defaulters, including the instances of siphoning / diversion of funds, with an outstanding balance of Rs.25 lacs or its equivalent or above. Details of the penal provisions are as under: -

- i) No additional credit facilities to be granted to the listed willful defaulters. In addition, such companies (including their entrepreneurs / promoters) where banks / FIs have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions are debarred from the Bank finance for floating new ventures for a period of 5 years from the date of removal of their name from the list of Willful defaulters as published/disseminated by CICs/RBI.
- ii) The legal process, wherever warranted, against the borrowers / guarantors and foreclosure of recovery of dues shall be initiated expeditiously. The Bank shall initiate criminal proceedings against willful defaulters, wherever necessary.
- iii) Wherever possible, the Bank shall adopt a proactive approach for identification of willful defaulter (including live loan accounts) and change of management of the willfully defaulting borrowing unit.

### **3.7.6 Guarantees furnished by individuals, group companies & non-group companies**

- i) In cases where guarantees furnished by the companies within the Group on behalf of the willfully defaulting units are not honored when invoked by the banks / FIs, such Group companies should also be reckoned as willful defaulters.
- ii) In connection with the guarantors, in terms of Section 128 of the Indian Contract Act, 1872, the liability of the surety is co-extensive with that of the principal debtor unless it is otherwise provided by the contract. Therefore, when a default is made in making repayment by the principal debtor, the Bank can proceed against the guarantor / surety even without exhausting the remedies against the principal debtor. As such, where Bank has made a claim on the guarantor on account of the default made by the principal debtor, the liability of the guarantor is immediate. In case the said guarantor refuses to comply with the demand made by the operating unit, despite having sufficient means to make payment of the dues, such guarantor would also be treated as a willful defaulter. This treatment of non-group corporate and individual guarantors is made applicable with effect from September 9, 2014. This provision should be advised to all guarantors at the time of accepting guarantees.

### 3.7.7 Policy on Sanction of Credit Facilities to Companies whose Directors feature in Defaulters' List

3.7.7.1 RBI has been collecting and circulating information on defaulting companies amongst banks / FIs, including names of directors of such companies. (This responsibility is now with CICs). Where sanction / continuation of credit facilities to such companies whose directors either in the capacity viz. Promoter / Elected / Professional / Nominee are featuring in the defaulters' list, the following approach is to be adopted:

Position of Director in applicant company	Bank's Approach
(i) Promoter Director of a defaulting company or Director of a defaulting company and having a role in the day-to-day affairs of its management.	No additional (including ad-hoc / enhancement) facilities to be sanctioned to the applicant company till the name is removed from the defaulters' list. In case the performance and conduct of the accounts of the applicant company is otherwise satisfactory, renewal / continuation of the limit at the existing levels may be considered.
(ii) Promoter Director of a defaulting company or director of a defaulting company having a role in day-to-day affairs of its management, but who resigned from the Board of defaulting company, to circumvent any obstacle in getting credit.	No ad-hoc / enhancement / additional / new credit facilities to be sanctioned to the applicant company till the name is removed from the defaulter's list. In case the performance and conduct of accounts of the applicant company are otherwise satisfactory, renewal / continuation of the limit at the existing levels may be considered.
(iii) Director in a defaulting company, but not connected in any way with its day-to-day management.	Proposal relating to the applicant company to be considered on merit. If the defaulting company is an associate/ subsidiary of the applicant company or a group company, approach mentioned in '(i)' & '(ii)' above may be followed.
(iv) Nominee / professional / honorary director of a defaulting company, (including associate / group / subsidiary company).	Proposal relating to the applicant company to be considered on usual parameters as these directors are on the Board in their professional / honorary capacity.
(v) Promoter / nominee / professional / honorary director as in '(i)' to '(iv)' above, but whose names are yet to be included in defaulter's list (as time lag in availability of such list is usual).	The above approach as applicable may be adopted in such cases also, if information is available.

3.7.8 A covenant in the loan agreements, with the companies in which Bank has significant stake, shall be incorporated by the Bank to the effect that the borrowing

company should not induct a person who is a promoter or director on the Board of a company which has been identified as a willful defaulter, and that in case such person is found to be on the Board of the borrower company, expeditious and effective steps will need to be taken for removal of the person from its Board.

3.7.9 Bank has a transparent mechanism for the entire process so that the penal provisions are not misused and the scope of such discretionary powers is kept to the barest minimum. It should also be ensured that a solitary or isolated instance is not made the basis for imposing penal action.

3.7.10 Bank approach towards extension of credit facilities to willful defaulters in CICs report/SEBI banned list of Promoters is as under:

<p>Credit facilities to units in the 'Willful defaulters' list of CICs or Credit facilities to applicant companies whose directors are in the 'Willful Defaulters' list of CICs/SEBI banned list of Promoters.</p>	<p>No fresh limit / enhancement may be sanctioned. However, an authority not below HOCC-I may approve renewal/ continuation of earlier sanctioned limits.</p>
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**3.8 Non-Cooperative Borrowers**

A Non-Cooperative Borrower is one who does not engage constructively with the Bank, defaulting in timely repayment of dues while having ability to pay, thwarting Bank's efforts for recovery of their 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 their dues.

**3.9 Statutory and other Restrictions**

The regulator provides a framework of the rules/regulations/instructions on statutory and other restrictions on loans and advances which need to be implemented and adequate safeguards adopted by the Bank.

**3.9.1 Advances against Bank's own shares**

In terms of Section 20(1) of the Banking Regulation Act, 1949, the Bank cannot grant any loans and advances on the security of its own shares.

3.9.1.1 Credit facilities are extended for financing genuine commercial activities. Any speculative purposes and/or any unlawful activity shall not be considered for financing.

**3.9.2 Advances to the Bank's Directors**

3.9.2.1 In terms of Section 20 (1) of the Banking Regulation Act, 1949, the Bank cannot grant loans and advances to the directors, and the firms in which they hold substantial interest, barring admissible exceptions.

3.9.2.2 Bank is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company [not being a subsidiary of the banking company or a company registered under Section

8 of the Companies Act, 2013, or a Government company] of which, or the subsidiary or the holding company of which any of the directors of the Bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

3.9.2.3 For the above purpose, the term “Loans and Advances” shall not include the following:

- i. Loans or advances against Government securities, life insurance policies or the Bank’s fixed deposit;
- ii. Loans or advances to the Agricultural Finance Corporation Ltd;
- iii. Such loans or advances as can be made by the Bank to any of its directors (who immediately prior to becoming a director, was an employee of the Bank) in his capacity as an employee of the Bank and on the same terms and conditions as would have been applicable to him as an employee of the Bank, if he had not become a director of the Bank.
- iv. Call loans made by banking companies to one another;
- v. Facilities like bills purchased/ discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance/co-acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.;
- vi. Line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd. (NSCCL) / Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement; and

3.9.3.4 While extending Non-Fund based facilities such as guarantees, Letter of Credits, acceptances on behalf of Directors and the companies/firms in which the Directors are interested, it is to be ensured that:

- i. adequate and effective arrangements have been made to the satisfaction of the Bank that the commitments would be met by the openers of L/Cs, or acceptors, or guarantors out of their own resources,
- ii. the Bank will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee, and
- iii. No liability would devolve on the Bank on account of L/Cs / acceptances.
- iv. In case such contingencies as at (ii) & (iii) above arise, the Bank will be deemed to be a party to violation of the provisions of Section 20 of the Banking Regulation Act, 1949.

#### **3.9.4 Restrictions on Holding Shares in Companies:**

While granting loans and advances against shares, statutory provisions contained in Sections 19(2) and 19(3) of the Banking Regulation Act, 1949 must be strictly observed as mentioned below,

As per Section 19(2): The Bank shall not hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding thirty per cent of the paid-up share capital of that company or thirty per cent of its own paid-up share capital and reserves, whichever is less.

As per Section 19 (3): Bank Shall not hold shares, whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or Manager of Bank is in any manner concerned or interested.

### **3.9.5 Restrictions on Credit to Companies for Buy-back of their Securities**

Bank shall not provide loans to companies for buy-back of their shares / securities.

### **3.9.6 Regulatory Restrictions**

#### **3.9.6.1 Granting loans and advances to relatives of Directors**

Without prior approval/ knowledge of the Board, no loans and advances shall be granted to relatives of the Bank's Chairman/Managing Director or other Directors, Directors (including Chairman/Managing Director) of other banks and their relatives, Directors of Scheduled Co- operative Banks and their relatives, Directors of Subsidiaries/Trustees of Mutual Funds/Venture Capital Funds set up by the Bank or other banks, as per details given below:

3.9.6.2 Unless sanctioned by the Board of Directors/Management Committee, Bank shall not grant loans and advances aggregating Rs.25 lacs & above (Rupees twenty-five lacs and above) or its equivalent to -

- i. Directors (including the Chairman/Managing Director) of other banks (\*);
- ii. any firm in which any of the directors of other banks (\*) is interested as a partner or guarantor; and
- iii. any company in which any of the directors of other banks (\*) holds substantial interest or is interested as a director or as a guarantor.

3.9.6.3 The restrictions as contained in Section 20 of the Banking Regulation Act, 1949 would apply to grant of loans and advances to spouse and minor / dependent children of the Directors of the Bank. However, loans or advances can be granted to or on behalf of spouses of the Bank 's Directors in cases where the spouse has his / her own independent source of income, and the facility so granted is based on standard appraisal and assessment procedures. All credit proposals for Rupees twenty-five lacs and above should be sanctioned by the Bank's Board of Directors. The proposals for less than Rupees twenty- five lacs may be sanctioned by the appropriate authority as per delegated financial powers.

3.9.6.4 Unless sanctioned by the Board of Directors, the Bank shall not grant loans and advances aggregating Rs. 25 lacs and above (Rupees twenty- five lacs and above) to:

- i. any relative other than spouse and minor / dependent children of the Chairman / Managing Directors or other Directors;
- ii. any relative other than spouse and minor / dependent children of the Chairman/Managing Director or other directors of other banks (\*);
- iii. any firm in which any of the relatives other than spouse and minor dependent children as mentioned above is interested as a partner or guarantor; and
- iv. any company in which any of the relatives other than spouse and minor dependent children as mentioned in (i) and (ii) above hold substantial interest or

is interested as a director or as a guarantor.

(\*) [Including directors of Scheduled Co-operative Banks, Directors of Subsidiaries / Trustees of Mutual Funds/Venture Capital Funds].

3.9.6.5 The proposals for credit facilities of an amount less than Rupees twenty- five lacs to these borrowers may be sanctioned by the appropriate authority as per delegated financial powers, but such sanctions must be reported to the Board.

3.9.6.6 The Chairman/Managing Director or other Director who is directly or indirectly concerned or interested in any proposal shall disclose the nature of his / her interest to the Board when any such proposal is discussed. He / she should not be present in the meeting unless his / her presence is required by the other Directors for the purpose of eliciting information, and the Director so required to be present shall not vote on any such proposal. Borrower shall furnish a declaration to the effect that: -

- a. he is not a director or specified near relation of a director of a banking company (where the borrower is an individual);
- b. none of the partners is a director or specified near relation of a Director of the Bank (where the borrower is a partnership firm); and
- c. None of its directors is a Director or specified near relation of a Director of the Bank (where the borrower is a joint stock company).

The declaration should also give details of the relationship of the borrower to the director of the bank.

### **3.9.7 Restrictions on Grant of Loans & Advances to Officers and Relatives of Senior Officers (officer in the grade of Chief Manager and above) of Banks**

The following guidelines should be followed while extending credit facilities to officers and the relatives of senior officers:

#### **i) Loans & advances to officers of the bank**

No officer or any Committee comprising, inter alia, an officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to his/her relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to senior officers shall be reported to the Board.

#### **ii) Loans & advances and award of contracts to relatives of senior officers of the bank**

Credit facilities sanctioned to the relatives of senior officers shall be reported to the Board including a credit facility is sanctioned by an authority, other than the Board to: -

- i) any firm in which any of the relatives of any senior officer holds substantial interest, or is interested as a partner or guarantor; or
- ii) any company in which any of the relatives of any senior officer holds substantial interest, or is interested as a director or as a guarantor, such transaction shall also be reported to the Board.

The above norms relating to grant of Credit facility will equally apply to the awarding of contracts.



### 3.9.8 Application of the Guidelines in case of Consortium Arrangements

In case of consortium arrangements, the above norms relating to grant of credit facilities to relatives of senior officers of the Bank will apply to the relatives of senior officers of all the participating banks.

#### 3.9.9 Scope of certain expressions

- i) The scope of the term 'relative' is Spouse, Father, Mother (including step-mother), Son (including step-son), Son's wife, Daughter (including step-daughter), Daughter's Husband, Brother (including step-brother), Brother's wife, Sister (including step-sister), Sister's husband, Brother (including step-brother) of the spouse and Sister (including step-sister) of the spouse.
- ii) The term 'Senior Officer' will refer to -
  - a. any officer in Senior Management level in Grade IV and above, in the Saurashtra Gramin bank or Sponsor Bank, or in any banking company incorporated in India.
- iii) The term 'credit facility' will not include loans or advances against -
  - a. Government securities
  - b. Life Insurance policies, Fixed or other deposits
  - c. Temporary overdrafts for small amount i.e. up to Rs. Twenty five thousand and casual purchase of cheques up to Rs. Five thousand, at a time.
  - d. Credit facility will also not include loans and advances such as housing loans, car loans, consumption loans, etc. granted to an officer of the Bank under any scheme applicable generally to officers.
  - e. The term 'substantial interest' shall have the same meaning assigned to it in Section 5(ne) of the Banking Regulation Act, 1949, as under:

#### **"Substantial interest"**

- i) in relation to a company, means the holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together, in the shares thereof, the amount paid upon which exceeds Rs. 5 lacs or ten per cent of the paid-up capital of the company, whichever is less;
- ii) in relation to a firm, means the beneficial interest held therein by an individual or his spouse or minor child, whether singly or taken together, which represents more than ten per cent of the total capital subscribed by all the partners of the said firm.

#### 3.9.9.1 In this context, Bank shall note inter-alia:

- i) to ascertain the interest of the relatives of a senior officer of the bank in any credit proposal placed before the Board Committee or other appropriate authority;
- ii) obtain a declaration from every borrower to the effect that –
  - a) If he is an individual, that he is not a specified, near relation to any senior officer of the Bank.
  - b) If it is a partnership or HUF firm, that none of the partners, or none of the members of the HUF, is a near, specified relation of any senior officer of the Bank.
  - c) If it is a joint stock company, that none of its directors, is a relative of any senior officer of the Bank;
- iii) ensure that the declaration gives details of the relationship, if any, of the borrower

- to any senior officer of the Bank;
- iv) make a condition for the grant of any credit facility that if the declaration made by a borrower with reference to the above is found to be false, then the Bank will be entitled to revoke and/or recall the credit facility.

**3.9.10** Advances to companies in which the members of the Bank's Board are directors will be subject to the relevant provisions in Banking Regulations Act (BR Act), 1949 and RRB Act, 1976 and further amendments.

### **3.10 Restrictions on Grant of Financial Assistance to Industries Producing / Consuming Ozone Depleting Substances (ODS)**

Bank shall not extend finance for setting up of new units consuming/producing Ozone Depleting Substances (ODS) and to small/medium scale units engaged in the manufacture of aerosol units using chlorofluorocarbons (CFC) and companies not complying with environmental laws prevailing in the country.

### **3.11 Restrictions on Advances against Sensitive Commodities (#) under Selective Credit Control (SCC)**

- (i) Bank is free to fix prudential margins on advances against sensitive commodities. However, in case of advance against Levy Sugar, a minimum margin of 10% will apply.

(ii) Valuation of sugar stocks

- a. Unreleased stocks of the levy sugar charged as security shall be valued at levy price fixed by Government.
- b. The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the Bank as security shall be valued at the average of the price realised in the preceding three months (moving average) or the current market price, whichever is lower; the prices for this purpose shall be exclusive of excise duty.

**(#)** Commodities generally treated as sensitive in this context are: Food grains (cereals and pulses), selected major oil seeds indigenously grown (groundnut, rapeseed /mustard, cotton seed, linseed and castor seed, oils thereof, vanaspati and all imported oils and vegetable oils.

### **3.12 Restriction on payment of commission to staff members including officers**

The Bank shall not pay commission to staff members and officers for recovery of loans.

#### **3.12.1 Restrictions on offering incentives on any banking products**

Bank shall not offer any Banking Products, including online remittance schemes etc. with prizes/ lottery/ free trips (in India/ or abroad). Etc., or any other incentives having an element of chance, except inexpensive gifts costing not more than Rupees two hundred fifty, as such products involve non-transparency in the pricing mechanism and therefore go against the spirit of guidelines.

### **3.13 Restrictions on other loans and advances**

#### **3.13.1 Loans and Advances against Shares, Debentures and Bonds**

Policy prescriptions covering Loans and Advances against Shares, Debentures and

Bonds shall duly reckon the regulatory general guidelines and specific restrictions in relation to Individuals, Share and Stock Brokers, Commodity Brokers, Market Makers, Financing of IPOs, Financing of employees to buy shares of their own companies, financing to meet promoters' contribution to equity of new companies, Advances against Units of Mutual Funds, Margin Trading, Acquisition of Equity in Overseas Companies.

#### **3.13.1.1 Arbitrage Operations**

No credit facility directly or indirectly to stock brokers for arbitrage operations in Stock Exchanges shall be extended by the Bank.

#### **3.13.2 Advances against shares to Individuals:**

Loans against security of shares, convertible bonds, convertible debentures and units of equity oriented mutual funds to individuals from the banking system should not exceed the limit of Rs.10 lacs per individual if the securities are held in physical form, and Rs. 20 lacs per individual if the securities are held in dematerialized form. Such loans are meant for genuine individual investors and the Bank shall not support collusive action by a large group of individuals belonging to the same corporate or their inter- connected entities to take multiple loans in order to support particular scrips or stock- broking activities of the concerned firms. Detailed operating guidelines shall be detailed in the specific scheme for such Advances.

#### **3.13.3.1 The ceiling on single/borrower group exposure limits is not applicable:**

- i) In case of existing / additional credit facilities (including funding of interest and irregularities) granted to weak/sick industrial units under rehabilitation packages.
- ii) In case of borrowers to whom limits are allocated directly by the RBI for food credit.
- iii) In cases where the principal and interest are fully guaranteed by the Government of India.
- iv) In case of Loans against Bank's own Term Deposits, to the extent that the Bank has a specific lien on such deposits.
- v) To exposure assumed on NABARD. The Bank will be free to determine the size of the exposure to NABARD, subject to Board approval.

#### **3.13.4 Advances against Fixed Deposit Receipts (FDRs) issued by other banks**

No credit facilities shall be sanctioned against FDRs, or other term deposits of other banks.

#### **3.13.5 Restrictions on advances against NR (E) and FCNR (B) Deposits – Quantum of loans**

Grant of advance against NR (E) and FCNR(B) deposits would be subject to the guidelines issued under Foreign Exchange Management Act, 1999.

#### **3.13.6 Advances to Agents/Intermediaries based on Consideration of Deposit Mobilization:**

No credit facility shall be sanctioned to the agent/intermediaries as against the consideration of deposit mobilization by them.

### **3.14 Financing Housing Projects**

#### **3.14.1 Housing Finance**

Policy for financing housing projects should be in compliance with regulatory guidelines and is to be approved by HOCC-I.

#### **3.14.2 Prudential requirements: Assignment of risk weight for capital adequacy purposes**

The Bank shall be guided by regulatory guidelines and directions on 'Basel Capital Regulations' as amended from time to time, in the matter of capital adequacy assessment.

#### **3.14.3 Loans and advances to Real Estate Sector**

While appraising loan proposals involving real estate, it has to be ensured that the borrowers have obtained prior permission from government / local government / other statutory authorities for the project, wherever required. The disbursement should be made only after the borrower has obtained requisite clearances from the government authorities.

#### **3.14.4 Bridge Loans against receivables from Government**

Bank shall not extend bridge loans against amounts receivable from Central/State Governments by way of subsidies, refunds, reimbursements, capital contributions, etc. except the cases specifically permitted by RBI.

**3.15 Shell Companies:** Bank shall not grant any advance to any company which is found to be a shell company in terms of its features resembling to those as advised by FIU-IND/RBI. The guidelines with regard to treatment of shell companies issued by MCA/FIU/SEBI etc., from time to time shall be complied with meticulously.

#### **3.16 Restrictions of number of Layers of subsidiaries:**

The Guidelines issued by MCA on Companies (Restriction on number of layers) Rules 2017 which states that on and from the date of commencement of these rules (20<sup>th</sup> September 2017), no company, barring those exempted under the guidelines, shall have more than two layers of subsidiaries. The Borrowal Company (existing & proposed) will submit an undertaking in this regard confirming that they are in compliance with the guidelines.

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## CHAPTER-4

### TAKEOVER OF ADVANCES

In the competitive and liberalized financial environment, it has become important for the Bank to aggressively market for good quality advances. One of the strategies for increasing good quality assets in the Bank's loan portfolio is to take over advances from other Banks/FIs.

Laying down of uniform take-over norms in an environment where financial products, systems and risks vary from centre to centre is neither desirable nor feasible. It is thus desirable to specify certain broad parameters in respect of takeover of accounts in the Loan and NPA Management policy Document. The Offices may keep in mind the guidelines mentioned in the Bank's Loan and NPA Management policy.

#### **4.1 Norms for Takeover of Accounts**

4.1.1 Careful selection of borrowers is essential to maintain asset quality. All credit proposals are subjected to due diligence processes in regard to the credentials of the borrower, financial soundness of the borrower, ascertaining need based requirement of credit facilities, capability to service the loans and security offered etc. Besides these usual due diligence, some additional safeguards are prescribed for takeover of advances. Generally, advances accounts with our Sponsor Bank shall not be preferred for takeover. Accordingly, a set of norms/ guidelines for C&I, SME and AGL (Agro based industrial activities) segments have been laid down for takeover of loans. While the guidelines may be reviewed from time to time, current instructions in this regard may be as under:

#### **4.1.2 Rating criterion in SME Advances**

i) For SME exposure from Rs. 25 lacs - upto Rs. 10 crores [obtaining ECR is made mandatory only for exposures of above Rs.10 crores and it is optional upto Rs. 10 crores]

Where ECR is not available	The CRA of the borrower should be SB-8 or better, and the proposed exposure must be backed by minimum 60% Collateral Security. Further, it is also to be noted that no dilution in existing security coverage would be permitted for the amount taken over.
Where ECR is available*	CRA should be SB-10 or better and ECR should be BBB or better.

#### **ii) For SME exposures above Rs. 10 crores:**

Where ECR is not available	The CRA of the borrower should be SB-7 or better.
Where ECR is available*	CRA should be SB-10 or better and ECR should be BBB+ or better.

\* Wherever Credit Rating Agency is changed, ECR is to be obtained from two rating agencies and lower of the two ratings is to be considered.

**4.1.3 Due Diligence:** Branches/ ROs should assess the requirements of the borrower and obtain sanction for the proposed limits before actually taking over the outstanding liability of the borrower from their existing bank/FI. While doing so, the following aspects should invariably be examined in each case of Take over:

- i. Proper due diligence must be carried out on the borrower as well as borrower group (if applicable) with a view to ensuring the Account proposed to be taken over is being conducted satisfactorily and not classified as SMA-2 or NPA in the books of the transferor bank/FI as also to determine that there are no unsatisfactory features or history of default in conduct of accounts of the company.
- ii. The name of the promoters/directors/guarantors should not be appearing in the list of defaulters/willful defaulters/caution lists etc.
- iii. External Rating Letter, produced by the prospective borrower has to be verified independently by accessing the External Rating Agency's web-site, apart from cross checking with analytical team of the respective External Rating Agency.
- iv. Discreet enquiries should be made for cross checking the reasons given by the borrower for moving the account, unless the account is in our target list for marketing.
- v. Accounts restructured under CDR or under JLF mechanism, accounts under rehabilitation or under OTS should not be taken over except with the approval of Board.
- vi. Market perception regarding the unit and its management is to be recorded. (For this, the appraising officials may record briefly enquiries made and feedback received).
- vii. Whether potential ancillary business will accrue to the Bank in case competitive pricing is offered.
- viii. Terms and conditions stipulated by the existing bank and those proposed by our Bank, with particular focus on ensuring that there is no dilution in security cover in respect of amount taken over.
- ix. The Credit Information Report (CIR) from the transferor bank should be obtained in the prescribed format before disbursement. However, Statements of all Accounts of the prospective borrower with Bank/other banks for the last one year are to be obtained as part of Pre-Sanction exercise and scrutinized for a feel of conduct / financial discipline of the account.
- x. A declaration should be obtained from the applicant unit that it does not have any other credit facility in any bank / FI / NBFC which is irregular and that there are no overdue statutory dues. Such a declaration should be supported by a certificate from the Statutory Auditor of the prospective borrowing company.
- xi. To make reference to CRILC data to ascertain whether the prospective borrower is reported as stressed by any other bank.
- xii. Comprehensive Report (popularly called Data scrubbing) on the prospective borrower to be taken from CIBIL or other Credit Information Company (Equifax, CRIF-Highmark or Experian).
- xiii. When a Term Loan is also being taken over, it should have a prompt repayment track record, and should also not have been restructured / rescheduled in the preceding two years. Further, the terms of repayment with the existing lender from whom the loan is being taken over, must continue.

- xiv. Term loans from State Financial Corporations may be taken over only selectively
- xv. Generally (except in the case of Housing), Takeover of loans below Rs 25 lacs is to be discouraged. However, in case of exceptional circumstances, operating units may consider Takeovers on a case to case to basis where product specific minimum scores shall be the threshold. As and when New Scoring Models for loans up to Rs 25 lacs are rolled out, loans categorized/ graded as “Good Loan – Clear Lending Decision” shall only be considered for Takeover.
- xvi. In all cases of Takeover, branches / ROs should ensure completion of proper documentation before disbursement.
- xvii. Obtention of minimum score under each of the parameters for CRA viz. Business, Financial & Industry and Management risk is mandatory.
- xviii. Independent verification about the credibility of the customer to be ensured. Services of Fintech/technology companies may be used to cross check the credibility of the borrower.
- xix. Generally while taking over of any advance enhancement of more than 25% may not be considered. HOCC-I, with due justification may permit in particular proposal which shall be duly vetted by the Board during normal review.

**4.1.4 Collateral Security:** No dilution in existing security coverage is permitted for the amount taken over, by releasing the existing security charged to the existing banks. In case Takeover is with enhancement/sanction of additional facilities, the collateral cover for additional credit facilities sanctioned should be as per the norms prescribed by the Bank. Substitution of existing security given to other Banks may be permitted for justifiable reasons by the sanctioning authority, provided the realizable value of the security offered is not less than the value of existing security with other banks. Specific approval of appropriate authority will need to be obtained.

4.1.5 It must be ensured that the cushion is available as per industry exposure norms and the credit rating hurdle rates specified, if any, for the industry segment are complied with.

4.1.6 Audited Balance Sheet (ABS) should not be older than 12 months. If ABS is older than 9 months, provisional financials not older than 3 months are to be obtained and analysed so as to be satisfied that the activity level and profitability, liquidity and solvency ratios are broadly in alignment with the estimates / projections.

4.1.7 Ideally, only such accounts should be targeted for Takeover where the unit is in commercial operations for at least two years (one year in case of Infrastructure projects) and no major green field/ brown field project is under implementation.

4.1.8 The unit should have been earning profits for at least 2 preceding years except Infrastructure projects for which it will be 1 year after COD as per the last audited balance sheet and should not be incurring losses during the year as per provisional financials (4.1.6 above). The outlook for sales and profitability should be positive based on realistic estimates of capacity utilization and EBIDTA margins as on the date of assessment.

4.1.9 Stock and Receivables Audit is to be conducted prior to disbursement of any credit facilities above Rs. 5.00 Crs except for units having ECR of “A-” and better.

4.1.10 Pricing improvement over the existing pricing of other banks (in case other Bank’s pricing is lower than our Bank’s) should be offered only for accounts meeting rating criterion for Takeover specified in 4.1.2 above.

#### 4.1.11 Authority Structure for Waiver

<b>Waiver in norms for takeover and authority structure for approval:</b>			
i) Cases of past default / Caution List / OTS / restructuring / rehabilitation etc., subject to the proposal otherwise being in compliance with RBI instructions regarding cooling period etc.: Waiver to be approved by Board.			
ii) Any other waiver except item no. (i) above [Rating criterion, CRA and other Takeover norms]	<b>Sanctioning Authority</b>		<b>Waiver to be approved by</b>
	Credit Committees up to RCC	<b>Where exposure is up to Rs. 1.5 Crore and rating of SB 8 or better (for other cases)</b>	HOCC-II
	HOCC-II		HOCC-I
	HOCC-I		BOARD

4.1.12 A written communication should be obtained from existing bank indicating the up to date dues on payment of which all the securities held including release of personal/corporate guarantees held will be released in favor of our Bank.

4.1.13 Perfection of securities must be completed within 90 days of disbursement.

4.1.14 Increasing our share either in a Consortium or Multiple Banking Arrangement of which we are already a part, or where we join a consortium either as an additional member or when another bank exits, are not considered as Takeover of advances from another bank. In all such cases, operating units should ascertain IRAC status of the borrower from the existing bankers on the IBA specified format. However, when we join a Multiple Banking Arrangement in order to replace an existing member of such an arrangement either in whole or in part, all the norms relating to Takeover of advances will apply.

4.1.15 The above norms shall not be applicable in case there is a change of promoter under resolution of stressed assets or substitution of existing promoter in respect of infrastructure projects. In such cases, it has to be considered as a new connection and the credibility of new incoming promoters as well as techno economic viability will be key considerations.

4.1.16 The abovementioned Takeover norms are not applicable to AGL segment for which separate norms have been prescribed as per para 4.2 below. These norms are also not applicable in respect of:

- i. Public Sector undertakings (PSUs) under Central Government
- ii. loans under PER segment



iii. Schematic lending such as Lease Rental Discounting (LRD), ABL, ABL (CRE).

4.1.17 First review of all taken over accounts beyond Rs. 5 Crores may be put up by the branch concerned, to the respective sanctioning authorities, as the case may be, immediately after 6 months from the date of sanction. Full-fledged renewal of working capital limits and annual review of term loan accounts should be done at annual intervals from the date of disbursement as usual.

#### **4.2 Norms for takeover of advances under Agriculture segment (other than Agro based industries for which norms contained at 4.1 above are applicable)**

In respect of Agriculture segment, all agricultural Term loans and agricultural cash credits with other banks and Agricultural Credit Societies, Co-operatives are eligible for takeover, subject to the fulfillment of the following terms and conditions of Take over:

i) The minimum amount eligible for takeover would be as under:

<b>Nature of Facility</b>	<b>Amount</b>
ACC	Rs.1 Lac
ATL– for Allied Activities	Rs.10 Lacs
ATL for other than allied activities	Rs.2 Lacs.

- ii) The maximum amount eligible for takeover would be Rs.1.5 crores. However, IT CAN BE CONSIDERED with administrative clearance from HOCC-II for loans above Rs.1.5 crores to Rs.5 crores and from HOCC-I for loans above Rs.5 crores.
- iii) No prior administrative clearance is required for takeover of agricultural loan. The reasons for takeover of account are to be discussed in the proposal based on which the Sanctioning Authority will take an informed decision.
- iv) No dilution in the security in takeover proposals is permitted.
- v) Only Standard Assets and regular accounts are eligible for takeover. The account should have been a standard account in the books of the other banks/Financial Institution (FI) during the preceding 2 years.
- vi) The term loans of incomplete nature are not eligible for takeover.
- vii) ATLS with a minimum 2 years repayment program left are only eligible.
- viii) Advances to borrowers falling outside the 'Service Area' of the branch are also permitted for Takeover, subject to adherence of the other instructions.
- ix) Crop loans converted to Term Loans and Term Loans, which are re-phased, are not eligible for takeover irrespective of their quantum.
- x) Additional norms for takeover of Agriculture Loans of Rs.25 lacs and above: -
- a) The advances to be taken over should be rated SB-7 or better (the unit should score at least 60% in the financial parameters).
- b) The unit should have earned net profits post tax in each of the immediately preceding 2 years.
- c) In case of KCC related advance where subvention and PMFBY insurance process and benefits are involved branch /sanctioning authority to take extra care to avoid any duplication of benefits and to ensure that no any undue benefits available to the borrower.

4.3 Takeover of "P" segment advances is permitted as per the guidelines issued from time to time in the schemes circulated time to time.

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## CHAPTER-5

### COMPLIANCE OF PRUDENTIAL AND EXPOSURE NORMS AND CONCENTRATION OF CREDIT RISK

While prudential guidelines for avoiding concentration of risk serve as broad indicators, continuous evaluation of other elements such as market conditions, government policies, legal framework, economic indicators, stock market movements, etc., is made to assess transaction risk intrinsic to a single borrower, group of borrowers, segment of industry as well as to sectoral exposures in order to formulate short term exposure restrictions where considered necessary. The Loan and NPA Management policy recognizes the need for measures aimed at better risk management and avoidance of concentration of credit risk at the whole-Bank level and at the RO/ Branches. To this end, limits have been prescribed for Bank's exposure to single borrower, borrower groups, specific industry/ sector etc. shall be subject to framework released by RBI from time to time. It recognizes that the off-balance sheet exposures should also be subject to normal credit appraisal and discipline.

#### **5.1 Definition of Exposure**

Exposure shall include credit exposure and investment exposure. The sanctioned limits or outstanding, whichever is higher, shall be reckoned for determining the exposure to an entity. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, the outstanding shall be reckoned as the exposure.

##### **5.1.1 Credit Exposure**

- i) All types of funded and non-funded credit limits,

##### **5.1.2 Investment exposure**

- i) Investments in shares and debentures of companies
- ii) Investments in PSU bonds
- iii) Investments in Commercial Papers and similar commitments.

5.1.3 The ceilings on single / group exposure limits would not be applicable to existing / additional credit facilities (including funding of interest and irregularities) granted to stressed assets under resolution.

#### **5.2 Definition of Group/ Connected Company**

5.2.1 The concept of 'Group' and the task of identification of the borrowers belonging to specific industrial groups are left to the perception of the individual bank by the regulator. The guiding principle being commonality of management and effective control. The group, to which a particular borrowing unit belongs, will therefore be decided on the basis of the following relevant information available to the Bank:

**i) Ownership/effective control:** If a company holds majority of shareholding (51% or more) in another company, the other company becomes subsidiary of the former and thus automatically belongs to the holding company group. If a company holds significant shareholding (20% or more but less than 50%) in another, the other company becomes its associate and generally belongs to the former group.

**ii) Commonality of management:** The main factors will be composition of board of

directors, powers to appoint more than fifty per cent of members of board of directors in the other enterprises or exercise twenty six per cent or more of voting rights in other enterprise. If majority of directors of the two entities are same- the group affiliation is clear. Else, de-facto control of the affairs of the company etc. shall be determining factor for group affiliation.

**5.2.2 Borrowers under consortium or multiple banking arrangements**

In such cases, other member banks may be consulted to ensure consistency in group name clarity.

5.2.3 In the case of a split in the group, if the split is formalized, the splinter groups will be regarded as separate groups. In case any doubt about the bona fides of the split, a reference may be made to RBI for its final view in the matter to preclude the possibility of a split being engineered in order to prevent coverage under the Group Approach.

5.2.4 In case of PSUs, Bank exposure will be considered as exposure to a single borrower only.

**5.3 Regulatory Guidelines (on Exposure and Relaxations / Restrictions)**

**5.3.1 Exposure norms: The regulator** has prescribed the following caps, which the Bank shall comply with at all times:

Nature of Borrower/ Exposure	Cap on Exposure (Prudential Norms)
Exposure Ceiling Limits in case of as single counterparty.	20%* of Bank’s Tier I Capital, In exceptional cases, Board of the Bank may allow an additional exposure of the 5% of Bank’s Tier I Capital to a Single Counterparty.
Exposure to a single NBFC	20% of Bank’s Tier I Capital
Exposure to a single NBFC-AFC (Asset Financing Company)	5 % of Bank’s Capital Funds, plus an additional 5% provided the additional exposure is on account of funds on- lent by the NBFC-AFC to the infrastructure sector.
Exposure Ceiling Limits in case of a Group ] Of Connected counterparties.	25%** of Bank’s Tier I Capital.
Large Borrower	Large borrower is defined as a borrower to whom the Bank’s exposure exceeds 10% of the Bank’s Tier-1 capital. The aggregate exposure to all “large borrowers” should not exceed 200 % of Bank’s Tier-I capital.

\*Bank has allowed 15% of TIER I capital as per Board approved agenda in meeting held on 10.06.2020.

\*\* RBI has decided, as a one-time measure, to increase a bank’s exposure to a group of connected counterparties from 25% to 30% of the eligible capital base of the bank. The increased limit will be applicable up to June 30, 2021

**Note:** Bank may also, in exceptional circumstances, with the approval of the Board, consider enhancement of the exposure to a borrower (single as well as borrower group) upto a further 5% of Tier I funds, subject to the borrower consenting to the Bank making appropriate disclosure in the Bank's Annual Report. The Bank shall, however, endeavour to be in compliance with the aforementioned caps set by RBI.

The Bank shall make appropriate disclosures in the 'Notes on account' to the annual financial statements in respect of the exposures where the Bank had exceeded the prudential exposure limits during the year.

The exposure limits will also be applicable to lending under consortium arrangements.

## 5.4 Large Borrower

Large borrower is defined as a borrower to whom the Bank's exposure exceeds 10 % of the Bank's Tier-I capital. The aggregate exposure to all "large borrowers" should not exceed 200 % of Bank's capital funds. Risk Management Committee (RMC) will monitor exposure to Large Exposure and put up review to Board at quarterly intervals.

5.4.1 In order to align the exposure norms for Indian banks with the BCBS standards, RBI has issued guidelines on Large Exposure Framework (LEF) to be implemented with effect from 01.04.2019. Large exposure is defined as the sum of all exposures of a Bank to a counterparty or a group of connected counterparties is equal to or above 10% of Bank's eligible capital base. i.e., Tier I capital. (Instead of total capital funds as hitherto). Under LEF framework, an exposure to counterparty will constitute both on balance sheet (accounting value of exposure) and off-Balance Sheet (by applying CCF with a floor of 10%) exposure included in either the banking or trading book or instruments with counterparty credit risks. Bank should look at this while taking exposure on large borrowers.

## 5.5 Exposure on Single / Borrower Group

5.5.1. Based on market conditions, government policies, legal framework, economic indicators, stock market movements, and ease of doing business, an internal exposure limit has been set according to constitution of borrowing unit. The details of current exposure levels prescribed are as under:

<b>Constitution of Borrower</b>	<b>Maximum ceiling on Exposure prescribed by Bank (Excluding facilities granted against specified securities)</b>
<b>Individuals as borrowers</b>	Maximum aggregate exposure of Rs. 10 crores or its equivalent
<b>Non-corporate (\$)</b>	Maximum aggregate exposure of Rs. 25 crores or its equivalent. However, for aggregate exposure in respect of Renewable Energy Projects the cap shall be Rs. 10 crores or its equivalent. The above ceilings will also be applicable to the aggregate of all facilities Sanctioned to partnership firms which have identical partners.
<b>Corporate (#)</b>	As per prudential norms prescribed by RBI or Board whichever is less.

### 5.5.2 Norms for the Bank Exposure and sharing of exposure with other banks

Maximum aggregate exposure is governed by prudential norms of RBI as well as Internal Prudential Exposure Limits fixed by the Bank. With a view to diversifying exposure of the Bank to a particular company, the following norms may be followed.

Exposure of Banking sector	Exposure limit set for the Bank
Below and up to Rs.100 crores or its equivalent.	As per Our exposure norms.
Above Rs.100 crores	Maximum 40% of Tier I capital or up to exposure norms whichever is lower

**NOTE:**

**Exemptions:**

1. Wherever exposure exceeds the norms, efforts may be made to bring down the exposure within a year.
2. The ECRA below BB/unrated will not be considered for sharing of exposure of more than Rs. 20 cr.
3. In exceptional circumstances, deviation, if any may be approved by the respective sanctioning committee provided CHAIRMAN gives prior approval.

\$Non-corporates will include Partnerships, Trusts, JHFs, Associations and REIT (Real Estate

Investment Trust) if not listed on stock exchange.

# Corporates will include Companies, Societies, REIT if listed on stock exchange, Govt. Departments, Institutions and Statutory Corporations and Limited Liability Partnerships (LLP).

### 5.6 Exposure at Portfolio Level

#### 5.6.1 Unsecured Exposure:

RBI has defined unsecured exposure as an exposure where the realizable value of the security (primary plus collateral), as assessed by the Bank / approved valuers / RBI's inspecting officers, is ab-initio not more than 10% of the outstanding exposure. Security will mean tangible security properly charged to the Bank and will not include intangible securities like guarantees, comfort letters etc. The Bank has adopted the above definition and it has been decided to restrict unsecured exposure so defined to 10% of Bank's outstanding (excluding KCC) total exposure.

#### 5.6.2 Term Loan Exposure:

The review of term exposures (loans with residual maturity of over three years) with a view to ensuring that there is no Asset – Liability mismatch beyond the permissible limits will be carried out as per ALM policy of the Bank.

Term Loans (loans with residual maturity of over three years) at any point of time should not in aggregate exceed 40% of the total advances of the Bank. A trigger for review is

set when this limit reaches to 38 % of the total advances of the Bank.

### **5.6.3 Exposure to Real Estate sector**

Bank's exposure to real estate including residential mortgages(excluding Home Loan & Home Loan Top Up), commercial real estate and indirect finance, etc., will not exceed 20% of the Bank's total advances.

### **5.6.4 Non Fund Based Exposure**

Non Fund Based facility (ies) not to exceed 100 % Bank's total fund based exposure. Review of NFB facility to be carried out by RMC at quarterly intervals, as hitherto.

### **5.6.5 Sectoral/ Industry Exposure**

The Bank shall endeavor to restrict exposure to a particular industry to a maximum of 15% of the Bank's total exposure. Any additional exposure up to 5% can be taken with permission from the Board. This exposure may be increased up to 20% for cluster where Bank has historical NPA level below 5% (average NPA of last 3 years). Review shall be done by Credit Department at yearly **intervals** or at a lesser frequency if significant change occurs in the industry profile, as hitherto.

### **5.6.6 Industry Exposure settings and Monitoring of Industry Exposures**

Credit Department (Industry Research) shall conduct study of industries/ sectors, where the Bank's exposure is 5 % or above of the Bank's total exposure. It shall prescribe exposure ceilings for these industries/ sectors along with outlook and policy prescriptions based on risk and performance of portfolios in large / significant sectors, and issues advisories on a periodic basis for guidance of the business verticals. The Bank shall endeavour to restrict exposure to a particular industry to a maximum of 15% of the Bank's total exposure. Any additional exposure up to 5% can be taken with permission from the Board. This exposure may be increased to 20% for cluster where Bank has historical NPA level below 5% (average NPA of last 3 years) Credit Risk Management department (CRMD -advisory) of sponsor bank may also be used as guiding factor.

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## CHAPTER-6

### PERFORMANCE/FINANCIAL ANALYSIS AND CREDIT RISK ASSESSMENT

6.1 The primary objective of financial statement analysis is to understand and diagnose the information contained in financial statements with a view to judge the profitability, financial soundness, and operational efficiency of management of the firm to make forecast about its future prospects.

As part of Bank's appraisal process, financial statements – profit and loss account, balance sheet and cash flow statement of the borrowing units are analyzed to determine its solvency, liquidity and profitability as well as its sources and applications of funds. In addition, financial analysis involves extrapolating the past performance of a borrowing entity so as to arrive at an estimate of its likely future performance. Various ratios are calculated by studying past 2 years' performance of the unit and comparing them to analyze the trend. Inter firm comparison should also be done to determine performance and financials of the unit vis-à-vis its peers.

#### **6.2 Approach towards seeking Audited Financials**

Audited financials of all the borrowing units which are in operation need to be obtained every year. For sanction of any new credit facilities or enhancement in existing facilities, the audited financial statements should not be more than 12 months old. In case the latest audited financials are more than 12 months old, provisional financial statements not more than 3 months old is to be obtained and analyzed with a view to ensuring that the performance and financial indicators are not deteriorated. In such cases Audited Balance Sheet has to be obtained subsequently and CRA is to be worked out.

#### **6.3 Performance and Financial analysis**

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

##### **i) Applicable to Manufacturing segment**

<b>Financial Ratio (s)</b>	<b>Desired Level</b>	<b>Acceptable level</b>
Current Ratio	=> 1.33	=> 1.00 (Minimum)
TOL/Adjusted TNW	<= 4.00	<= 5.00 (Maximum)
Long Term Debt / EBITDA	<= 3.60	<= 4.50 (Maximum)
Interest Coverage Ratio	>=2.60	>= 2.00 (Minimum)
DSCR	>=1.50	>=1.20 (Minimum)
FACR	1.25	1.25

##### **ii) Applicable to Trade and Services segment**

<b>Financial Ratio (s)</b>	<b>Desired Level</b>	<b>Acceptable level</b>
Current Ratio	=> 1.20	=> 1.00 (Minimum)
TOL/Adjusted TNW	<= 5.00	<= 7.00 (Maximum)
Long Term Debt / EBITDA	<= 4.00	<= 6.00 (Maximum)
Interest Coverage Ratio	>=2.60	>= 2.00 (Minimum)
DSCR	>=1.50	>=1.20 (Minimum)
FACR	1.25	1.25

iii) While these are indicative levels, there cannot be a definite benchmark, as acceptable levels are case specific, guided by the nature, size and scope of

projects and activities. The sanctioning authority considers variations from these levels based on the justifications placed before them; no specific approval is required for divergence between the acceptable level and the actual.

- iv) Hurdle rate SB-10 has been prescribed under internal risk rating model for considering new connection or enhancement in credit limits. In case account is having CRA SB-11 and worse (refer Para 6.7.1 below), then necessary approval is to be obtained from the competent authority. However, where a unit has not obtained minimum scores in Financial Risk, Business & Industry Risk and Management Risk under CRA, separate approval is not required to be sought. In case any variance from the desired/acceptable levels of quantitative parameters and minimum scores in FR/BR/MR under CRA are to be discussed in the loan proposal and justifications/mitigation are to be placed before the sanctioning authority for taking informed decision.

#### **Authority Structure for Waiver**

<b>Loan Sanctioned by</b>	<b>Waiver to be approved/control by</b>
Spoke Branch	AMSH (Erstwhile AMH)
AMSH-HUB	RCC/ CONTROLLING AUTHORITY (RM)
RCC	HOCC-II
HOCC-II	HOCC-I
HOCC-I	HOCC-I TO BE REVIEWED BY BOARD
BOARD	BOARD

**6.3.1** In the wake of formation of many groups with many subsidiaries, analyzing financials of the group at the consolidated level in addition to the standalone entity is necessary. In the case of companies with subsidiaries, the adjusted TNW could be lower for the parent company and the rating may suffer on account of the investment. In all such cases where the group consists of large number of companies the leverage should be measured by Consolidated TOL/Consolidated TNW. In those cases, where the loan is being taken in the books of Parent/Holding Company but subsidiary companies are the operating units, the standalone financial statements of subsidiaries (if available) should also be analysed and commented upon in the loan proposal.

#### **6.4 Guidelines on Loan System for Delivery of Bank Credit**

With a view to enhance credit discipline among the larger borrowers enjoying working capital facility from the banking system, delivery of bank credit for such borrowers shall be as under:

##### **6.4.1 Minimum level of 'loan component' and Effective date**

In respect of borrowers having aggregate fund based working capital limit of Rs. 150.00 Crore and above from the banking system, a minimum level of 'loan component' of 40 percent shall be effective from April 1, 2019. Accordingly, for such borrowers, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 40 percent of the sanctioned fund based working capital limit, including ad hoc limits and TODs. Hence, for such borrowers, drawings up to 40 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash



credit facility. The bifurcation of the working capital limit into loan and cash credit components shall be effected after excluding the export credit limits (pre-shipment and post-shipment) and bills limit for inland sales from the working capital limit. Investment by the bank in the commercial papers issued by the borrower shall form part of the loan component, provided the investment is sanctioned as part of the working capital limit.

#### 6.4.2 Sharing of Working Capital Finance

The ground rules for sharing of cash credit and loan components may be laid down by the consortium, wherever formed, subject to guidelines on bifurcation as stated in paragraph 6.4.1 above. All lenders in the consortium shall be individually and jointly responsible to make sure that at the aggregate level, the 'loan component' meets the above mentioned requirements. Under Multiple Banking Arrangements (MBAs), each bank shall ensure adherence to these guidelines at individual bank level.

#### 6.4.3 Amount and tenor of the loan

The amount and tenor of the loan component may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than seven days. Banks may decide to split the loan component into WCLs with different maturity periods as per the needs of the borrowers.

#### 6.4.4 Repayment/Renewal/Rollover of Loan Component

Banks/consortia/syndicates will have the discretion to stipulate repayment of the WCLs in instalments or by way of a "bullet" repayment, subject to IRAC norms. Banks may consider rollover of the WCLs at the request of the borrower, subject to compliance with the extant IRAC norms.

#### 6.4.5 Risk weights for undrawn portion of cash credit limits

Effective from April 1, 2019, the undrawn portion of cash credit/ overdraft limits sanctioned to the aforesaid large borrowers, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20 percent.

6.4.6 The guidelines will be effective from April 1, 2019 covering both existing as well as new relationships. The 40 percent loan component will be revised to 60 percent, with effect from July 1, 2019.

### **6.5 Review/ Renewal of Advances**

6.5.1 Working capital facilities are granted for a period of one year from the date of sanction. Regular and ad hoc credit limits are 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 borrowers, the branch should furnish evidence to show that renewal/ review exercise is in progress. However, where the regular/ad hoc credit limits have not been reviewed/renewed within 180 days from the due date/ date of ad hoc sanction, it will render the account as NPA. In this context, other guidelines are as under:

- i) Renewal of working capital limit is carried out every year on the basis of audited financials. In case working capital, limits are not renewed for valid reasons, approval from the sanctioning authority needs to be sought for review

(continuation of limits) for a maximum period of 180 days from the due date. In respect of working capital limits sanctioned by HOCC-I, such approval needs to be reviewed by BOARD.

- 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.
- iii) While undertaking review /renewal, sanction for continuation of limits shall indicate date of validity of such limits.
- iv) In the case of all listed companies, a brief review is to be put up on the basis of quarterly working results published by them in the Quarterly Results Report (QRR) format, duly incorporating comments such as extent of exposure, conduct of the account etc. Such review is to be submitted (a) to the Heads of RO in respect of RCC sanctions, (b) to the GM in respect of HOCC-II sanctions and (c) to the Chairman in all other cases.
- v) In cases where term loans as well as working credit facilities have been sanctioned to a borrower, review of TL should form a part of the review/renewal of working capital facilities.
- vi) Builder Loans (sanctioned as CCOD limits) and standalone TLs are also to be reviewed annually based on the audited financials.
- vii) Review/ Renewals where audited financials are more than 7 months old (listed companies) / 9 months old for others, deviation to be approved from sanctioning authority. In case sanctioning authority is HOCC-I, then deviation to be reviewed by BOARD.
- viii) The Guidelines has been put in place for processing the request for large enhancement in working capital within 12 months of last sanction or during next renewal. Repeated enhancements between two renewals (within 12 months) to be avoided.

## **6.6 Inter Firm Comparison**

There are several agencies which have built databases on companies and industries which serve as useful sources of information on business profiles, promoters, industries and sectors and for inter firm comparison. Use of reports or data should be from reliable sources like CMIE, CRISIL etc., and their names should be mentioned in the loan proposals.

## **6.7 Internal Credit Rating – Credit Risk Assessment (CRA)**

For each credit proposal, a credit rating is assigned using the internal credit rating system. The Bank as of now has a unified CRA System, which is used for assessing the credit risk of borrowers as well as facilities (facility rating applicable for exposures beyond Rs.50 LACS) viz., working capital, term loan and non-fund based exposures etc., to C&I, SME and AGL segments for total exposure of Rs.50 lacs and above and

scoring models for all products with exposure of less than Rs.50 lacs.

Based on the CRA score, risk rating (SB-1 to SB-16) is awarded to the entity. The SB-16 rating is assigned to NPA accounts by default.

#### **6.7.1 Minimum scores / Hurdle rates of CRA**

The CRA models adopted by the Bank take into account the various risks categorized broadly into financial, business, industry and management risks as well as the environmental, demographic and governance aspects of borrowing entities. These risks are rated separately. Currently, no new connections or enhancements in credit limits are to be considered in respect of accounts rated worse than SB-10 (i.e. SB-11 and worse), subject to exceptions like availability of Central Govt. guarantee (sovereign guarantees) and / or availability of a Corporate guarantee of parent / Group Company which should have a CRA rating of SB-9 and better. The actual models used, the minimum scores under each head, the hurdle rates, etc. are reviewed at regular intervals.

#### **6.7.2 Validation of Risk Rating**

The credit risk rating will be arrived at by the respective Branch/ or the Credit Processing Cell, as applicable, as soon as the audited balance sheet of the Company is received. The internal credit risk rating thus arrived at will be independently validated and approved by a separate Committee(RCRAC /HCRAC Risk Rater as the case may be, set up for this purpose. This process of validation and approval is completed prior to sanction/ renewal/ enhancement of the credit facilities, and is distinct from the loan sanction process. This facilitates independent and objective risk rating, without being influenced by operational/ budgetary considerations.

#### **6.7.3 CRA Rating for Restructured/ NPA Accounts**

- i) Restructured accounts under standard category need to be rated under appropriate CRA models as per extant instructions as long as they are classified as standard assets. However, CRA rating exercise is not required to be carried out when such restructured accounts turn NPA and default grade rating of SB-16 shall be assigned directly.
- ii) All non-performing assets (NPA) shall be directly assigned with the rating of SB-16 or respective default grades in case of other rating/ scoring models. In such cases, regular CRA exercise is not required to be carried out. However, when the status of the account is upgraded to standard, full-fledged CRA exercise needs to be carried out as being done in regular manner.

#### **6.7.4 Review of CRA**

CRA of borrowal units is required to be reviewed periodically. For units which are assigned CRA rating upto SB-10, CRA is to be reviewed annually. For units having CRA SB-11 and worse, the CRA shall be reviewed at half-yearly intervals, except the accounts those are covered under Dynamic Rating. Annual review based on audited financial statements will continue to be done for all exposures as per original time schedule, irrespective of dynamic / half yearly review. These benchmarks may be reviewed from time to time by RMC

## **6.8 External Credit Rating (ECR)**

Besides, the internal risk rating (CRA), it is mandatory to obtain External Credit Rating (ECR) of borrower for all exposures above Rs. 10 crores from any one of the accredited ECRAs. However, product specific schemes (e.g., Lease Rental Discounting Scheme, Asset Backed Loan, e-VFS etc.), will continue be governed by the specific norms of the scheme. In respect of exposure of Rs. 10 crores and below, if rated, concessionary pricing may be extended to BBB- & better rated borrowers. The ECR is also to be incorporated in the proposal.

**6.8.1** At present there are seven (7) ECR Agencies namely CARE, CRISIL, India Ratings and Research Private Limited (India Ratings), ICRA, Brickwork, SMERA and INFOMERICS are accredited by RBI for the purpose of risk weighting the Bank's claim for computation of Capital adequacy. Any waiver for non-obtention of ECR(refer point 4.1.2 – (i)) is to be approved by the NEXT HIGHER sanctioning authority. In case of HOCC-I / Board sanction, such waiver is to be approved from same committee/ Board.

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## **CHAPTER-7**

### **ASSESSMENT OF CREDIT FACILITIES**

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

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

- i) an assessment of the promoter, covering their background and relevant experience in the area of the proposed entity,
- ii) the previous experience of the bank with the promoters or their group,
- iii) Complete information on Take Over/ New Management including regulatory compliance and impact of Change in Management Control,
- iv) the perceived prospects of the industry or activity proposed,
- v) the already existing extent and quality of the exposure of the Bank to the industry or activity on the one hand and to the promoters/ group on the other,
- vi) policy relating to exposure levels and norms prescribed by the regulators and by the bank for the proposed activity / industry,
- vii) the perceived financial strength and the risk rating of the promoters, the borrowing entity and / or the group,
- viii) the extent and nature of credit risk mitigants proposed, etc.

7.3 Having decided that the proposal, as a reasonable and acceptable business risk, is a 'bankable' proposition, the next step involves assessing the nature and extent of the proposed exposure. The Bank provides a range of facilities including all types of term and working capital facilities, each of which can be structured either as fund based products or non-fund based products or a combination of both. It is our effort to combine these with a range of 'payment and collection platforms' that are off the shelf or tailor-made to meet individual requirements and seek to provide our customers with a complete solution to all their financial requirements.

**7.3.1** With a view to avoiding 'Lenders' Liability', no branch should give any verbal or in-principle commitment to lend to a prospective borrower, FB or NFB facilities, unless detailed appraisal has been made and proper sanction is in place. However, an in-principle quote/broad term sheet could be given in deserving cases with the approval of sanctioned authorities.

#### **7.4 Methods of Assessment of Credit Facility (ies)**

- i) The assessment of working capital is done through
  - a) Turnover Method
  - b) Projected Balance Sheet Method (PBS)
  - c) Cash Budget Method

- ii) Under the turnover method, working capital requirement is computed at a minimum of 25% of turnover, of which, at least four-fifths is provided by the Bank and balance one-fifth represents the borrower's contribution towards margin for working capital. This method is applicable for sanction of fund based working capital limit of up to Rs.5 crores or equivalent, as per recommendations of Nayak Committee which had looked into issues relating to financing of Medium & Small Enterprises.
- iii) Under the PBS method, the fund requirement is computed on the basis of borrower's projected balance sheet, the funds flow planned for the current/ following year and examination of the profitability and financial parameters etc. The key determinants for the limit can, inter-alia, be the extent of financing support required by the borrower and the acceptability of the borrower's overall financial position including the projected level of liquidity. The projected Bank borrowing thus arrived at, is termed 'Assessed Bank Finance' (ABF). This method is applicable for borrowers who are engaged in manufacturing, services and trading activities and who require fund based working capital (WC) finance of above Rs.5 crores or equivalent.
- iv) Cash Budget method is used for assessing working capital finance for seasonal industries like sugar, tea and construction activity. This method is also used for sanction of ad-hoc WC limits. In these cases, the required finance is quantified from the projected cash flows, and not from the projected values of current assets and current liabilities. Other aspects of assessment like examination of funds flow, profitability, financial parameters etc., are also carried out.
- v) **SIMPLIFIED SME APPRAISAL:** This is applicable for SME proposals from Rs. 10.00 Lacs to Rs. 50 Lacs. SME loan proposals eligible under SME SIMPLIFIED SCORING MODEL shall be processed as per scheme specific guidelines issued. Under this process, the credit Underwriting methodology for SME units has been redesigned. This is being driven through fundamental shifts:
- a. Shift from balance sheet based working capital financing to cash flow based financing
  - b. Shift from subjective assessment to objective assessment of business and their individual promoters
  - c. shift towards streamlined credit processes for sanction of SME proposal with appropriate risk mitigations in place.

After due appraisal and assessment, the appropriate authority, as laid down in the Scheme of Delegation of Financial Powers for advances, sanctions the credit facilities. The working capital facilities sanctioned but not availed within a period of six from the date of sanction would lapse, and require revalidation.

## **7.5 Bank Guarantees**

7.5.1 Bank guarantees are required to be issued for various purposes- a few examples being Bid Bonds for bidding for projects or contracts, advance payment guarantees for mobilization money received by contractors, performance and retention money guarantees, guarantees in favor of government and statutory bodies, courts etc.

7.5.2 There is no difference between due diligence for bank guarantees as compared to

other credit facilities and the instructions in regard to credit rating, proper assessment of nature and quantum of bank guarantee facility, margins, collateral security, standing and means of the borrower/promoters/directors/guarantors etc. are applicable. A few other instructions are as under:

7.5.3 Bank can issue both financial and performance guarantees. However, before issuing performance guarantees, operating units are required to exercise more than ordinary caution in assessing capability of the applicant in term of fulfilling the underlying performance.

7.5.4 BGs will generally be issued / renewed for a period not exceeding 18 months at any one instance. For longer periods, authority structure for according administrative clearance is in place. Should a BG originally issued for a lesser period require extension beyond 18 months, administrative clearance therefore will also be necessary. No BG should normally have a maturity of more than ten years. Bank may consider issuing BGs beyond maturity of 10 years only against 100% cash margin or with prior approval of the competent authority specified in this regard.

## **7.6 Guidelines for extending NFB facility to Non-Constituent Borrowers**

Non-constituent borrowers (Borrowers who have not availed any fund based facility from any bank in India) can be sanctioned Bank Guarantee (BG). The bank shall ensure that the borrower has not availed any fund based facility from any bank operating in India. However, at the time of granting non-fund based facilities, banks shall obtain declaration from the customer about the non- fund based credit facilities already enjoyed by them from other banks. Credit information relating to grant of such facility shall mandatorily be furnished to the Credit Information Companies (specifically authorized by RBI). Such reporting shall be subject to the guidelines under Credit Information Companies (Regulation) Act, 2005. In this regard, operating guidelines are in place and provided in particular scheme of Loans and Advances.

7.7 Interchangeability between Fund Based Limits and Non-Fund Based Limits / Investment Limit is also available for borrower companies.

## **7.8 Term Loans**

- i) The maturity of any term loan, including moratorium, should not normally exceed 10 years, except cases under / Rehabilitation / Core Industry / Infrastructure / Renewable Energy Projects / Housing Term Loans (HTLs) to individuals, Education loans and Agricultural Term Loans under approved schemes. In case there are area specific schemes proposed by NABARD and formulated by the Bank, such schemes may also add to the list of exempted category of agricultural term loans. The tenor is to be considered from the day of first drawdown.
- ii) In cases where tenor of loan exceeds 10 years (except in case of exempted categories mentioned above), the variation may be permitted by the Sanctioning Authority.
- iii) In respect of term loans, the computation of cost estimates is scrutinized very

carefully to ensure that the total project cost arrived at is accurate, comprehensive, reasonable and realistic and benchmarked against projects of similar nature. The cost should be verified on the basis of proforma invoices and, wherever required, support from Bank empanelled consultants should be taken to verify the reasonableness of the cost of project.

- iv) Term Loans sanctioned and not availed within six months from the date of sanction need revalidation.

### **7.9 Renewable Energy**

With increasing focus on renewable energy and the Bank's commitment to the sector, the Bank has put in place a framework on financing of renewable energy related projects. The framework covers the various segments of renewable energy viz. Ground Mounted Solar Power Projects, Wind Energy, Grid Connected Rooftop Solar Power Projects, Small Hydro (upto 25 MW) and Biomass/ Co-generation/ Waste to Energy that are normally handled by the Bank. The policy covers key characteristics, typical risks and their possible mitigants, Debt/ Equity and other financial ratios, power generation estimates, features of PPAs, Statutory clearances, and other associated aspects.

### **7.10 Portfolio Purchase**

With regard to the Bank's participation in Priority Sector Lending Certificates (PSLCs) etc., for selling the extra excess priority sector advances or for purchasing to meet the shortfall in priority sector lending, the proposal shall be approved by Chairman with prior authorization / permission of Board to transact. Every year a new authorization shall be obtained from the Board for the purpose.

### **7.11 Syndication of Loans**

The market for syndication of loans is active. When a corporate approaches the Bank for funding its project and where the Bank may not meet the entire financial needs of the borrower, the balance term loan / working capital finance would be syndicated. The Bank on its own, or jointly with other State Bank Group companies would undertake the syndication. Given the syndication capability of the Bank and the related Group synergies, the Bank would also attempt to market syndication of loan / treasury products as a stand-alone product.

### **7.12 Loans to Gold and Jewellery Sector**

The procedures on Advances against Gold ornaments have also been detailed in Gold Loan scheme of Loans and Advances.

### **7.13 Advances to Services Sector**

The Service Sector is that segment of an economy which contributes to the GDP of a nation by way of value of services rendered – as opposed to contribution by way of value of goods produced. The sector, thus, delivers service, rather than manufactured goods. Individuals and business enterprises engaged in this Sector produce services and not products. Examples of service sector jobs include retail trade, banking, hotels, real estate, education, health care and medical services, social work, legal services, accounting services, computer services, recreation, media etc. By the very nature of their engagement, providers of service face challenges that a manufacturing entity, for instance, does not normally face – in as much as services are essentially intangible and



it is often difficult, both for the provider as well as the receiver of the service, to attribute a value to the service. With integration of the Indian economy with the global economic order, the share of the services sector in the GDP and its contribution to future growth is outpacing that of the industrial and primary sectors.

The Bank has been innovating new marketing and product strategies so as to tap the potential offered by this sector. Recognizing the special nature of the asset and liability profile, output etc. of such units, operating guidelines on lending to various activities of services sector are in place.

**7.14 Adhoc limit:**

Adhoc limits will be considered in cases where stand by line of Credit is inadequate either in terms of quantum of finance (15% of sanctioned limits) or in respect of time span or where SLC is not in place. The detailed guidelines in this regard are put in place.

**7.15 Asset Reconstruction Companies (ARCs)**

Bank will not take any exposure on ARCs.

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## **CHAPTER-8**

### **PRICING OF LOANS**

8.1 Pricing of Bank's funds and services while being basically market driven, is also determined by two important considerations, i.e., minimum desired profitability and risk inherent in the transaction. At the Corporate level, the applicable price for a particular advance or service is fixed taking into account the actual/marginal cost of Bank's funds and desired rate of return as calculated from indices like profitability levels and return on capital employed. In case of corporate relationship where the value of connections and overall potential for profitability from a particular account are more important than a particular transaction, the price is fine-tuned even to breakeven level for the transaction. For long term exposures, the factors that weigh are the rate charged by the financial institutions / other banks, the period of exposure, the pattern of volatility in interest rates and expected movement of the rates in the long-term perspective. The card rates for interest and Service Charges are to be linked to internal risk rating whereby better rated companies get cheaper rates. Revised Risk based price matrix has been introduced.

8.2 The Bank has also adopted an appropriate authority structure to facilitate competitive pricing of loan products. The authority concerned while exercising the discretion takes into consideration the risk rating of the loan asset, the trends in movement of interest rates, market competition and overall business considerations. Various Credit Committees/ Sanctioning Authorities and other officials have been vested with powers for approving competitive pricing within the respective areas of operation. The quantum of delegation depends on factors such as degree of competition, market developments, target group, purpose, value of connection, income from cross sell, accounts under restructuring/corrective action plan etc. All competitive/concessional pricing on credit facilities need to be approved by the Appropriate Authority. The risk based pricing is reviewed from time to time based on changes in market conditions. Authority is delegated to Credit Committees / BVs for extending concession in pricing / service charges for well rated corporate which will be reviewed from time to time.

### **8.3 Exemption**

The following categories of loans shall be priced without being linked to any benchmark for determining interest rate:

- i) Loans against Bank's own Term Deposits.
- ii) Loans to Bank's own employees including retired employees.
- iii) Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL), etc. granted as part of the rectification/restructuring package.
- iv) In specified schemes, as advised by RBI/Gol/Gol's undertakings, wherein Bank have to charge interest rates as per the scheme.

**8.4 Penal Provision vis-à-vis contravention of Mandatory (Financial) Covenants:**

**8.4.1 For SME Advances up to Rs. 1.00 Crore** – Covenants in relation to the undernoted parameters are to be stipulated for all loans and these are required to be tested annually on the basis of Audited Balance Sheet (ABS). Penal interest will be charged in case of breach of Adverse deviation in respect of any two of the below four financial parameters, arrived at based on audited financial statements each year, from the estimated / projected levels accepted at the time of sanction / last review, will attract 1% p.a. for the period of non-adherence.

The penal interest will apply from the day after the date of ABS, and shall continue till the breach is cured. The details are as under

<b>Parameters</b>	<b>Benchmark for annual testing of financial covenants</b>	<b>Benchmark for annual testing of financial covenants</b>
<b>DSCR</b>	To be mentioned as per sanction note.	Adverse deviation in respect of any two of four financial parameters, arrived at based on audited financial statements each year, from the estimated / projected levels accepted at the time of sanction / last review, will attract 1% p.a. for the period of non-adherence.
<b>INTEREST COVERAGE RATIO</b>		
<b>TOL/TNW</b>		
<b>FACR</b>		

**For SME Advances above Rs. 1.00 Crore** : N.A.\* as pricing is inclusive of risk premiums as derived from the Risk Based Pricing Model for breach of financial covenants.

\*However, the sanctioning/reviewing authorities have discretion to impose penal interest

**In other instances for all Loans**

For the period that interest/instalment is overdue in respect of term loan, penal interest/ charges at applicable rates as per guidelines on advances related service charges shall be recoverable.

8.4.2 Each of the following events will attract penal interest as applicable, at rates circulated from time to time, over and above the normal interest applicable in the account. However, penal interest is not to be charged in respect of loans upto Rs. 25,000 under priority sector.

- i) Irregularity in Cash Credit Account/Term Loans.
- ii) Non-Submission/delayed submission of a) Stock Statements, b) Audited Balance Sheet, c)Renewal Data within the stipulated time period
- iii) Non-renewal of insurance policy (ies) in a timely manner or inadequate insurance.
- iv) Non-Submission/delayed submission of Financial follow up Report (FFRs), wherever stipulated, within due date.

v) Diversion of funds

vi) Breach of any other covenants/conditions as stipulated by sanctioning authority.

## CHAPTER-9

### DELEGATION OF FINANCIAL POWERS

9.1 The Bank has a well-defined system of delegation of financial powers, duly approved by the Board of the Bank, to sanction/approve credit facilities. The terms and conditions/covenants governing any lending arrangement are also well defined. No credit facility can be extended to any borrower unless duly sanctioned by the designated sanctioning authority/committee. All loans and advances in the Bank are to be sanctioned by the designated sanctioning authority. In exercising the powers, the authorities concerned are required to ensure compliance with the relevant provisions of the RRB Act and the Saurashtra Gramin bank General advances and scheme specific guidelines, regulatory guidelines of Reserve Bank of India, NABARD and any other regulations, and any rules/ regulations/ instructions/ orders issued from time to time by the Bank.

9.2 The three significant principles around which the scheme of delegation of financial powers revolves are:

- i) powers are exercisable only in relation to the duties and responsibilities specially entrusted to a functionary;
- ii) all sanctions are subject to report to the next higher authority;
- iii) No sanction/approval should be given beyond the delegated powers. In case of an emergency situation, where it is not possible to obtain prior sanction/approval of the designated sanctioning authority and a delay in taking decision may not be in the interest of the Bank, sanction/approval beyond the delegated powers may be accorded judiciously, with prior administrative approval of controlling authority. For sanctions/approval of BOARD, prior administrative approval of Chairman has to be obtained. Post facto sanction/approval of the designated sanctioning authority should be obtained along with confirmation of action, without any delay (within maximum 30 days). The above enabler is to be used only in exceptional circumstances and should not be used indiscriminately or frequently.

9.3 The Scheme of Delegation of Financial powers for advances and allied matters in the Bank has a graded authority structure. The Board has full powers for sanctioning credit facilities. The sanctioning powers have been delegated down the line to Officials as per AMH and RMME framework, 'Committees of officials' viz. RCC at Region level, HOCC-II, HOCC-I at Head office level.

9.4 The delegation of financial powers for sanctioning credit facilities by various authorities is based on total exposure of the Bank to the borrower.

9.5 Higher discretionary powers have been made available in the case of top rated borrowers (usually AAA rated units whose industry outlook is positive and /or SB1 to SB5) and functionaries across the hierarchy are vested with such dual powers depending on the risk rating of the borrower.

9.6 CREDIT Department will review the delegation of financial powers from time to time, as necessary, to factor in the demands made on account of organizational restructuring, emerging challenges, forces of competition, etc. and will put up to the Board in case of

revision if any required for approval.

9.7 In respect of specific products / schemes, waivers in general norms such as eligibility criteria, quantum of finance, tenor of the loan, etc., other than those to be approved by Board, albeit within the provisions of Loan and NPA Management policy guidelines are required to be permitted, at times for business or strategic consideration.

The guidelines related to discretionary powers are circularized to the Branches time to time which include powers as defined under AMH framework and others.

In case sanction falls up to the powers of RCC, the approval for such waivers is to be obtained from HOCC-II. No such approval is required for sanctions by HOCC-II and above. However, in case of financing to specific schemes/products like, Real Estate, Lease Rental Discounting, Corporate Loan etc., where Authority Structure for waivers has been specified, the authority/Credit Committee concerned only are empowered to approve the waivers, if any. Any deviation/ waiver should be only in highly deserving cases on a selective basis so as to keep it at the minimum.

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## **CHAPTER-10**

### **SECURITY, INSURANCE, COVENANTS AND DOCUMENTS**

All sanctions are made with certain terms and conditions/covenants which are required to be complied with by the underlying borrowing entity. These are critical for bringing in credit discipline amongst the borrowers and play a vital role in monitoring and conduct of loan account. The important aspects in this regard are discussed hereunder:

#### **10.1. Primary Security**

Primary security is the asset created out of the credit facility extended to the borrower and / or which are directly associated with the business / project of the borrower for which the credit facility has been extended. For example, hypothecation of stocks, book debts etc. Stocks include Raw Materials, Stock in process, Finished Goods, Spares etc. Book debts are based on invoices and delivery challans. Hypothecation is the established practice whereby a borrower offers to the lender charge on an asset as security for a loan, while retaining ownership of the asset and enjoying the benefits there from. With hypothecation, the lender has the right to seize the asset if the borrower cannot service the loan as stipulated by the terms in the loan agreement.

#### **10.1.2 Collateral Security**

Collateral security is any security, other than Primary Security, offered to additionally secure the credit facilities sanctioned by the Bank. Collateral security is normally obtained as a risk mitigating measure and to sustain the promoters' interest in the venture.

10.1.3 For MSE Sector (both Manufacturing and Services enterprises) no collateral security is to be obtained for loans upto Rs. 10 lacs. For this sector, the Bank has decided to cover all eligible SME advances upto Rs.50 lacs under CGTMSE scheme. Working capital limits are also to be covered under CGTMSE provided the borrower agrees to bear the guarantee fee. The guarantee fee for term loans irrespective of loan amount is to be borne by the borrowers. Other borrowers may be sanctioned credit facilities under Bank's regular schemes. The matter of recovery, or absorption, of guarantee fee by the Bank is reviewed from time to time.

10.1.4 As regards Agriculture segment, as per RBI guidelines waiver is permitted for loans upto Rs. 1,60,000/- (Rupees One Lac Sixty thousand only) though there are scheme specific ceilings in this regard. In other cases, with exception of specified categories like trade advances where obtention of collateral security is prescribed as a part of the scheme, obtention/ waiver of collateral security is discretion to be exercised by the sanctioning authority. This decision is required to be taken on a case-to-case basis. While doing so, the following points need to be kept in view:

- i) Viability of the project per se will be the paramount requirement and available collateral may be taken.
- ii) A distinction may be made between new and existing connections while deciding/ insisting on collateral / additional collateral security.

#### **10.2 Insurance cover of security charged to the Bank**

10.2.1 Stocks/fixed assets under hypothecation/pledge to the Bank must be kept fully

insured to the extent of market value of the security unless the Bank has agreed to dispense with insurance. The cost of insurance will be borne by the borrower. The Insurance policies are required to be obtained in the joint names of the Bank and the Borrower or in the sole name of the Borrower if the policy contains the Agreed Bank Clause where under any monies becoming payable under the policy shall be paid to the Bank. Further, in terms of the security documents executed by the borrower, it is the primary responsibility of a borrower to insure the assets and keep the policy alive and only if the borrowers fail to do so, the Bank shall insure the movables and assets and debit the charges and premium to the account of the Borrower. The expiry date of the respective insurance policies must be diarized in the daily list in order that their renewal, when necessary, may not be overlooked.

10.2.2 Units handling hazardous substances, so notified by the Government from time to time, in quantity equal to or exceeding a stipulated quantity of each substance should take out insurance as per the provision of the Public Liability Insurance Act, 1991.

### **10.2.3 Insurance of mortgaged properties**

The buildings, factories land & building, their fittings and fixtures, and machinery (which form part and parcel of the mortgaged immovable property) must be kept fully covered by insurance against the risks of fire as well as lightning (instead of fire alone, as the insurance companies do not admit claims against damage caused to the buildings by fire due to lightning unless the risk is specifically covered by the policy). The mortgaged properties should also be covered against riots, strikes, civil commotion, cyclone, earthquake, and other natural calamities whenever such risks are apprehended and insurance cover against them is deemed necessary by the Bank. (Terms and conditions of sanction).

Bank's interests may also be protected by instruments such as 'key man' insurance policy when the borrowing entity is highly dependent on a few persons. Arrangements (e.g., assignment) should be made so that the proceeds of insurance cover, when invoked, would be routed through the Bank.

### **10.3 Covenants**

All sanctions of credit facilities taken out in the joint names of the Bank and the borrowers are subject to certain covenants, including financial covenants, which need to be adhered to by the Borrower/ Guarantor. The covenants are classified into two categories keeping in view their nature viz. Mandatory Covenants and Mandatory Negative Covenants. The covenants applicable to the borrowing arrangement are articulated in the Arrangement Letter, as are the penal provisions for non-compliance therewith.

### **10.4 Documentation Standards**

The Bank/Branches has in place well established systems and procedures for documentation covering all types of credit facilities. These have been drawn up, and have evolved, over a period of time, keeping in view the ultimate objective of documentation – which is to serve as primary evidence of the debt owed by the borrower, or obligation guaranteed by the guarantor, to be relied upon in the event of any subsequent dispute between the Bank and the borrower and/ or guarantor. Documents also form the basis for enforcing the Bank's right to effect recovery through



legal recourse where all other avenues have failed. Documents should cover the total exposure/dues to the borrower during entire duration of advance. Operating units should ensure validity and enforceability of these documents in the court of law till liquidation of debts by the borrower.

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

**i) Pre-execution formalities:**

These cover, mainly, searches at the Office of Registrar of Companies and search of the Register of Charges (applicable to corporate borrowers), to ascertain the capacity of borrowers to borrow and formalities, if any, to be completed by the borrowers in this regard. Searches at the office of the sub- Registrar of Assurances or Land Registry to check the existence or otherwise of prior charge over the immovable property offered as security, etc., as also taking other necessary precautions before creating equitable / registered mortgage, including obtention of the lawyer's opinion as to the clear, absolute and marketable title to the property based upon the genuineness, completeness and adequacy of the title deeds provided.

**ii) Execution of Documents**

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

**iii) Post – execution formalities**

This phase covers the completion of formalities in respect of mortgages, if any, registration with the Registrar of Assurances, wherever applicable, and the registration of charges with the Registrar of Companies within the stipulated period, etc. All existing mortgages and forthcoming mortgages have to be registered, on an ongoing basis, with the Central Electronic Registry under SARFAESI Act, 2002 – (CERSAI).

**iv) Protection from Limitation / Safeguarding Securities**

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

- i) revival letters being obtained within the stipulated period, from borrower / guarantor;
- ii) obtention of 'Balance Confirmation' from the borrower / guarantor at least at annual intervals;
- iii) making periodic searches in the records of the Office of the Registrar of Companies/ Registrar of Assurances;
- iv) insuring Assets charged – (unless specifically waived) to safeguard the Bank against the risk of fire, other hazards, etc.;
- v) carrying out periodical valuation of securities charged to the Bank;

vi) periodic inspection of charged assets.

10.4.2 Keeping the above broad objectives and the documentation process in view, Bank has devised standard documents, for various types of loans given to the borrowers, either by the Bank alone or as part of a 'Multiple Banking' arrangement. Wherever standard specimens have not been devised, these are suitably drafted on a case-to-case basis with the help of reputed law firms and approved by the competent authority. Furthermore, changes in the documentation procedures and the implications involved are circularised from time to time to all the branches/offices so that those who are responsible for obtaining and safeguarding the documents are made fully conversant with requirements in this regard. This is further strengthened through training imparted by the Bank from time to time.

10.4.3 In respect of consortium/ participation/ syndicated loans and advances, the documents are generally executed in consultation with the other member banks in accordance with the guidelines laid down by RBI /IBA in the matter. Similarly, where advances are extended jointly with the financial institutions, documents are specially drafted in consultation with the solicitors / in-house legal experts to ensure perfection of pari-passu charge and / or second charge, as applicable, of the movable / immovable assets of the borrower to protect the banks' interests. The sanctioned credit facility can only be disbursed on execution of standard loan documents in the specified form, or as specially drafted by a reputed law firm and duly approved by the Appropriate Authority.

### **10.5 Unconditional Cancellability**

Unconditional Cancellability clause, which gives the Bank the right to cancel the sanctioned limit without reference to the borrower at any time, needs to be accepted by borrowers.

### **10.6 Security Creation/ Perfection**

10.6.1 A valid and enforceable charge in respect of security for the credit facility (ies) as specified in the terms of sanction must be perfected before disbursement – unless disbursement pending completion of these formalities has been specifically permitted by the sanctioning authority / as per delegated authority structure.

10.6.2 If sanctioned facilities are sought to be released on the basis of standalone documentation, pending Consortium documentation, approval for such arrangement should be obtained from the sanctioning authority.

10.6.3 Non adherence to the time given for perfection of security will invite penal provisions, which should be clearly mentioned while conveying approval for extension in time. Waiver of penal provisions should be avoided.

10.6.4 The registration of transactions of creation of security interest, securitization and asset reconstruction (CERSAI) is made mandatory in respect of all mortgages across all business segments.

10.6.5 Security transactions secured by creation, modification or satisfaction of security

interest in plant and machinery, stocks, debts including book debts or receivables and intangible assets whether existing or future, by way of hypothecation, shall be filed on CERSAI portal.

### **10.7 Ceding second charge to banks/financial institutions**

**10.7.1** Ceding of charge should not be viewed only from the point of dilution of security but also from the angle of need / justification for the additional borrowing and the possible impact on the financials/ performance of the borrowing unit, and a decision taken based on normal business prudence. The principle of sharing the available securities of the borrowers as between the term lending banks and institutions should be that no bank/institution over-secures its position at the cost of the other banks/ institutions.

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## CHAPTER-11

### FOLLOW UP, SUPERVISION AND MONITORING OF ADVANCES

11.1 The Bank has in place comprehensive post-sanction processes aimed at enabling efficient and effective credit management. Broadly, the objectives of post-sanction follow up, supervision and monitoring, and some of the key areas that need to be kept sight of are:

- i) Where sanctions are based on projections, periodic comparison of projections with actuals is most important.
- ii) Ensuring end use of funds for only for those activities for which sanction has been accorded. While requisite instructions and procedures to this end have been laid down, it would be the primary responsibility of the borrower to ensure that the funds borrowed have been utilized for the purpose for which they have been lent by the Bank. To this end, the Bank may seek verification, by way of auditor's certificate, Board Resolution and by way of any other acceptable means.
- iii) Comparing the account outstanding to the assets level on a continuing basis.
- iv) Detecting non-compliance/ waivers, from terms and conditions of the sanction and taking appropriate action to safeguard the Bank's interest.
- v) Ensuring recovery of installments of the principal in case of term loans as per the scheduled repayment program.
- vi) Examination of exception reports and reports in the nature of early warning signals.
- vii) If the Early Warning Signals indicate possibility of any fraudulent transaction, such accounts may be considered for classification as Red Flagged Accounts and reported as per RBI/NABARD guidelines.
- viii) Compliance with all internal and external reporting requirements for credit discipline.
- ix) If irregularity in an account persists for longer period, or occurs repeatedly, the credit facilities may need to be re-assessed and the issues appropriately addressed.
- x) In case of Consortium/Multiple Banking Arrangements, there must be regular exchange of information by and between the banks involved.
- xi) Ensuring that the borrowing entity does not have un-authorized current account with other banks.

11.2 The undernoted are a set of broad, general guidelines that have a bearing on the monitoring, supervision and follow up aspects of credit administration, and thus need to be complied with care:

- i) Each and every sanction should be reported for control to the next higher authority/ designated authority.
- ii) Safe preservation of security documents, and ensuring their validity and enforceability in a court of law are areas that must not be lost sight of.
- iii) Before disbursement of loans/ credit facilities, a certificate regarding compliance with terms and conditions of the sanction should be placed before the sanctioning authority, as per laid down instructions without fail.
- iv) Monitoring of large withdrawals with a view to ensuring that they are not

unrelated to  
the unit's normal activity.

- v) Follow up for timely submission of Statements of Stocks and Book Debts, and their careful scrutiny, for correct computation of Drawing Power.
- vi) Verification of assets where Bank's approved valuer/Engineer has been appointed, clarity in scope of work must be ensured and reports are to be submitted directly to the Bank. Reports are to be examined carefully and any developments / observations of note / material significance brought to the attention of the borrowing unit, as well as of the branch head.
- vii) Where limits have been allocated, allocatee branch must strictly adhere to the terms and conditions advised by the home branch.
- viii) Follow up for timely submission of FFRs/Quarterly Review Reports/ Management Information Reports and their scrutiny and analysis to see that performance is in line with estimates / projections. If at significant variance, appropriate corrective steps to be initiated.
- ix) Seeking cash flow statements on quarterly or more frequent basis and their careful analysis in respect of units financed on cash budget method.
- x) Provisional Financials for the immediate preceding quarter to be obtained, analyzed and comments furnished in proposals.
- xi) Adhering to the norms for conduct of Stock and Receivable Audit.
- xii) Engagement of agency for conduct of Forensic Audit in identified cases warranting such measure.
- xiii) Review and Management of Stressed Assets.

### **11.3 Credit Audit**

Covers all Credit Auditable Accounts (CAAs) with total credit exposure (FB+NFB limits) of Rs. 5 Crores and above. The audit covers both Pre-sanction processes like Appraisal, Assessment and Sanction, and post sanction processes like Documentation, Follow-up, Monitoring and compliance with terms of sanction. If accounts of sister concerns/ group/ associate concerns of a CAA are in the books of the same auditee unit, they are also covered under the Credit Audit process, even if their credit exposure is less than Rs.5 Crores. The credit Audit to be carried out immediately after renewal/sanction or before 24 months whichever is earlier.

**11.4 Legal Audit** is mandatory for all exposures of Rs 1.0 crores and above, to verify the title deeds and other loan documents.

Management Information System based on a reliable database and development of faster communication as tools for better overall credit risk management should be accorded due priority by all offices.

Legal Audit to be carried out at the time of fresh documentation.

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## CHAPTER 12

### INCOME RECOGNITION, ASSET CLASSIFICATION. MEASUREMENT AND IMPAIRMENT OF LOANS

With a view to ensuring greater consistency and transparency in banks' published accounts, Bank classifies all loan assets as per regulatory guidelines on Income Recognition and Asset Classification and provisioning for the advances portfolio. There are various options available to deal with stressed/non-performing loans, including restructuring, if fundamentally viable, early exit, one time settlement, enforcement of security under SARFAESI Act, litigation in DRT / Court and Insolvency & Bankruptcy Code. The suitability of the approach adopted is determined on the principle of ensuring minimum haircut / loss to the Bank, taking into account the time value of money. Approval of designated sanctioning authority is to be obtained for any of the actions indicated above, as per the delegated powers.

12.1 The income recognition policy is objective and is based on the record of interest recovery rather than on any subjective consideration. Likewise, the classification of a bank's assets has to be done on the basis of objective criteria which would ensure a uniform and consistent application of the norms. Provisioning is also to be made based on the classification of assets, availability of security and realizable value thereof. Food Credit advances are subject to the usual IRAC norms and Capital Adequacy requirements.

#### **12.2 DEFINITIONS**

**12.2.1 Non Performing Assets:** An asset becomes non-performing when it ceases to generate income.

12.2.2 An NPA is a loan or an advance where:

- i) Term Loan:** Interest and/or installment of principal remain overdue for a period of more than 90 days.
- ii) Overdraft/Cash Credit:** The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC). 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'
- iii) In case of bills purchased / discounted –** the bill remains overdue (any amount is overdue to the Bank when not paid on the due date) for a period of more than 90 days.
- iv) The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops (Agriculture segment).**
- v) The installment of principal or interest thereon remains overdue for one crop season for long duration crops (Agriculture segment).**
- vi) The amount of liquidity facility remains outstanding for more than 90 days, in case of a securitization transaction undertaken.**
- vii) In case 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.

**viii)** In case of interest payments, an account should be classified 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.

**ix)** In addition, an account may also be classified as NPA in terms of paragraph as per guidelines issued by RBI from time to time.

### **12.3 INCOME RECOGNITION POLICY**

12.3.1 The income recognition policy is based on the record of recovery. Income from NPAs is not recognized on accrual basis but is booked only when actually received. Therefore, the Bank shall not charge and take to income account interest on any NPA. This will apply to Government guaranteed accounts also.

12.3.2 Interest on advances against Term Deposits, NSCs, IVPs, KVPs and Life Insurance policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

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

#### **12.3.4 Reversal of income**

i) 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.

ii) 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.

#### **iii) 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 unrealized, should be reversed or provided for in the current accounting period.

#### **12.3.5 Appropriation of recovery in NPAs**

i) Interest realized 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.

ii) Appropriation of recoveries in NPAs (i.e. towards principal or interest due), as per the Bank's extant instructions is done in accordance with following priority.

- a. Charges
- b. Unrealized Interest
- c. Interest
- d. Principal

#### **12.3.6 Interest Application**

On an account turning NPA, Bank shall reverse the interest already charged and not collected by debiting to Profit and Loss account, and stop further application of interest. However, it may continue to record such accrued interest in a Memorandum account in Bank's books.

### **12.3.7 Computation of NPA levels**

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

## **12.4 ASSET CLASSIFICATION**

**12.4.1 Categories of NPAs:** NPAs are to be classified into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

**12.4.1.1 Substandard Asset:** An asset which has remained NPA for a period less than or equal to 12 months.

**12.4.1.2 Doubtful Asset:** An asset which has remained in the substandard category for a period of 12 months.

**12.4.1.3 Loss Asset:** A loss asset is one where loss has been identified by the Bank or internal or external auditors or the RBI/NABARD inspection team but the amount has not been written off wholly.

### **12.4.1.4 System Generation NPAs**

All parameters required for NPA/NPI identification are captured in the CBS for NPA/NPI identification/classification of asset codes as per Income Recognition and Asset Classification (IRAC) norms and extant instructions. Separate MIS report is generated that captures all parameters for NPA/NPI identification.

All borrowal accounts, including temporary overdrafts, irrespective of size, sector or types of limits are covered in the automated IT based system (System) for asset classification, upgradation, and provisioning processes.

Asset classification rules configured in the CBS shall be in compliance with the regulatory stipulations.

Income recognition/derecognition in case of impaired assets (NPAs/NPIs) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention.

The System shall handle both down-grade and upgrade of accounts through Straight Through Process (STP) without manual intervention

**12.4.2 Accounts with Temporary Deficiencies:** An account should not be classified 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. subject to compliance of the following guidelines:

- i) Drawings in the working capital accounts are to be covered by adequate value of current assets. DP is to be arrived at based on the current stock



statement, not to be older than three months. DP computed based on the stock statements older than three months, would be deemed irregular.

- ii) A working capital account will become NPA in case of irregular drawings for a continuous period of 90 days even though the borrowing unit is working or the borrower's financial position is satisfactory.

**12.4.2.1 Up-gradation 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 accounts should no longer be treated as non-performing and may be classified as standard. Standard accounts that are classified as NPA, and NPA accounts that are retained in the same category on restructuring, will 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. These guidelines are applicable to MSME accounts only and in respect of accounts other than MSMEs, the guidelines for upgradation of loan accounts classified as NPA are detailed in para no. 12.9.

(@) {Specified Period shall mean 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 the restructuring package}. These guidelines are applicable to MSME accounts only and in respect of other than MSME, the guidelines for specified period are detailed in para no. 12.9.

12.4.2.2 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, too, shall be placed in the same asset classification category as the restructured debt. These guidelines are applicable to MSME accounts only and in respect of accounts other than MSMEs, the treatment of additional finance for specified period are detailed in para no. 12.9.

**12.4.2.3 Asset classification shall 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.

**12.4.2.4 Advances under consortium arrangements:** Classification shall be done 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.

**12.4.2.5 Accounts where there is erosion in the value of security/ frauds committed by borrowers:**

- i) 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 the security-** if the realizable value of security is less than 50% of the value assessed by the Bank or accepted by RBI at the time of last inspection, it may be classified under Doubtful category,
  - b) if realizable value of the security as assessed by the Bank/ approved valuers/ RBI, is less than 10% of the outstanding in the borrowal accounts, the asset shall be straightaway classified as Loss asset.

**12.4.2.6 Advances against Bank's own Term Deposits, NSCs, KVPs, IVPs, surrender value of Life Insurance Policy etc.:** Such accounts would not be classified as NPAs provided adequate margin is available. However, advances granted against gold ornaments, government securities and all other securities shall not be covered by this exemption.

**12.4.2.7 Loans with moratorium 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.

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.

#### **12.4.2.8 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 by RBI, bank may decide on own as a relief measure of 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.
- 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.

**12.4.2.9 Government guaranteed accounts:** Central Government guaranteed credit facilities may be treated as NPA only when the Government repudiates its guarantee when invoked. However, this exemption shall not be available for the purpose of recognition of income. State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the Bank remains overdue for more than 90 days.

**12.4.2.10 Project under implementation:** For all project loans the ‘Date of Completion’ and the ‘Date of Commencement of Commercial Operations’ (DCCO), of the project should be clearly spelt out at the time of financial closure of the project. These should also be documented in the Bank’s appraisal note during sanction of the loan.

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans. Accordingly,

the following asset classification norms would apply to the project loans before commencement of commercial operations.

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.

#### **12.4.2.10.1 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) Banks 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 12.4.2.10.1 (ii) are not applicable to commercial real estate sector.

v). 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 12.4.2.10.1 (ii) is subject to the condition that the application for restructuring should be received before the expiry of period mentioned at paragraph 12.4.2.10.1 (i) (a) above and when the account is still standard as per record of recovery.

#### **12.4.2.10.2 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 12.4.2.10.1 above or before the original DCCO, banks may permit extension of the DCCO of the project up to two years in addition to the periods quoted at paragraph 12.4.2.10.1 above, as the case may be, without any change in asset classification of the account subject to the conditions stipulated in the following paragraphs. Banks 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 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 12.4.2.10.1 above. Similarly, where change in ownership and extension of DCCO takes place during the period quoted in paragraph 12.4.2.10.1 (i) above, the account may still be restructured by extension of DCCO in terms of guidelines quoted at paragraph 12.4.2.10.1 (ii) above, without classifying the account as non-performing asset.

iii. The provisions of paragraphs 12.4.2.10.2 (i) and 12.4.2.10.27 (ii) above are subject to the following conditions:

- a. Banks 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 banks 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 banks.
  - 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 banks 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 point k below. Financing of cost overrun beyond the ceiling prescribed in point k below 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, banks 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.
  - j. Loans covered under this guideline would attract provisioning as per the extant provisioning norms depending upon their asset classification status.
  - k. Where the initial financial closure does not envisage such financing of cost overruns, based on the representations from banks, it has been decided to allow banks to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at paragraph 2 above, without treating the loans as 'restructured asset' subject to the following conditions:
    - i) Banks may fund additional 'Interest During Construction', which may arise on

- account of delay in completion of a project;
- ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost;
- iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;
- iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and
- v) All other terms and conditions of the loan should remain unchanged or enhanced in favour of the lenders.

#### **12.4.2.11 Accounts regularized 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 shall furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularization of the account to eliminate doubts on their performing status.

### **12.5 NPA Management – Requirement of Effective Mechanism and Granular Data**

- (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.

#### **12.5.1 Early Warning Signals**

- (i) The early detection of Fraud and the necessary corrective action are important to reduce the quantum of loss. Any Early Warning Signals (EWS) in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent.
- (i) A Red Flagged Account (RFA) is one where a suspicion of fraudulent activity is

- thrown up by the presence of one or more Early Warning Signals (EWS).
- (ii) As per NABARD Guidelines, the threshold for EWS & RFA is set at Rs.20 lacs or more at bank level (irrespective of Solo lending, multiple or consortium lending arrangement), All loan accounts where the Bank's exposure is Rs.20 lacs and above, will be covered for RFA Review.
  - (iii) The tracking of EWS in loan accounts shall be integrated with the credit monitoring process in the bank for making it a continuous activity which shall act as a trigger for any possible credit impairment in the loan accounts, given the interplay between credit risks and fraud risks. The officers responsible for the maintenance of the account shall be sensitised to observe and report any manifestation of the EWS promptly to the Controlling Office.
  - (iv) The exercise of identification of Red Flagged Account (RFA) through Early Warning Signals (EWS) / Triggers will be carried out on Monthly basis.
  - (v) The EWS would form the basis for classifying an account as RFA. A Red Flagged Account (RFA) is One where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS).
  - (vi) The initial decision to classify any Standard including SMA Account as RFA or Fraud, where a suspicion of fraudulent activity is thrown up by the presence of one or more warning Signals will be at the individual Account level. Branch Manager/Credit Officer (AMSH) should observe and act on the EWS.
  - (vii) Based on the frequency, severity and trend of the EWS, they shall be reported to the Regional Manager. The Regional office will report the details of loan accounts of Rs.20 lacs and above together with the decision to classify them as RFAs or otherwise, in a listing format, to the Chairman every month. A copy of Individual account report shall be preserved at RO and approved copy shall be resend to Branch/AMSH for their record. A report on the RFA accounts will be put up to the Board for monitoring and follow-up of Frauds, along-with a synopsis of the remedial action taken with their current status.
  - (viii) RFA auditor shall verify all monthly reports at the time of audit. Early warning signals identified in earlier monthly reports shall also be incorporated in appraisal at the time of Renewal / Enhancement of the account.

### **12.5.2 Sources of Data for identification of triggers**

- (i) Based on the various guidelines issued by RBI / NABARD, 50 Trigger points / Early Warning Signals specified for identification of RFA. (Annexure-1)
- (ii) There are four Parts / variables, i.e. Internal Data Sources — Conduct of Account, Compliance, Financial Statements and External Data Sources. (Annexure -1 ) Branch /AMSH Officials has to allot Risk Grade — Green / Amber / Red — against each Trigger point either as per Benchmark set by the Bank or



otherwise. Due to any factor/reason, if Branch Manager prefer to allot Risk Grade other than the Benchmark set by the Bank, a proper Justification has to be given for such deviation.

### **12.5.3 Risk Mitigation Planning:**

The primary reason for designing an EWS system is to minimize the Exposure at Default (EAD). This can only be achieved by way of a strong credit monitoring unit (Branch / AMSH) that is responsible for monitoring the account flagged by the EWS.

Depending on the risk grade of each underlying Trigger in the account, EWS profiles the account into various monitoring lists depending on the intensity of supervision efforts required. These monitoring lists are determined by the degree of risk of an account and the intensity of risk mitigation action required.

**(A) Risk Grade Green** — Triggers which are temporary and short-term by nature. The business fundamentals of the Unit are strong and the business has the potential of bouncing back. The bank needs to simply monitor these parameters carefully and not take any drastic actions.

**(B) Risk Grade Amber** — Triggers due to which Accounts are showing sub-optimal performance, though the credit-worthiness is not impaired. The business may be facing alarming working capital stress, management disputes or other temporary issues which threaten the performance but not serious enough to cause a long-term impairment of the borrower's debt obligation. Due to this Risk Grade, accounts may need to go through a restructuring process, change in covenants or additional support by the Bank.

**(C) Risk Grade Red** — Trigger which falls under Red Risk Grade may impact on Accounts adversely i.e. may be highest probability of default due to fundamental weaknesses or challenges in the business model due to internal or external factors. These factors could be regulatory, economic or caused by management / promoter wrongdoings. In such accounts, where Red Risk Grade observed, banks need to take immediate action such as further investigation, spot inspection of the unit, discussion with the Top Management of unit to rectify the position on priority basis. In case of no improvement, drastic steps like stop all funding, initiate recovery, enforce collateral, etc. may be initiated to minimize the EAD.

### **12.6 QUICK MORTALITY (Quick mortality are those account which becomes NPA within twelve months from date of first disbursement )**

- a. 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.

- b. 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.
- c. The Staff accountability should be 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.
- d. In cases where repayment holiday is given either of interest or installments, the period of 12 months shall be reckoned after the expiry of the repayment holiday.
- e. All accounts renewed with or without any enhancement shall be excluded for this purpose.

## 12.7 Provisioning Norms

In case a bank fails to report SMA status of an account to CRILC or resorts to methods with the intent to conceal the actual status of the account or evergreens the account, it will be subjected to, inter alia, accelerated provisioning for that account. The normal provisioning requirement, and the accelerated provisioning in respect of such non-performing accounts are as under:

Asset Classification	Period as NPA	Normal provisioning (%)	Accelerated Provisioning (%)
Sub-standard (Secured)	Up to 6 months	15	15
	6 months to 1 year	15	25
Sub-standard (Unsecured ab-initio)	Up to 6 months	25 (other than infrastructure loans)	25
		20 (infrastructure loans)	
	6 months to 1 year	25 (other than infrastructure loans)	40
		20 (infrastructure loans)	
Doubtful I	2 <sup>nd</sup> year	25 (secured portion)	40 (secured portion)
		100 (unsecured portion)	100 (unsecured portion)
Doubtful II	3 <sup>rd</sup> & 4 <sup>th</sup> year	40 (secured portion)	100 for both secured and unsecured portions.
		100 (unsecured portion)	
Doubtful III	5 <sup>th</sup> year onwards	100	100

### 12.7.1 Provisioning in respect of Exposure to Willful Defaulters

The provisioning in respect of existing loans/exposures of the Bank to companies having director/s (other than nominee directors of government/financial institutions brought on board at the time of distress), whose name/s appear more than once in the list of willful defaulters, will be (a) 5% in cases of Standard accounts and (b) in case of NPA account accelerated provisioning shall apply.

### **12.7.2 Provisioning in respect of fresh exposure to Non-cooperative borrowers**

Any fresh exposure to Non-Cooperative borrower will by implication entail greater risk necessitating higher provisioning. Therefore, w e h a v e to make higher provisioning as applicable to substandard assets in respect of new loans sanctioned to such borrowers as also new loans 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.

### **12.7.3 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 NABARD, the entire provisioning is required to be made at once.

### **12.7.4. Valuation of security for provisioning purposes**

With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of Rs. 5 crores and above, stock and receivable audit at annual intervals by empanelled Stock and Receivable Auditors is to be got done in order to enhance the reliability on stock valuation. Collaterals such as immovable properties charged in favour of the Bank should be got valued once in three years by Bank's empanelled valuers.

### **12.7.5 Loss Assets**

Generally, loss assets are to be taken off Balance Sheet and to be parked in Advances Under Collection Account (AUCA). In case loss assets are permitted to remain in the Bank's books for any reason, a provision equivalent to the outstanding (100 percent of outstanding) in the account shall be made.

### **12.7.6 Standard assets**

Bank shall make general provision for Standard assets at the following rates for the funded outstanding on global loan portfolio basis:

- i) Farm Credit to agricultural activities and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent;
- ii) Advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;
- iii) Advances to Commercial Real Estate – Residential Housing Sector (CRE-RH) at 0.75 per cent;
- iv) All other loans and advances not included in (a) (b) and (c) above at 0.40 per cent.

## **12.8 Restructuring of Assets**

With assets continuing to be under stress, there are several instances that require critical examination from the point of view of possible viability pursuant to restructuring of facilities. Accordingly, detailed guidelines are in place for restructuring loan accounts that are under stress.

In respect of cases other than MSME, a sale and leaseback transaction of the assets of a borrower or other transactions of similar nature will be treated as an event of “Restructuring” for the purpose of asset classification and provisioning with regard to the residual debt of the seller as well as the debt of the buyer if all the following conditions are met:

- i) The seller of the assets is in financial difficulty;
- ii) Significant portion, i.e. more than 50 per cent, of the revenues of the buyer from the specific asset is dependent upon the cash flows from the seller;
- iii) 25 per cent or more of the loans availed by the buyer for the purchase of the specific asset is funded by the lenders who already have a credit exposure to the seller.

### **12.8.1 General Principles and Prudential Norms for Restructured Advances**

The principles and prudential norms laid down are applicable to all advances.

### **12.8.2 Eligibility criteria for restructuring of advances**

While the Bank may restructure accounts classified under ‘Standard’, ‘Sub-standard’ and ‘Doubtful’ categories, Bank shall be precluded from rescheduling / restructuring / renegotiating borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re-classification of an asset shall not stop because restructuring proposal is under consideration. Some illustrative criterions for restructuring are i) No account will be taken up for restructuring unless the financial viability is established. ii) Borrowers indulging in fraud and malfeasance will continue to remain ineligible for restructuring.

### **12.8.3 Asset classification norms**

Restructuring of advances could take place in the following stages:

- i) before commencement of commercial production / operation;
- ii) after commencement of commercial production / operation but before the asset has been classified as ‘sub-standard’;
- iii) after commencement of commercial production / operation and the asset has been classified as ‘sub-standard’ or ‘doubtful’.

12.8.4 The accounts classified as ‘Standard assets’ should be immediately reclassified as ‘sub- standard assets’ upon restructuring. The NPAs, 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.

### **12.8.5 Provision on restructured advances**

- i) Bank shall required to hold provision against restructured advances as per the

extant provisioning norms.

- ii) Restructured accounts classified as Standard advances will attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract the prescribed higher provision for the period covering moratorium and two years thereafter.
- iii) Restructured accounts classified as non-performing assets, when upgraded to Standard category will attract an accelerated provision (as prescribed from time to time) in the first year from the date of upgradation.

## **12.9 Resolution of Stressed Assets – Revised Framework**

Based on RBI's instructions, a revised Framework on Resolution of Stressed Assets has been put in place substituting the existing various schemes of Resolution of stressed assets viz., Corporate Debt Restructuring (CDR), Strategic Debt Restructuring (SDR), change in ownership outside SDR, (Sustainable structuring of Stressed Assets) S4A and Flexible structuring of Existing long term project loans. The salient features of the framework are furnished as under.

12.9.1 The Bank shall identify incipient stress on loan accounts immediately on default (\*) by classifying a stressed asset as Special Mention Account (SMA) as per the following categories.

SMA Sub-categories	CBS Classification	Basis for classification principal or interest payment or any other amount wholly or partly overdue between (in days)
SMA-0	SMA-1	1-30
SMA-1	SMA-2	31-60
SMA-2	SMA-3	61-90

(\*) Default means nonpayment of debt when whole or any part or installment of the amount of debt has become due and payable and is not repaid by the debtor. For revolving facilities like cash credit, default would also mean, without prejudice to the above, the outstanding balance remaining continuously in excess of the sanctioned limit or Drawing Power, whichever is lower, for more than 30 days.

## **12.10 Insolvency and Bankruptcy Code-2016 (IBC)**

The IBC framework is regulated by 'the Insolvency and Bankruptcy Board of India (IBBI)'. It has

constituted two following Adjudicating Authorities to handle the cases:

- i) National Company Law Tribunal (NCLT) – to deal with Corporate Persons (including LLP).
- ii) Debt Recovery Tribunal (DRT) – to deal with Individuals and Partnership Firms.

All appeals from NCLT and DRT shall lie with NCLAT and DRAT respectively. However, the Supreme Court of India shall have Appellate jurisdiction over NCLAT and DRAT.

In this regard, a detailed policy on applicability and invocation of provisions under the Code as and when required shall refer to Sponsor Bank guidelines.

**12.11 E-Auction**

Apart from normal auction process for recovery under DRT / SARFAESI ACT, Bank may go for e-auctions through DRTs and SARFAESI which will be conducted electronically to help break cartelization in auctions, by using the following modules:

- i) Receipt of online technical bids
- ii) Reverse e Auction – to be used for procurements
- iii) Forward e Auction – to be used for disposal of assets by the Bank including those under DRT and SARFAESI.

12.11.1 Even after adopting e-auction, if it is found that the response is not adequate or for any other reason, the Tribunals/Authorize officers are free to choose other method it may consider appropriate for sale of property of the defaulters.

12.11.2 Bank can resort to sale through private treaty when sale through e-auction fails. The maximum number of attempts of sale through e-auction before going for sale through private treaty is as under:

Value of property	No. of attempts
Upto Rs. 1 Crore	5
Above Rs. 1 Crore	6

Standard terms & conditions for sale of property through Private Treaty are as under:

1. Sale through Private Treaty will be on “AS IS WHERE IS BASIS” and “AS IS WHAT IS BASIS”.
2. The purchaser will be required to deposit 25% of the sale consideration on the next working day of receipt of Bank’s acceptance of offer for purchase of property and the remaining amount within 15 days thereafter.
3. The purchaser has to deposit 10% of the offered amount along with application which will be adjusted against 25% of the deposit to be made as per clause (2) above.
4. Failure to remit the amount as required under clause (2) above, will cause forfeiture of amount already paid including 10% of the amount paid along with application.
5. In case of non-acceptance of offer of purchase by the Bank, the amount of 10% paid along with the application will be refunded without any interest. Contd.....2.
6. The property is being sold with all the existing and future encumbrances whether known or unknown to the Bank. The Authorized Officer / Secured Creditor shall not be responsible in any way for any third-party claims / rights / dues.
7. The purchaser should conduct due diligence on all aspects related to the property (under sale through private treaty) to his satisfaction. The purchaser shall not be entitled to make any claim against the Authorized Officer / Secured Creditor in this regard at a later date.
8. The Bank reserves the right to reject any offer of purchase without assigning any

reason.

9. In case of more than one offer, the Bank will accept the highest offer.

10. The interested parties may contact the Authorized Officer for further details / clarifications and for submitting their application.

11. The purchaser has to bear all stamp duty, registration fee, and other expenses, taxes, duties in respect of purchase of the property.

12. Sale shall be in accordance with the provisions of SARFAESI Act / Rules.

#### **12.12 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.**

- 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.
- 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.

##### **12.12.1 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**)

##### **12.12.2 Stressed Assets Review (SAR)**

With a view to bringing about better focus on management and resolution of assets under stress, detailed operating guidelines on review of stress assets will be issued by the Bank from time to time for management of these accounts.

### **12.12.3 Review of Doubtful Loss assets / AUCA :**

#### **a. 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. Bank will formulate and issue guidelines from time to time for management of these accounts.

(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.

The Bank shall form various committees headed by Chairman/ General Managers/ Regional Managers to periodically review SMAs/NPAs/AUCAs and suggest resolution and turn around strategies.

#### **b. 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.

### **12.12.4 Relief and concessions – a uniform approach :**

Bank may extend reliefs and concessions for rehabilitation of viable/potentially viable units based on MSME Revival & Rehabilitation Policy

**12.13** Viable units and where promoters show genuine interest in reviving the unit will continue to be supported. Sale of non-core assets in case of over-leveraged companies to be pursued vigorously with the promoters to bring down the interest cost. In other cases, especially where promoters are not cooperating, options to exit



or reducing exposure will be actively explored, where feasible. Where despite our best efforts in this regard, it is not possible to exit an account or at-least to reduce our exposure, a reassessment of the situation will be done and if necessary Bank will consider either an acceptable OTS or in its absence, even consider recalling the account. Bank will examine the various options and initiate measures as appropriate in a time-bound manner, as delays in such situations far from helping matters are likely to lead to erosion of security and increase in the ultimate quantum of the NPA.

#### **12.14. Recovery through compromise with borrower : Compromise Settlement.**

- a. 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 to the Bank under the relative loan contract. Thus, the settlement invariably involves certain sacrifice by the Bank by way write off and /or waiver of a portion of its dues.
- b. Recovery of advances through compromise settlement is accepted as an effective non-legal resolution by the Bank in cases where it is appropriate to adopt this option. It is not possible, at the same time, to lay down precise guidelines which can be followed uniformly in all compromise cases, as each offer is unique in the context of the circumstances necessitating its consideration as a recovery option. However, certain basic principles and guidelines to be kept in view while processing compromise proposals, are detailed herein below :

##### **12.14.1 Bank's Approach:**

The compromise will be a negotiated settlement under which the Bank will endeavour to recover its dues to the maximum extent possible with minimum sacrifice and this process will be initiated after the Bank has exercised its right to set off or lien against any deposits of the borrower/guarantor lying with the Bank.

##### **12.14.2 Realisable Value of Securities, and NPV of compromise amount & Securities:**

The realisable value of security charged to the Bank as also the Bank's ability to take possession of the security and sell it will be the basic factors which would decide the compromise amount. While assessing the realisable value of security, proper weightage would have to be given to its location, condition and marketability.

For calculation of NPV, the rate of discount should be taken as the prevalent

Benchmark Rate (i.e. average cost of funds plus cost of management as per the latest audited balance sheet of bank) and the maximum estimated time to realize the securities may be taken as 5+1=6 years from the date of notice under section 13(2) in case of SARFAESI action and 7+1=8 years from the date of filing suits in case of DRT / Court cases. This relaxation of one year additional time in the maximum estimated time to realize securities is permitted up to 30.09.2021 due to the prevailing Covid 19.

### **12.14.3 Influence of Group Companies:**

In case the borrower has other group companies, influence of these companies or the parent company may be used for a better settlement.

### **12.14.4 Initial Deposit:**

Normally an initial deposit of at least 5% (15% for wilful defaulters) of the offer amount may be taken from the borrower under no lien account as an evidence of the borrower's intention to pursue the compromise settlement with the Bank along with the compromise offer letter

### **12.14.5 Terms of Payment: Time Period for Payment & Charging of Interest on Compromise Settlement amount:**

It will be the endeavour of the Bank to get the entire compromise amount paid up in lump sum. In cases where the amount is agreed to be recovered in instalments, normally at least 15% of the approved settlement amount (inclusive of initial deposit) would be payable upfront with the balance instalments spread over a maximum period of 12 months. Repayments exceeding 12 months should not generally be considered unless the repayment source is assured to the satisfaction of the Bank. Further, repayment period shall not be extended beyond a period of 18 months without obtaining administrative approval from HOCWC-I. Efforts should be made in such cases to tie up the payment directly to the Bank. The sources from which the borrowers and/or guarantors will raise funds to pay the compromise amount will be identified and recorded, particularly in those cases where the payment is proposed to be made in instalments. In case, the compromise amount is not paid as per terms of sanction, the Bank will be entitled to treat the compromise settlement as cancelled.

The failed compromise proposals may be restored/revalidated by the sanctioning authority within one year if the delay is beyond the final payment date.

However, delay in an instalment within the final repayment date can be condoned administratively by the following authority, provided there is no NPV loss:

Sanctioned by	Approved by
Regional Manager	HOCWC-II
HOCWC-II	HOCWC-I

### **12.14.6 Cases of willful defaulters:**

In the matter of settling compromise amount, distinction will need to be made between willful defaulters and the borrowers defaulting for reasons beyond their control. In case of the former, a tough stand has to be taken and the proposal should be put up after obtaining in-principle approval of the HOCWC-II based on a review of such cases. Further, in case of willful defaulters, initial deposit under no lien accounts will be 15% of offer amount and on approval of the compromise, upfront payment including initial deposit will be 25% of the approved compromise amount. If the entire compromise amount is not paid within four months, interest at prevalent Bench mark rate (i.e. average cost of funds plus cost of management as

per the latest audited balance sheet of bank) +1% on the balance amount paid after four months shall be charged from the 30'h day from the date of letter conveying approval of the compromise to the borrower.

#### **12.14.7 Cases of Non-Cooperative Borrowers:**

In the matter of settling compromise amount, distinction should be made between Non- Cooperating Borrowers and the borrowers defaulting for reasons beyond their control. In case of the former, a tough stand has to be taken and the proposal should be put up after obtaining in-principle approval of the HOCWC-II. It should also be ensured that when, investigation reports (Such as Forensic Audit, Stock Audit etc) are pending due to non-cooperation of such borrowers, then compromise proposals should be entertained only after receipt of investigation reports.

#### **12.14.8 Default Clause:**

Compromise settlement will be arrived at with borrowers/guarantor's subject to the condition that in the event of any failure to honour any of the terms of the compromise settlement, the Bank will be entitled to exercise against the borrowers / guarantors all the rights and remedies available prior to the compromise settlement. This will include collection from the borrowers/guarantors of the entire amount due prior to the compromise settlement, together with interest thereon at the applicable rates minus the amount paid through compromise.

In case of failure of a compromise proposal, Bank will strive to conduct auctions under SARFAESI within three months from the date of cancellation of Compromise

#### **12.14.9 Consent Decree:**

An application duly signed by borrower and Bank, for obtaining Consent Decree from the appropriate Court/DRT should be filed immediately on sanction of the compromise proposal incorporating therein a clause that in the event, the borrowers / guarantors fail to adhere to the terms of compromise, the compromise settlement shall stand automatically cancelled and the Bank will be entitled to recover the entire outstanding amount due together with interest at the contractual rate. A consent decree/recovery certificate should be obtained from the competent court/DRT recording the settlement. In case the borrowers / guarantors do not adhere to the settlement terms, the Bank can proceed with the execution of the decree/recovery certificate.

#### **12.14.10 Position of other recovery action:**

The sanctioning authority must satisfy itself that all possible steps to recover the dues have been taken and that compromise settlement is in the larger interest of the Bank.

#### **12.14.11 Opportunity cost analysis:**

While arriving at a negotiated settlement, the advantage available to the Bank from prompt recycling of funds should be considered in comparison to the likely recovery by following legal or other protracted course of action i.e. opportunity cost analysis be made.

#### **12.14.12 Uncharged assets of the borrowers / guarantors:**

In case of high value advances (i.e. above Rs. 1.00 crore), Before entering into any compromise settlement, details of uncharged assets of the borrowers and guarantors should be collected by engaging the services of investigative agencies if required.

#### **12.14.13 Compromise settlement proposals from Guarantors:**

Compromise Settlement proposals from guarantors should be treated at par with proposals from borrowers.

#### **12.14.14 Dealing with Third Parties:**

It has been observed in some cases that third parties are approaching the branches either in person or telephonically for settling the dues of defaulters. It may be noted that when third parties are involved in this process, there are possibilities that the process and the outcome of the negotiations may not be communicated to the Borrower(s) / Guarantor(s) correctly by them. The third parties may create communication gap between the Bank and the defaulters. They may even resort to mis-representation of facts to the defaulting borrowers which may adversely affect the Banks' image.

In view of the above, the bank shall deal directly with the Borrower(s) / Guarantor(s) only, for settlement of dues through compromise. Third parties shall not be entertained and involved in this process, unless they are duly authorized by the Borrower(s)/ Guarantor(s), or accompany them.

#### **12.14.15 Compromise settlement involving a borrower declared as fraud:**

Compromise settlement involving a borrower declared as fraud will be allowed only with the condition that the criminal complaint will be continued even after settlement of compromise case as per the law of the land and will be pursued as per the order of concerned court/adjudicative authority. The terms and conditions will be those applicable for Willful Defaulters.

#### **12.14.16 Analysis of Bank's Strengths and Weaknesses**

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

- i. Value of securities charged to the Bank and their saleability;
- ii. Other assets of the borrowers / guarantors;
- iii. Status of legal action;
- iv. Ability of the Bank to enforce the security.
- v. Time involved in realising the security.
- vi. Document Status/Enforceability of legal documents

#### **12.14.17 Extent of Concessions under Compromise Settlements**

The extent of concessions which the Bank may extend while accepting a compromise offer will depend on a number of factors. The guiding principle, in all compromise cases, will always be to realise maximum so that the Bank's loss is the minimum. Based on the factors mentioned above under paragraph 2 and depending

on the merits of each case, anyone or more of the following concessions may be considered:

- i. Waiver, either in full or part of penal interest, if charged.
- ii. Reduction in the rate of interest, from the date the account became NPA.
- iii. Partial or complete waiver of interest charged / accrued after the account became NPA.
- iv. Waiver of a part of the principal dues.

Compromise formula (as per Annexure 2) will be used by the Bank as base amount to accept any compromise proposal from the borrower.

#### **12.14.18 Approving Authority**

- i. The appropriate authority to approve the compromise proposal will be as per the Scheme of Delegation of Financial Powers based on the net loss involved in the account excepting that such authority should not be the one who sanctioned the advance in question in his individual capacity. (Discretionary Powers for Net loss involved in the account specified in Annexure-3) Approved compromise proposals shall be properly reported to the next higher authority for review.
- ii. The amount of net loss to be written off will be the criteria to decide the competent authority irrespective of the outstanding in the account. While arriving at the net loss for the purpose of compromise exercise, the accrued / notional interest is to be calculated from the date of NPA. In case of decreed cases, the decreed rate has to be used. However, the accrued/notional interest will also be calculated as per contracted rate of interest as hitherto and the net loss at contracted interest rate should also be mentioned in the compromise proposal. In case of non- payment of Bank's dues as per approved terms of compromise, the Bank will be entitled to recover the total dues including accrued/notional interest as per terms of sanction of advance.
- iii. Net loss shall be the difference between the 'Total Dues' and the 'amount proposed to be paid' at the time of a compromise settlement.
- iv. The 'Total Dues' is the aggregate of the principal outstanding in the account as per books Plus accrued interest calculated at the contracted rate or decreed rate in case of decreed cases, other expenses such as legal fee, cost of security, etc., not debited to the account.
- v. The 'amount proposed to be paid' is the amount being agreed upon to be paid by the borrower in the case of a compromise. Even in the case of a compromise proposal with a repayment programme the 'Net Loss' shall be taken (for the purpose of this scheme) as the difference between the 'Total Dues' and the 'amount proposed to be paid' over the repayment period excluding interest payable on instalments if any.
- vi. All recoveries from sale of securities or claim amounts (only retainable portion of the amounts) received from Guarantee Corporations (CGTMSE/ECGC) but not credited to the account so far, for whatever reason, should also be considered for computation of Net Loss.

To put it simply, Net Loss is calculated as under:

- Amount Outstanding in the account
- Plus**
- Notional interest i.e. interest accrued but not debited to the loan account up to the last date of the month in which the proposal is submitted by the branch. In case of decreed cases, the decreed rate has to be used.
- Plus**
- Expenses incurred but not debited to the accounts of the borrowers.
- Minus**
- Amounts of guarantee claims (only the amount retainable by the Bank) and proceeds of sale of assets not credited to the account, for whatever reason; and
- Amount to be received as per compromise settlement.

**12.14.19** Any deviation regarding payment of initial deposit/ upfront money from the compromise policy must be made part of the compromise proposals and the sanctioning authority may approve the deviation sought in the proposals looking at the merit of the case.

- i. At present, under the Sponsor Bank guidelines, Bank has constituted Head Office Credit Write Off Committee (HOCWC) at Head office level and discretionary Powers for write off of Bad Debts has been delegated to the committee by Board.
- ii. It is now being proposed to formulate Region Office Credit Write Off Committee (ROCWC) at Region Office Level with following members :

	<b>ROCWC</b>
<b>Headed by</b>	Regional Manager
<b>Members</b>	AO (Credit), AO (General) Senior Manager / Branch Manager equivalent to Scale III of same Region
<b>Quorum of 3 member</b>	Regional Manager and AO (Credit) are must
<b>Member secretary</b>	Dy. Manager (Credit)

**12.14.20** Staff accountability will need to be examined as usual in compromise cases also. However, the status of this exercise need not hold up decisions

covering compromise settlements. However, it will be ensured that the staff accountability examination is completed expeditiously within a timeframe.

**12.14.21** The authority sanctioning a compromise / one time settlements shall append a certificate stating that the compromise settlements are in conformity with the RBI Guidelines.

**12.14.22** 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.

**12.14.23** For the purpose of compromise in One Time Settlement Camp (*Samadhan* Camp), Regional Manager shall appoint 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. Specific powers shall be delegated to this committee by competent authority for compromise settlement.

**12.14.24** The Bank branches shall go for wide 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.

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

**12.14.26 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) 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.

### **12.15 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.

#### **12.15.1 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 law 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.

#### **12.15.2 Discretionary Powers for Transfer to Recalled Assets/Protested Bills and Filing of Suits**

Discretionary powers are specified in Annexure-3.

The amounts mentioned in the power structure are the Total Dues to be recovered from the borrowers. The Total Dues shall decide the competent authority for transfer of outstanding in the borrower's accounts to Recalled Assets Account and also for filing of suits.

Total Dues will be calculated for deciding the competent authority for transfer to RA/PB and for filing of suits as under:

Principal Amount (Outstanding in the accounts of borrowers)

**Plus**

Notional interest i.e. interest accrued but not debited to the loan account up to the last date of the month in which the proposal is submitted by the branch. The rate of interest will be the contracted rate and in case of decreed cases, the rate decreed by the Court / DRT.

**Plus**

Expenses incurred but not debited to the accounts of the borrowers.



### **12.15.3 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 quarterly to Region Office / Head Office.

### **12.15.4 Filing 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.

### **12.16 WRITING OFF OF BAD DEBTS:**

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

#### **12.16.1 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.

(vi) 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.

(vii)The outstanding in the Protested Bills Account should be transferred to Advances Under Collection Account. The contra voucher for the Branch General Ledger should also be passed for above amount.

(viii)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. It 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.

**12.16.2 : 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 this 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.

Amount of Net Loss will be calculated for deciding the competent authority to Transfer to AUCA. Discretionary powers are specified in Annexure-3.

The Net Loss will be calculated in above mentioned situations as under:

Calculation of Net Loss:

A. Principal Amount (Outstanding in the RA accounts of borrowers)

**Plus**

B. Notional interest i.e. interest accrued at the contracted rate but not debited to the loan account up to the last date of the month in which the proposal is submitted by the branch. In case of decreed cases, the decreed rate has to be used.

**Plus**

C. Expenses incurred but not debited to the accounts of the borrowers

**Minus**

D. Claim (if received) from CGTMSE/ECGC and pending appropriation in case of full and final transfer to AUCA and not in case of partial transfer to AUCA.

## **12.17 BUDGETING FOR NPA MANAGEMENT / AUC RECOVERY :**

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 by controllers.
- (iv) 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.

## **12.18 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 two months. Staff accountability provisions should comply directives of RBI in this behalf.

## **12.19 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 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.

#### **12.19.1 Delegation for sanction:**

Since the Lok 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.

Powers for settlement of dues through 'Lok Adalats' may be exercised within the powers to Transfer to AUCA Net Loss, including powers to waive notional loss / interest. (Annexure-3)

Officials authorized to represent the Bank in the Lok Adalats will act within the approval in respect of specified cases for the maximum waiver / concession that may be offered and the maximum or minimum repayment period and down payment that can be accepted.

#### **12.19.2 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.

**12.20 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.

#### **12.21 Disposal of assets in NPA A/c. under decree.**

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:

- a. 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)
- b. Reviewing authority of the captioned account (i.e. one step higher authority than the Sanctioning Authority of the account) can approve the deal.
- c. Disposal of assets may be as under :
  - Public auction - Assets should be disposed off in favor of highest bidder.
  - Inviting tender - Assets should be disposed off in favor of highest bidder.
  - Through Private - This option should be adopted as Treaty only for those assets which are having valuation of Rs. 5.00 lacs and below as per latest approved valuer report.

- 1 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 from time to time in accordance with guidelines of Reserve Bank of India should be followed.
- 2 The amount recovered should be credited fully to the NPA account
- 3 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.
- 4 In all NPA cases where immovable property is mortgage with Bank as security, SARFAESI notice should invariably issued.

### 12.22 Appropriation of recovery in NPAs

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	<p><b><u>In case of NPA accounts in live ledger :</u></b></p> <p>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 in the account or not(Accrued Interest)) is appropriated first and remaining, if any, towards principal.</p>
02	<p><b><u>In case of accounts in Protested Bills :</u></b></p> <p>(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</p>

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.

12.23 The Bank recognizes that transfer of financial assets to third party entities such as SCs / RCs would, in most cases, be at a substantial discount to the book value of the asset / ledger balance. The Bank's endeavor would be to optimize recovery while taking into account costs associated with continuing the account in our books. As such, the quantum of sacrifice per se in terms of percentage of loan being written off in such case would not hinder consideration of the offer.

12.24 The Bank would follow a policy of taking the NPAs of doubtful/ loss categories which are either fully or substantially provided for, may be taken off the Balance Sheet and parked in Advances Under Collection Account (AUCA). Detailed operating guidelines are in place. This procedure is not expected to dilute in any way the follow-up for recovery. The structured mechanism prescribed for follow-up of accounts parked in AUCA will be followed meticulously. All internal reviews of NPAs will also include accounts transferred to AUCA.

**12.27 Review of NPA position to the Board :**

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

**12.30 Review of Policy:**

Credit department shall put up the policy for review to the Bank's board annually.

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**Internal & External Data Sources for identifying Early Warning Signals**

**(I) Internal Data Sources :**

**A. Conduct of Account**

<b>Sr.</b>	<b>Trigger Name I Description</b>	<b>Risk Grade Benchmark</b>	<b>Risk Grade Allotted</b>	<b>Remarks I Justification</b>
1	Number of days the account has been irregular during last 6 months	Green- <30 days Amber- 30-60 days Red- >60 days		
2	• Number of days interest not serviced from last debit	Green - 2 day Amber- 3 to 9 day Red- 10 or more		
3	Return of Inward / Outward cheques — No. of instances in last 30 days	Green- 1 cheque Amber- 2 cheques Red- 3 or more chqs		
4	Heavy Cash Withdrawal on a daily basis i.e. single cash transaction of Rs.10 lac & above	Green- No Amber- Red- Yes		
5	Number of consecutive months of decline in credit-debit summation during last three months	Green- 1 month Amber- 2 months Red- 3 months		
6	Number of times account turns SMA-2 / IRAC-3 during last 6 months	Green- 0 time Amber- 1 time Red- 2 times		

7	No credit transactions in the account	Green- <10 days Amber- 10-30 day <u>Red- &gt;30 days</u> Green- <20 Amber- 20-30 %		
8	Increase in the value of Stock in Process (SIP) over <u>previous month</u> Increase in holding	Green- <20 Amber- 20-30 % Red- >30 %		
9	Increase in holding level of Debtors as per SS against estimates	Green- <10% Amber- 10-20 % Red - >20%		
10	Increase in holding level of stock	Green- <15 % Amber — 15-25% Red - >25%		
11	Credit summations vis-a-vis projected/reported sales  (In case of MBA/CBA, credit summations of all the lenders to be considered)	Green- >75 % Amber- Red- <75		
12	DP falls compare to last month / quarter	Green- 0 % Amber- <20 % Red- >20 %		
13	Reduction in Capacity Utilization	Green- 0 % Amber- <25 Red- >25		
1.4	Funds coming from other banks account	Green- No Amber-		
15	High Value RTGS payment to	Green- No Amber-		
16	Excess drawals other than Interest application in a month.	Green- 0 times Amber- <2 times Red- >2 times.		
17	BG invocation in last 30 days	Green- 0 instance Amber- 1 instance Red- >1 instance		



18	LC Devolvement in last 30 days (combination of due to irregularity and devolvement)	Green- 0 instance Amber-1 instance Red- >1 instance.		
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## **B. Compliance**

<b>Sr.</b>	<b>Trigger Name/ Description</b>	<b>Risk Grade Benchmark</b>	<b>Risk Grade Allotted</b>	<b>Remarks / Justification</b>
19	Number of days delay in submission of stock statement from due date (20 days grace period)	Green- <7 days Amber- 7 to 14 days Red- >14 days		
20	Number of days delay in submission of Financial Statements beyond due date	Green- 0 days Amber- Upto 30 days Red- Beyond 30 days		
21	Number of days delay in renewal of credit limits / facilities	Green- <30 days Amber- 30-60 days Red- >60 days		
22	Primary Security under insured / over insured	Green- No Amber-		
23	Pending perfection of securities / charges	Green- upto 10 days Amber- 10-30 days		
24	Compliance Status of sanction terms	Green- Fully Amber- Red- No compliance /		
25	Delay in project implementation	Green- <90 days Amber- 90-180 days Red- >180 days		

26	Utilization of Funds other than purpose sanctioned for	Green- No Amber- Red- Yes		
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### **C. Financial Statements :**

<b>Sr.</b>	<b>Trigger Name/ Description</b>	<b>Risk Grade Benchmark</b>	<b>Risk Grade Allotted</b>	<b>Remarks / Justification</b>
27	Current Ratio	Green / Amber / Red (As per Industry Benchmark /		
28	DSCR	Green / Amber / Red (As per Industry  <u>Sanction terms)</u> Green- <5 (Years)		
29	Debt to Equity — Deviation (Decrease in % ) from Estimates			
30	EBITDA Margin — Deviation (Decrease in %) from Estimates	Green- <5 % Amber- 5 to 10 % Red- >10 %		
31	% of shortfall in Net Sales — compared to estimates	Green- <10 % Amber- 10-25 % Red- >25 %		
32	Change in Internal Credit Rating — Number of notches downgrade	Green- No change / upgrade Amber- 1 notch Red- 2 or more		
33	Disproportionate increase in other current assets	Green- No Amber- Red- Yes		

34	Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance	Green- No Amber- Red- Yes		
35	Large number of transactions with inter- connected companies and large outstanding from such	Green- No Amber- Red- Yes		
36	Borrower reporting stress in business or financials	Green- No Amber-		

**(II) External Data Sources :**

Sr.	Trigger Name/ Description	Risk Grade Allotted (Green-No, Red-Yes)	Remarks / Justification
37	Request received from the borrower.to postpone the inspection of the godown / unit on flimsy reasons		
38	Disputes among management/ promoters / partners		
39	Delay in payment or Non-payment of Statutory Dues.		
40	Business expansion to areas outside core business without availing any finance for the same		
41	Negative news about, Borrower in. Market Media		
42	Borrower reported as Defaulter by other Bank(s)		

43	Regulatory changes affecting the industry adversely		
44	Danger of product / technology obsolescence or introduction of cheaper		
45	Raid by Government Agencies / Regulatory Agencies like ED, IT etc		
46	Instance of loss of a major customer of the borrower		
47	Strikes, labour unrest, agitation, lock out		
48	Frequent utility disruption (eg power / water etc) at borrower end		
49	Current Account opened with other Bank without our NOC		
50	Any other weakness / threat Perceived		

**Compromise Formula**

<b>Particular of Security</b>	<b>W/Off (Non – AUC)</b>	<b>W/Off (AUC), PB (D3/LOSS), NPA D3/ LOSS</b>	<b>NPA D1/ D2</b>	<b>All NPA A/cs SS in Live Ledger</b>
<b>If value of tangible security is adequate to cover total dues</b>	Min. Principal (O/s in main A/c) + 50% int from date Of NPA	Min. Principal (O/s in main A/c) + 50% int from date Of NPA	Min. Principal (O/s in main A/c) + 100% int from date Of NPA	<b>On case to case basis</b>  Compromise may be made in the Interest Amount only.  Considering the realizable value of asset/s, financial condition of the borrower & Guarantor.  <b>Main Principal (O/s in Main A/c) + 90 % of Interest.</b>
<b>If value of tangible security is &gt; or = 50% but &lt; 100%</b>	Min. Principal (O/s in main A/c)	Min. Principal (O/s in main A/c)+ 25% int from date Of NPA	Min. Principal (O/s in main A/c) + 50% int from date Of NPA	
<b>If value of tangible security is &lt; 50%</b>	75% of Principal (O/s in main A/c)	Min. Principal (O/s in main A/c)	Min. Principal (O/s in main A/c) + 25% int from date Of NPA	
<b>If value of tangible security is NIL or enforcement of security available will not be cost effective</b>	50% of Principal (O/s in main A/c)	75% of Principal (O/s in main A/c)	Min. Principal (O/s in main A/c)	

If the amount of compromise is not as per the formula given by the Bank/RBI or it is not accompanied by upfront deposit, a rejection letter shall immediately be served upon the borrower.

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### Annexure - 3

#### Discretionary Powers for Transfer to PB/RA, Write Off & Compromise

##### **(A) POWERS TO TRANSFER TO AUCA THE NET LOSS, INCLUDING POWERS TO WAIVE NOTIONAL LOSS / INTEREST AND WAIVER / WITHDRAWAL OF LEGAL ACTION (INCLUDING CASES ARISING OUT OF COMPROMISE PROPOSALS/ SALE TO ARCS)**

Amount of Net Loss will be calculated for deciding the competent authority to Transfer to AUCA the Net Loss, including powers to waive notional loss / interest and waiver / withdrawal of legal action (including cases arising out of compromise proposals/ sale to ARCs).

(Rs. in Lac)

Committee/Individual	Powers to Transfer to AUCA* net loss, including powers to waive notional loss/interest and waiver/withdrawal of legal action (including cases arising out of compromise proposals/ Sale to ARCs)	
	Other than SME Accounts	SME Accounts
Regional Manager	5	--
ROCWC	10	25
HOCWC-II	20	50
HOCWC-I	50	100

The power more than the amount as mentioned above will be in discretion of the Board.

##### **(B) TRANSFER TO RECALLED ASSETS/PROTESTED BILLS AND FILING OF SUITS**

(Rs. in Lac)

Committee/Individual	Powers to transfer to Recalled Assets Account and filing of suits	
	Other than SME Accounts	SME Accounts
Regional Manager	20	--
ROCWC	50	50
HOCWC-II	100	200
HOCWC-I	200	500

The power more than the amount as mentioned above will be in discretion of the Board.

\* The phrase "Write off" has been replaced with "Transfer to AUCA".

