

1. Introduction:-

The introduction of Income Recognition and Asset Classification (IRAC) norms by Reserve Bank of India has enabled objective categorization of asset quality of banks. Transparency in disclosing asset quality has benefited many stake holders e.g., shareholders, depositors, regulators. It has also drawn attention of managements of banks to the paramount emphasis to be given on monitoring asset quality on ongoing basis.

IRAC has also moved banking sector to a healthier platform and strengthened the banking industry in meeting challenges posed by changing situations, environment, national and international competition.

Reserve Bank of India guidelines provides that all assets classified as other than 'Standard' are to be termed as 'Non Performing Assets' (NPAs). Slippage from 'Standard' to 'Non Performing' has a double adverse impact. The first is that banks can't recognize income on such accounts. The second is that banks are required to make provisions on such accounts depending upon the period elapsed since its classification as 'NPA' and the security available.

In order to address this segment of advances portfolio in a systematic manner and provide clear guidelines to operational personnel to contain, monitor, recovery of such advances document of 'Recovery Policy' is put in place.

Bank adopted a Recovery policy in 2000-01 which has been revised from time to time and last review of it was taken on 12/07/2009. In view of subsequent changes/developments and Reserve Bank of India guidelines, the policy has been revised and this draft is submitted for approval.

2. Objectives:-

- 2.1 To reduce the Bank's NPA level in absolute terms by preventing slippage of accounts and accelerating recoveries in the existing NPAs.
- 2.2 To take a pro-active approach in finding solutions which could involve restructuring of loans if intent of borrower is positive and viability of project is established. Compromise solutions would be encouraged in certain situations, though the Bank's endeavor would remain recovery of 100% principal and interest dues when possible.
- 2.3 To update system of identification and reporting of accounts showing signs of slippage of 'NPA' category.
- 2.4 To provide directions to contain slippage to NPA category.

3. Definitions

NON PERFORMING ASSETS:

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

3.1 SUB STANDARD:

3.1.1 A loan asset should be classified as Sub-Standard if:

- i) Interest and / or installments of principal remain overdue for a period of more than 90 days in respect of Term Loan.
- ii) The bill remains overdue for a period of more than 90 days in the case of bills purchased / Bills Discounted.
- iii) The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- iv) The installment of principal or interest thereon remains overdue for one crop seasons for long duration crops.
- v) **In respect of Overdraft/ Cash Credit accounts, if they remains “Out of Order” as indicated below,**

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

- vi) In case Bank Guarantees (B.G.) / Letter of Credit (L.C.S) devolve on the Bank, the account be treated as NPA after 90 days from the date of payment of the amount if the amount is not reimbursed by the customer.
- vii) Banks should ensure that drawings in working capital accounts are covered by adequacy of current assets, since current assets are first appropriated in times of distress. Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the Banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.

A working capital borrower account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

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

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

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

3.1.4 A general provision of 10% on total outstanding should be made. The unsecured exposures which are identified as sub standard would attract additional provision of 10% i.e. a total of 20% on the outstanding balance. However, in view of the certain safeguards such as escrow accounts available in respect of infrastructure lending, infrastructure loan accounts which are classified as Sub standard will attract a provisioning of 15% instead of the aforesaid prescription of 20%.

3.2 DOUBTFUL ASSETS

3.2.1 Doubtful - I

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

3.2.2 Doubtful - II

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

3.2.3 Doubtful-III

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

To check slippage of NPA advance from Sub-standard advance to

Doubtful Asset will be our endeavor. According to the norms of IRAC, provision requirement is stricter in respect of doubtful assets depending upon the age of NPA account. Advance account shifted to doubtful assets is a strain on bank's profitability, because it requires higher provision.

3.2.4 Provisioning norms for Doubtful assets will be as under:

- i) 100 % of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse and the realizable value is estimated on a realistic basis.
- ii) In regards to the secured portion, provision may be made on the following basis, at the rates ranging from 20% to 100% of the secured portion depending upon the period for which the asset has remained doubtful.

Period for which the advances has remained in "doubtful" category	Provision requirement
Doubtful up to one year	20%
Doubtful one to three years	30%
Doubtful above three years	100%

3.2.5 Valuation of Security.

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.5.00 lakhs and above stock audit at annual interval by external agencies appointed as per the guidelines approved by the Board would be mandatory 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 valuers appointed as per the guidelines approved by the Board of Directors.

3.3 LOSS ASSETS

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

4. PROJECT UNDER IMPLEMENTATION:

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

For the 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.

'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Bank must fix a Date of Commencement of Commercial Operations (DCCO) for all project loans at the time of sanction of the loan / financial closure (in the case of multiple banking or consortium arrangement).

4.1 Project Loan for Infrastructure Sector

- i) A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset'.
- ii) A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset'.
- iii) If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original date of commencement of commercial operations (DCCO), Bank should maintain provisions on such accounts as long as these are classified as standard assets as under.

Until from original Date of Commencement of Commercial Operations (DCCO)	0.40%
During the third and the fourth years after the original DCCO	1.00%

If the fresh DCCO is fixed within the following limits, and further provided the account continues to be serviced as per the restructured terms.

- a) **Infrastructure Projects involving court cases:**
Up to another two years (beyond the existing extended period of 2 years i.e. total extension of 4 years), in case the reason of extension of date of commencement of production 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 existing extended period of 2 years i.e. total extension of 3 years), in other than court cases.
- iv) **The accounts which would inter alia require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery.**
The other conditions applicable would be:
 - a) In cases where there is moratorium for payment of interest, banks, should not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.
 - b) Bank should maintain provisions on such accounts as mentioned in para 7.1 (iii).
- v) **For the purpose of these guidelines, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.**

4.2 Project for Non – Infrastructure Sector.

- i) **A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset'.**
- ii) **A loan for a non – infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset'.**
- iii) **In case of non-infrastructure projects, if the delay in commencement of commercial operations extended beyond the period of six months from the date of completion as determined at the time of financial closure, banks can prescribe a fresh DCCO, and retain the 'standard' classification by undertaking restructuring of accounts, bank should maintain provisions on such accounts as mentioned in para 7.1 (iii), provided the fresh DCCO does not extended beyond a period of twelve months from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of six months from the original DCCO, and when the account is still 'standard' as per the record of recovery.**

The other conditions applicable would be:

- a) In cases where there is moratorium for payment of interest, banks, should not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.
- b) Bank should maintain provisions on such accounts as mentioned in para 7.1 (iii).

- iv) For this purpose mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

4.3 Other issues

- i) All other aspects of restructuring of project loans before commencement of commercial operations would be governed by the provisions mentioned in para 7.1 (iii). Restructuring of project loans after commencement of commercial operations will also be governed by these instructions.
- ii) Any chance in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if:
 - a) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.
 - b) The rise in cost excluding any cost – overrun in respect of the original project is 25% or more of the original outlay.
 - c) The Bank reassesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCP.
 - d) On re-rating (if already rated) the new rating is not below the previous rating by more than one notch.

5. OTHER GUIDELINES

- 5.1** All the loans and advances be classified in four categories as per the norms prescribed by Reserve Bank of India namely 1) Standard, 2) Sub-standard, 3) Doubtful and 4) Loss Assets. The classification made by the branches be verified by Internal Inspecting Officers and / or Concurrent Auditors.
- 5.2** Branch should alert & make proper and correct asset classification as per IRAC norms.

6. CONTROL OVER SPECIAL MENTION ACCOUNTS (SMA).

Banking landscape has altered significantly over the year. Efforts of the Bank in expanding credit in such scenario can be sustained only, when the health of credit portfolio is maintained in good condition. This high lights the importance of exercising ongoing basis. The Bank has got system of identifying irregular accounts of prescribes intervals. As per Reserve Bank of India, such irregular accounts are treated as Special Mention Accounts. The primary aim of

monitoring exercise is to ensure that account is conducted in the manner normally expected & the account continuous as performing assets.

6.1 Special Mention/Watch list Accounts:

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

- 6.2** In case of term loans where two monthly installments, one quarterly, one half yearly or one annual installment have remained unpaid, such account be classified as Special Mention Account. Similarly in case of Cash Credit/Operative Credit facilities if the interest is not served for 2 months or there is not credit turn over in the accounts for 2 months or facility is not renewed/reviewed within two months from the due date such account be classified as Special mention Account (SMA). Accounts with regular delays of payment of principal or interest of

upto 2 months that exhibit weakness in credit should also be classified as SMA/Watchlist Accounts. Accounts with serious deficiencies in terms of documentation, deterioration of credit profile

(example – external rating being BB+ or below), payment defaults to other banks, management issues, external events such as strikes, lockouts, industry issues, regulatory/tax constraints that can seriously jeopardize the credit quality also require the account to be classified as SMA/Watch list on an immediate basis.

- 6.3 The SMA Monitoring and Recovery Groups of the Bank will work with Relationship Groups and Branches to ensure that slippage to NPAs is minimal through pro-active monitoring of accounts and active senior management involvement.

6.4 Branch should closely monitor on monthly basis the other standard accounts, where following irregularities are

- **One Monthly installment / Quarterly / Half yearly / Annual installments in respect of Term Loans.**
- **Excess over limit / non recovery of one month interest.**
- **Excess over the Drawing power in respect of advance against Term Deposits, National Saving Certificates, Indira Vikas patra, Kissan Vikas Patra & Life Insurance Policies**

Relationship Managers and Branches should follow up with such borrowers for recovery of over dues/excesses in the accounts

6.5 Follow up of SMA Accounts.

- 6.5.1 In case of term loans if one installment remain unpaid for more than 15 days, the borrower be personally contacted and a notice demanding the due installments be issued simultaneously.
- 6.5.2 In case two monthly, one quarterly, one half yearly or one annual installment and the interest on the account remain to be unpaid for more than 45 days, steps be taken for taking possession of the securities for the loans with prior approval of Recovery Group.
- 6.5.3 In case of credit facilities like Cash Credit / overdraft / Term Loans which are to be renewed annually a notice be issued to the concerned borrower two months before the due date advising to submit the papers required for the renewal of the limit. This would help to judge whether the limit is going to be renewed or otherwise and to take appropriate steps.
- 6.5.4 The documents of such loan accounts exhibiting such behavior should be thoroughly examined and discrepancies therein if any rectified.
Acknowledgement of debt should be obtained from the borrower and the guarantor.

7. RESTRUCTURING MECHANISM FOR UNITS IN SME SECTOR.

- 7.1 In terms of guidelines issued by Reserve Bank of India banks are required to formulate policy for restructuring of small and medium enterprises (SMEs). In view of this the accounts of SMEs are restructured on following lines.
- 7.1.1 The eligibility criteria as prescribed in the guidelines be adopted.
- 7.1.2 The techno-economic viability of the units be got examined from the Bank's approved agency or from IDBI approved agencies.
- 7.1.3 Units which can become viable in seven years be considered for restructuring and the repayment period for restructured debt should not exceed 10 years.
- 7.1.4 The classification of such restructured loan assets and provisioning be made as per the guidelines.
- 7.1.5 Need based additional finance be considered only if it is recommended in the techno-economical viability report.
- 7.1.6 The restructuring of the loan assets and implementation thereof be made effective within 60 days.
- 7.1.7 The progress of the restructured loan assets be reviewed on quarterly basis.

- 7.1.8 The information in respect of restructuring undertaken during the year be disclosed under the notes on accounts in the published balance sheet.

8. MONITORING OF THE NON PERFORMING ASSETS.

- 8.1 Following steps should be initiated once account has been identified as NPA.

- 8.1.1 All the fixed deposits obtained as security/collateral security for the loan/credit facility is appropriated towards the outstanding immediately after the account is identified as NPA.
 - 8.1.2 The borrower and the guarantor be vigorously followed up for recovery/regularization of the account and in case no desired response is received, a legal notice through an advocate on the Bank's panel (and to be approved by the Recovery Group) be issued to the borrower and the guarantor within 30 days from the date of identification of the account as NPA with prior approval of the Recovery Group.
 - 8.1.3 In exceptional cases if there are genuine difficulties being faced by certain borrowers, their accounts may be rescheduled/restructured preferably prior to such loans becoming NPAs.
 - 8.1.4 Thirty of our Branches are in rural area and majority of the customers are dependent upon agriculture. Non performing loans of a borrower whose crop has been adversely affected due to natural calamities or due to circumstances beyond their capacity be rescheduled/restructured within the policy framework of Bank. Such borrowers may be allowed to pay the overdues in a phased manner taking into consideration their cropping pattern and harvesting season.
Such reschedulement be got approved from Head Office. Such rescheduled / restructured accounts may be classified as per the guidelines of Reserve Bank of India and / or Central / State Governments issued or will be issued from time to time.
 - 8.1.5 In case borrowers difficulties are genuine and in case he is ready to pay the outstanding in one lump sum if the penal interest is waived, his request may be considered sympathetically and penal interest be waived on the merit of case. Such proposals be got approved from Head Office.
 - 8.1.6 It should be ensured that the statements showing position of NPA's for the quarter ending March every year are received at Head Office immediately after the financial year is over. Such statements be thoroughly scrutinized and the data of all the branches be consolidated.
Based on these figures targets for recovery be fixed in consultation with the Branch Managers. Head Office should follow up with the branches for achievement of targets by reviewing the position on quarterly basis.
- 8.2 Statements showing status of NPA accounts be called from the Relationship Groups/ branches by the Recovery Group on quarterly basis. Such statements should be scrutinized thoroughly by the Head Office and the branches be guided for recovery. Individual reports should be prepared for all NPAs with amounts in excess of Rs 1 CR that should be put up to the CRO for approval.
- 8.3 The position of recovery in NPA accounts should be reviewed on a monthly basis by the Recovery Group and the position of recovery be placed before the Management Credit Committee (through the CRO) on a monthly basis.
- 8.4 Position of top 100 NPA accounts be placed before the Board on quarterly basis. Similarly the comparative position of amount involved in NPA's, Recovery and provision held for the NPA's be also placed before the Board on quarterly basis.
- 8.5 Recoveries affected in doubtful and loss assets be first appropriated towards principal.

9. COMPROMISE / SETTLEMENTS.

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

- 9.1.1 A compromise should be negotiated settlement, which would ensure recovery of the dues to the maximum extent possible at minimum expense and within shortest possible time frame.
 - 9.1.2 While taking NPAs a proper distinction will have to be made between willful defaulters and defaulters due to circumstances beyond their control. While in case of the former, a tough stand has to be taken, in latter cases a moderated view is to be taken.
 - 9.1.3 Where security is available for assessing the realizable value, proper Weight age has to be given to the location, condition, marketability and weather property is self occupied or tenanted etc.
 - 9.1.4 Due weightage to be given to present activities of the borrower / guarantor, their present means etc.
 - 9.1.5 While arriving at a negotiated settlement, the advantage available to the Bank from prompt recycling of funds should be weighted in comparison to the likely recovery be following legal or other protracted course of action i.e. opportunity cost analysis be made.
 - 9.1.6 The internal reporting system should ensure prompt reporting of all compromise proposals approved, to the CRO and MD&CEO.
 - 9.1.7 A compromise/settlement be made only if the account has been classified as doubtful or loss assets. However, if there are any genuine reasons compromise/settlement be made in case of a sub-standard account also.
 - 9.1.8 While compromising in any account only interest amount be sacrificed and no relief be granted in principal amount. However, in deserving cases relief in principal amount also be considered.
 - 9.1.9 9.1.10 Before entering into any compromise /settlement details of the assets of the borrower and guarantor be collected and the relief be granted if the Bank deems fit.
- 9.2 While considering the settlement proposals received from the borrowers it would be ensured that the interest earned in the respective account is not less than the cost of fund. During the last 10 years the average cost of fund works out to 7.94 %. In case we recover the interest at 10% from the date of NPA the Bank would not be at loss and therefore, while considering compromise proposals it would be ensured that interest earned in the account is not less than 10%. However, in deserving cases lower rate would be considered.**
- 9.3 The module approach:**
- 9.3.1 Compromise / relief proposals will be negotiated in keeping with the basic objectives spelt out above. The module approach is developed, keeping in mind the following key parameters.**
- ☐ **Realizable value & marketability of securities charges to the Bank if the advance / loan is secured.**
 - ☐ **Aggregate means of borrowers / guarantors.**
 - ☐ **Age of NPA.**
 - ☐ **Legal position of the Bank.**

9.3.2 Points / scores for various parameters under the modular approach as also the system of awarding points / score shall be as follows.

Sr.No.	Particulars	Points
1	Value of security	
a)	Exceeds the dues (as per the books/suit/decreed)	
	i. Easily marketable	10
	ii. Not easily marketable	08
	iii very difficult to marketable	07
b)	Exceed the 50% and up to 100% of the dues (as per the books/suit/decreed)	
	i. Easily marketable	07
	ii. Not easily marketable	05
	iii very difficult to marketable	04
c)	50% or less of the dues (as per the books/suit/decreed)	
	i. Easily marketable	04
	li Not easily marketable	02
	lii very difficult to marketable	01
d)	No security	00
2	Aggregate means of borrowers / guarantor	
	i More than dues (as per the books/suit/decreed)	04
	li Exceed the 50% and up to 100% of the dues	03
	lii Exceeds 25% and p to 50%	02
	iv Below 25%	00
3	Age of NPA	
	i Up to 2 years	05
	li More than 2 years & up to 4 years	04
	lii More than 4 years & up to 8 years	02
	lv More than 8 years	00
4	Legal position	
	i No defect/deficiencies in documents and mortgage in order	04
	ii Documents are defective and mortgage not in enforceable	00
a)	Suit filed	
	i Suit proceedings are continuing less than 2 years	04
	li Suit proceedings are continuing above 2 years	02

	& less than 4 years.	
	lii Suit proceedings are continuing above 4 years	00
b)	Decreed accounts	
	Decree execution is outstanding for	
	i Less tan 2 years	04
	ii Between 2 to 4 years	02
	lii More than 4 years	00

“Fair market Value” given by valuer should be taken for the purpose of scoring and not distress value.

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

a. Various laws meant for protection of Agriculturists / Tribal people govern security in the form of Agricultural Land. In that case marketability would be a factor of: (i) getting permission from Collector (ii) availability of purchasers from tribal communities (iii) restrictions on sale to non-agriculturists etc.

b. There may be cases, where (i) security is heavily tenanted and vacant possession is next to impossible (ii) security is a subject matter of litigation between the borrower and paramount title holder (iii) security is subject to planning, environment, forest law restrictions (iv) security may be subject to expropriation proceedings due to violation of user conditions etc.

c. Valuers may not factor in the effect of above legal issues, while giving valuation. In such an event, opinion from a penal advocate or Law officer on these legal issues should be obtained and if found that it is very difficult to disentangle the security from legal issues, then, aggregate score under the module may be reduced by further 4 points. Where aggregate score exceeds 17, under the module. In cases where score is in the range of 17 to 14, then gradual reduction by 3, 2, or 1 point only is permissible. No reduction is permissible for the scores less than 14.

d. For the purpose of judging and estimating, whether security is easily marketable, not easily marketable and very difficult to market, following yardsticks among other things may be kept in mind.

Parameters	Yardstick
Easily marketable	Like residential / commercial premises located Metro/urban or prime locality
Not easily marketable	Tenanted premises or industrial Land / Building
Very difficult to market	Like agricultural land

9.3.3 Minimum settlement amount to be recovered

Points scored	Methodology for calculation of settlement amount
17 & above	Outstanding in running ledger + int. @ 10% (simple)
12 to 16	Outstanding in running ledger + int. @ 8% (simple)
8 to 11	Outstanding in running ledger
4 to 7	50% to 75% of outstanding in running ledger
2 to 3	25% to 50% of outstanding in running ledger
0 to 1	As much as possible

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9.3.4 The settlement amounts to be recovered under the Modular Approach as indicated above represent the minimum amount to be recovered. Endeavor should always be made to obtain a better offer than the benchmark indicated by applying the module. It is also possible that in certain cases due to genuine reasons, the compromise settlement arrived at, may not strictly adhere to the module. In such cases, the justifications for accepting the proposal should be clearly spelt out, while recommending the settlement for sanction. In any case the settlement amount should not be less than the net present Value (NPV) of realizable value of available securities net of cost of realization. If the settlement amount is to be paid in installments, the NPV of the settlement amount should be calculated and this amount should not be less than the NPV of realizable securities. For calculation of NPV, discount rate at current Bank Rate should be applied. Period for the purpose of cash flows may be reckoned with due consideration of the facts of the case.

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

9.4 Settlement with Deviation from Module:

There may be some rare cases, where recovery of amount arrived at as per module may not be possible. Similarly, some borrowers may need more than 12 months time for repayment. Few others may not be in a position to pay interest at all for installment payment or come forward to pay interest at a lower rate than applicable as per the policy. For all such deviations, cogent reasons to be recorded and such proposals be put up for clearance to the next higher authority than the delegate in whose power the proposal otherwise fail.

9.5 The compromise and settlement helps in speedy recovery. With a view to accelerating the recovery process by way of compromise/settlement, delegated powers for write off of principal / waiver of interest / absorption of legal expenses of NPAs are revised as under,

Sr. No	APPROVING AUTHORITY		Powers for write off, waiver of interest and absorption of legal expenses
1.	Board Credit Committee	:	Over Rs.50.00 lakhs
2.	Management Credit Committee	:	Rs.50.00 lakhs
3.	Managing Director & CEO.	:	Rs.25.00 lakhs
4.	Chief Risk Officer	:	Rs.15.00 lakhs

5.	Chief General Manager		Rs.5.00 lakhs
6.	General Manager (Recovery)	:	Rs.3.00 lakhs
7.	Other GMs/DGMs *	:	Rs.01.00 lakhs.
6.	Asst. General Manager *	:	Rs.00.50 lakhs.
8.	Chief Manager Recovery*	:	Up to 50% of interest amount or Rs.50,000/- whichever is less.
9.	Branch Managers of Metro branches *	:	Up to 25% of interest amount or Rs.5,000/- whichever is less.
10	Branch Managers of Urban /Semi urban branches *		Up to 25% of interest amount or Rs.3,000/- whichever is less.
11	Branch Managers of Rural branches *		Up to 25% of interest amount or Rs.2,000/- whichever is less.

***Powers delegated for waiver of interest only.**

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

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

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

9.8 PAYMENT OF SETTLEMENT AMOUNT-

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

Payment of settlement amount in installments will attract interest at Base Rate (simple). Wherever installment payments are sought, there should be a minimum of 25% down payment of the settlement amount. The sanctioning authority will have authority to waive the interest for delayed payment if he deem fit.

9.9 SETTLEMENT PROPOSAL FROM GUARANTOR-

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

9.10 RECOVERY THROUGH SETTLEMENT IN FRAUD CASES.

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

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

9.11 SETTLEMENT ADVISORY COMMITTEE

9.11.1 Composition of committees

- a) **Proposal for prudential write off / write-off / compromise falling within the authority of CRO / CMD / Management Credit Committee will be first processed by Settlement Advisory Committee at Head Office. Four members present will form the quorum.**
- b) **General Manager and in his absence the DGM will constitute the Settlement Advisory Committee at the Central office level.**

Constitution of Committee:

Office	Members
Head Office level	1. General Manager 2. Dy. General manager/ Asst. Gen. Manager 3.Chief Risk Manager(RMD) 4.Chief Manager (Inspection) 5.Chief Manager (Recovery)will be Member Secretary

The quorum will consist of four members with presence of one independent member which shall be compulsory in the case of compromise proposals.

9.11.2 Guidelines on the working of the settlement advisory committees:

- i) **The task of committees is to examine the compromise / relief / write-off proposals and ensure that the settlement offer is fair, responsible, in the best interests of the bank and in line with the guidelines for settlement of such proposals as contained in the Policy.**
- ii) **The committees will meet at regular intervals in keeping with flow of proposals. The frequency of Committee meetings will be such that proposals are cleared expeditiously.**
- ii) **The Committees will record minutes of the meetings, giving account wise final proposals submitted to the delegating authorities.**

9.11.3 Proposals for compromise / relief / write-off should clearly bring out, brief history of the account, nature and causes of irregularities, staff accountability and the basis for valuation of assets as also their marketability. The proposals should specifically state the reasons why the concerns debt is considered irrecoverable of remissions recommended.

10. NORMS IN RESPECT OF WRITING OFF OF BALANCES IN THE BORROWAL ACCOUNTS.

- 10.1 The accounts, balances of which are to be written off must have been classified as Loss Assets or Doubtful above three years.
- 10.2 Balances in the account are written off only after obtaining report from the Business Head/ Branch Manager about non possibility of recovery in the account. Such reports are scrutinized at Head Office level thoroughly before recommending for write off.
- 10.3 M.D. & CEO shall have authority to write off accounts with principal & interest outstanding up to Rs.10.00 lakhs. In respect of the accounts with outstanding above Rs.10.00 lakhs, the proposals will be placed before the Board.
- 10.4 The exercise of writing off of the balance is carried out in consultation with the Accounts & Operations Department at Head Office and the aggregate amount to be written off be finalized with the approval of the M. D. & CEO.
- 10.5 Efforts for recovery be continued even after the balance in the account is written off. In case of a suit filed account where the balance has been written off, suit proceedings/execution proceedings be continued. The court cost and other incidental charges for such recovery be debited to Branch's Profit & Loss Account.

10.6 TECHNICAL WRITE OFF –

The technical write off of NPA is resorted to for accounting purpose in case of “Loss and Doubtful assets” and also Sub standard assets.

- 10.6.1 Such write off is essentially a prudent accounting measure to reduce the level of Gross NPA as such accounts are either fully provided for or substantial provision is already available.
- 10.6.2 The prudential write off to be effected to the debit of Contingency Account will be restricted to the extent of outstanding balance in the running ledger and against the provision available. The shortfall in provision on account of write off is to be made good while finalizing the Bank's account. Interest held in dummy ledger is not be waived. Branches will continue to maintain dummy ledgers in respect of NPAs prudentially write off.
- 10.6.3 Recovery efforts in such accounts should continue to be vigorously pursued by branches. Suits filed should be expedited to their logical conclusion by constant follow up with our advocates. Where decrees are obtained, execution proceedings should be launched without delay.
- 10.6.4 The fact of prudential write off should be kept in strict confidence and not disclosed to the borrowers under any circumstances.
- 10.6.5 Branch should keep a close watch on the borrowers' activities, their means, assets not charged to the bank etc., so as to mount pressure on them for recoveries.
- 10.6.6 Delegated powers for Technical Write Off will be Board of Directors.

11. NORMS IN RESPECT OF FILING OF SUITS.

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

- 11.1.1 A suit be filed only after making all the efforts such as personal contacts, demand notice from the branch or through advocate , proceeding under Securitisation Act etc. and if the branch and the recovery department at Head Office comes to the conclusion that there is no alternative but to file a suit for recovery.
- 11.1.2 Before filing of the suit it should be ensured that the loan documents are complete in all respects and that the suit is well within the limitation period. The position of documents be got examined form the Bank's approved advocate.
- 11.1.3 Before filing of the suit final notice through Bank's advocate be issued.
- 11.1.4 All the deposits obtained as security and / or collateral security be got appropriated towards the outstandings before filing of the suit.
- 11.1.5 All the assets such as machinery, vehicles, shares in the custody of the Bank be disposed of and the sale proceeds be appropriated towards the outstandings in the account and the suit be filed for recovery of residual amount.
- 11.1.6 Suit be filed through an Advocate on the Bank's panel only.
- 11.1.7 Before filing of the suit information regarding movable/immovable assets of the borrower and the guarantor be ascertained and steps be taken for attachment of these properties before judgment.

11.2 In areas where "Lok Adalats" are arranged, branches should approach such Lok Adalats for speedy disposal of the cases. However, in case if the suit is to be compromised in the Lok Adalat, the compromise terms be got approved from the Head Office.

11.3 Delegation of powers - With a view to accelerating the recovery process by way of filing suits, the M.D.& CEO, the CRO, the General Manager, the Dy. General Manager and the Asst.General Manager be vested with powers for filing suits as under.

	Authority		Powers for filing suits (Suit amount)
1.	M.D.& CEO.	:	Above Rs.15.00 crores
2.	Chief Risk Officer	:	Up tu 15.00 crores.
3.	General Manager	:	Up to Rs.1.00 crore.
4.	Dy. General manager	:	Up to Rs.50.00 lakhs.
5.	Asst. General Manager	:	Up to Rs.25.00 lakhs.

12. Waiver of Legal Action:

- 12.1** There may be accounts where borrowers and guarantors have died or are not traceable. Further security / net worth is nil. In such cases legal action only added to cost and does not result in any recovery. With more and more stress on retail loans, there may arise cases, where cost of legal action will be more than the loan granted. In all such cases discretion should be available for waiver of legal action.
- 12.2** There may be accounts where outstanding amount (running ledger) is less than Rs.0.25 lakhs, in such cases if we decided to initiate legal action which is expensive one. In all such cases discretion should be available for waiver of legal action.
- 12.3** Powers for waiver of legal action for above accounts rest with the General Manager (Recovery).

13. COLLECTION OF DUES AND SECURITY REPOSSESSION POLICY.

- 13.1** The debt collection of the bank is built around dignity and respect to customers where there are genuine problems. Bank will not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment, persuasion and finding solutions. The Bank believes in following fair practices with regard to collection of dues and repossession of security and thereby fostering customer confidence and long - term relationship.
The repayment schedule for any loan sanctioned by the Bank will be fixed taking into account paying capacity and cash flow pattern of the borrower. The Bank will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or any other mode of repayment will be appropriated against interest and principal due from the customers. The method of collection of EMI (say post dated cheque, direct debit ECS etc.) would be fixed taking into consideration the convenience of the borrower. The Bank would expect the customers to adhere to the repayment schedule agreed to and approach the Bank for assistance and guidance in case of genuine difficulty in meeting repayment obligations.
Bank's Security Repossession Policy aims at recovery of dues in the event of defaults and is not aimed at whimsical deprivation of the property. The policy recognizes fairness and transparency in repossession, valuation and realization of security. All the practices adopted by the Bank for follow up and recovery of dues and repossession of security will be in consonance with the law.

13.2 General Guidelines.

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

- 13.2.1** The customer would be contacted ordinarily at the place of his / her choice and in the absence of any specified place at the place of his / her residence and if unavailable at his / her residence, at the place of business / occupation.
- 13.2.2** Identity and authority of persons authorised to represent Bank for follow up and recovery of dues would be made known to the borrowers at the first instance. The Bank staff or any person authorised to represent the Bank in collection of dues or / and security repossession will identify himself / herself and display the authority letter issued by the Bank upon request.
- 13.2.3** The Bank would respect privacy of its borrowers.
- 13.2.4** The Bank is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and Bank will adopt civil manners for interaction with borrowers.
- 13.2.5** Normally the Bank's representatives will contact the borrower between 0700 hrs and 1900 hrs, unless the special circumstance of her/his business or occupation requires the Bank to contact at a different time.
- 13.2.6** Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible.

13.2.7 The Bank will document the efforts made for the recovery of dues and gist of interactions with the borrowers.

13.2.8 All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.

13.2.9 Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls /visits to collect dues.

13.3 Giving Notice to borrowers.

While telephonic reminders or visits by the Bank's representatives to the borrowers place or residence will be used as loan follow up measures, the Bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. First such notice will be sent immediately upon default by the borrower or when telephonic reminders or personal visits fail to yield result. The first notice while giving details of the amount in default will give 15 days time period for the borrower to clear the dues and regularize the account. In case the borrower fails to respond within the given period of time, a second notice will be issued explaining the consequences of non payment and the borrower would be given a further period of 15 days to clear the dues. The consequence of non payment would include recall of entire loan amount forthwith. In the event of the failure of the borrower to respond within the time period, a final notice will be issued after which the bank will be free to initiate such recovery measures as deemed fit.

The Bank may need to provide for notice of lesser number of days for lending against shares where the deterioration in value can be rapid,

13.4 Repossession of Security.

Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Repossession will be done only after issuing the third and final notice as detailed above. Due process of law will be followed while taking repossession of the property. The Bank will take all prudent measures for ensuring the safety and security of the property after taking custody.

13.5 Recovery through Sale of NPAs:

SARFAESIA besides facilitating enforcement of security without intervention of Court has put in place a framework for growth of specialized institutions for securitization and reconstruction of NPAs. These agencies purchase NPAs from Banks. Further RBI has now permitted sale and purchase of NPAs by Banks. In line with these developments, our Bank has put in place policies for sale of NPAs to Asset Reconstruction Companies, Banks and other financial intermediaries. These policies are administered at Central Office level.

13.6 Valuation and Sale of Property.

Valuation and sale of property repossessed by the Bank will be carried out as per law and in a fair and transparent manner. The valuation given by the approved valuer will be conveying to the borrower before proceeding with sale of property.

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

13.7 Opportunity for the borrower to take back the security.

As indicated earlier in the policy document, the Bank will resort to repossession of security only for the purpose of realization of its dues as the last resort and not with intention of depriving the borrower of the property. Accordingly the

Bank will be willing to consider handing over possession of property to the borrower any time after repossession and before concluding sale transaction of the property, provided the Bank

dues are cleared in full. If satisfied with the genuineness of borrower's inability to pay the loan installments as per the schedule which resulted in the repossession of security, the Bank may consider handing over the property after receiving the installments in arrears. However, this would be subject to the Bank being convinced of the arrangements made by the borrower to ensure timely repayment of remaining installments in future.

13.8 Recovery Through Lok Adalat:

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

13.9 Outsourcing of Recovery -

Bank may also consider appointing Recovery Agents complying the RBI guidelines applicable with Recovery Agents.

14. SECURITISATION AND RECONSTRUCTION OF FINANCIAL ASSETS AND ENFORCEMENT OF SECURITY ACT.

- 14.1 As per provisions of the above referred act, Banks are entitled to take possession of the securities in case of accounts, which have been classified as NPA. In this context the NPA accounts having outstanding balance of Rs.1.00 lakh and above be reviewed from time to time and steps be taken as per the provisions of the act.
- 14.2 As per the provisions of the above act, Banks are required to appoint an authorized officer for observance of the various provisions of the act. Therefore an officer of the Grade of Scale IV & above be appointed as an authorized officer.

15. DISSEMINATION OF INFORMATION ON DEFAULTING BORROWERS.

- 15.1 In terms of Reserve Bank of India guidelines the information regarding defaulting borrowers be reported to Reserve Bank of India / Credit Information Companies like CIBIL etc. periodically as prescribed by Reserve Bank of India.
- 15.2 Before submitting the information the position of the concerned account be thoroughly verified and correct information such as outstandings, addresses, names of the proprietors, partners, directors etc. be given.
- 15.3 In case of willful defaulters, the position of the account be thoroughly verified and it should be ensured whether the concerned borrower falls within the definition of willful defaulter as prescribed by Reserve Bank of India.
- 15.4 On identification of borrower as willful defaulter a 15 days Show Cause Notice be issued to him seeking his say as to why he should not be treated as a willful defaulter.
- 15.5 In case the notice is not responded satisfactorily within 15 days, the name of the concerned borrower be recommended to the committee for identification of willful defaulters seeking permission of the committee for reporting the borrowers name as willful defaulter.
- 15.6 On approval by the committee for identification of willful defaulters the name be reported as willful defaulter to Reserve Bank of India / Credit Information Company.

16. STAFF ACCOUNTABILITY:

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

- 16.1 Staff Accountability would be examined in case of slippage of performing assets into the non performing assets.
- 16.2 Staff Accountability would be examined in case of loss caused to the Bank due to operational lapses, non observance of standard procedures and practices.
- 16.3 Staff Accountability would be examined immediately on turning of standard assets into sub standard category and further slippage. (Cut of limit of Rs.1.00 lakhs & above)

17. REPORTING SYSTEM

There is a monthly reporting system for cases disposed of by the delegatee to the next higher authority and CRO. Such sanctions when reported to the next higher authority should be reviewed and taken note of by the reviewing authority. The scrutiny of these proposals will be on similar basis to credit sanctions with the objective to give general guidance and not with a view to question approvals in individual cases.