

Policy on Resolution frame work for Covid-19 related stress.

An emergence of Covid-19 has badly affected the entire world economy. The Covid-19 Pandemic was spreading very rapidly, its rate of mortality was very high and medical facilities were inadequate to control the damage of Covid-19. It was, therefore, necessary to impose prolonged lockdown, to break the chain of Covid-19 virus. However due to this prolonged lockdown all the business entities, service industries, manufacturing industries, could not function their activities. As a result of which these entities could not generate sufficient cash flow to pay it's interest & loan instalments in time. This resultant stress could potentially impact the long-term viability of many borrowing entities, which were having a good track record. Such wide spread impact could impair the entire recovery process, posing significant financial risks, and could downgrade the assets classification of the barrowers. It also could downgrade the position of lending institution, due to increase in NPA. In view of this problem there is continued need to support viable entities on account of fallout of covid-19. Accordingly, RBI has, vide its Circular No. RBI/2020-21/16, DOR. No. BP. BC/3/21.04.048/2020-21 Dt 06/082020, & Circular No. RBI / 2020 -21 /17 DOR No. BP. BC / 4 /21.04/048/2020-21 Dt. 06/08/2020. provided resolution framework for addressing borrower defaults, which involves granting of any concession, and allows the asset classification to be retained as or up graded to standard, subject to prescribed conditions.

The RBI has also advised to put in place the policy on resolution for the stress assets of bank due to Covid-19 pandemic. which cover's following points.

- (A) Resolution of Stress in, Personal Loans.
- (B) Resolution of other exposures
- (C) Asset Classification & Provisioning
- (D) Disclosures & credit Reporting

The following categories of borrowers will NOT be eligible for resolution plan under this framework: -

- 1) Exposure to any credit Co-op Society.
- 2) Any exposure of our Bank to financial service providers.
- 3) Any credit facility to Central Govt., State Govt., Local Govt. bodies or corporates established by an Act of Parliament or State legislature.
- 4) Any loans / exposures to Housing Finance company.

A- RESOLUTION OF STRESS IN PERSONAL LOANS

This will be applicable to personal loans sanctioned to individual borrowers by our Bank. The definition of personal loans is given in the Annex "A" Credit facilities provided by our Bank to their personnel or staff shall not be eligible for resolution under this framework. This Policy of our Bank specifically understand that the loans which were classified as STANDARD (but not in default for more than 30 days) with our Bank as on MARCH 1,2020 only are eligible for resolution under this Policy. The Bank has noted to continue to classify the borrowers account as standard till the date of Invocation under this framework. The date of Invocation shall be the date on which both the borrower and our Bank have agreed to proceed with a resolution plan under this framework. Resolution under this framework any be invoked as per RBI guidelines issued from time to time. Further in case of extension if any granted by RBI to the scheme the policy be continued. However, our Bank will strive to have early invocation.

Our Bank's resolution plan includes the following reliefs:

- a) Rescheduling of payments
- b) Conversion of interest accrued (or to be accrued) into another credit facility.
- c) Granting of Moratorium for not more than TWO yrs
- d) Upon granting of Moratorium the tenor of loan may also get modified.
- e) The Moratorium period shall come into effect immediately from the date of implementation of resolution plan.

Our bank shall implement the Resolution plan only after fulfilling the following conditions:

- a) All related documentations (including Agreements) are completed and collaterals are obtained.
- b) The changes in terms & conditions of the loans will be duly reflected in our Bank's books
- c) The Bank will ensure that the borrower seeking resolution is not in default with us as per revised terms.

Our Bank has noted any resolution plan implemented in breach of the above mentioned timelines shall be fully governed by the relevant instructions issued by RBI from time to time.

B - RESOLUTION TO OTHER EXPOSURES:

This part shall be applicable to consortium lending by our Bank. As stated earlier the account must be standard as on March 1, 2020 with a Default of not more than 30 days. Further the account must remain STANDARD till the date of invocation. If under this head of " Other exposures" there is only one Institution (our Bank) the resolution plan will be as per this Board approved policy. The Bank has noted that there are multiple Banks with the exposure to the borrower, the lending Banks representing 75% by value of total outstanding credit facilities (fund+non-fund) AND not less than 60% of number of lending banks agree to invoke resolution plan. Resolution for such cases the resolution plan may be invoked as per RBI guidelines must be implemented within 180 days from the date of Invocation. In all cases of Multiple banks' lending to borrower, where the resolution process is invoked, Inter Creditor Agreement (ICA) shall required to be signed by all lending banks within 30 days from the date of invocation. For further information, our bank will also refer to paras 18 to 22 of the RBI circular dated the 6th Aug 20 as applicable to Primary U C Bs.

B (a) PERMITTED FEATURES OF THE RESOLUTION PLAN:

The resolution may also include sanctioning of additional credit facility to the borrower to address the financial stress, if there is no renegotiation of existing debt.

Our bank may allow extension of residual tenor of the loan (with or without payment) moratorium, by a period of not more than TWO Yrs.

The bank will take into account the financial parameters decided by the RBI those are to be factored-in while deciding the resolution Plan.

Our bank has also noted that in accounts involving consortium lending, Post implementation of resolution plan, all receipts by the borrower, all repayments by the borrowers to the lending Banks as well as additional disbursements, if any, to the borrower shall be routed through Escrow account maintained with the consortium leader.

C. ASSET CLASSIFICATION AND PROVISIONING:

Additional finance to the borrowers in respect of whom the resolution plan is invoked, if sanctioned even before implementation of the plan (in order to meet the interim liquidity requirements) may be classified as standard asset till the implementation of the plan.

If the resolution plan is not implemented within the stipulated timelines, the assets classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to the additional finance OR the rest of the credit facilities, whichever is WORSE.

If a resolution plan is implemented in r/o additional finance facility, the Borrowers accounts may be classified as standard although A/c may have Slipped into NPA during invocation and implementation.

As for the provisions required, our Bank has noted the various instruction given under the para 39 to 46 of the letter of RBI dated 6th August 2020.

POST IMPLEMENTATION PERFORMANCE.

Our bank has noted to strictly follow the performance of the borrowers who have taken benefit of resolution plan as amounting mechanism and change the classification of loans as per the instructions given under para 46 to 51 of the RBI letter dated the 6th August 2020.

DISCLOSURES AND CREDIT REPORTING:

Our bank is required to publish only Annual Financial Statement and shall make required disclosure in our Annual Financial Statement along with other prescribed disclosures.

The credit reporting of such borrowers shall reflect the new status of Borrowers. However, the credit history of the borrowers shall be governed by the respective policies of the Rating agencies.

FURTHER THE FOLLOWING POINTS WILL BE KEPT IN MIND BEFORE THE RESOLUTION PLAN IS IMPLEMENTED.

- 1) The resolution plan shall be extended to those borrowers having stress on their account's due to Covid-19 pandemic.
- 2) The eligibility of borrowers has been mentioned under para 4 of this policy.
- 3) Due diligence considerations will include:
 - * Performance of pre – Corvid -19 period.
 - * Cash –flow position at the time of resolution proposal.
 - * Position of debt to be repaid by the borrower to others as far as the business is concerned.
 - * Current ratio
 - * Surrounding economic outlook (i.e, local, National and international)
 - * The parameters those are to be taken into account by our bank while

Deciding upon the resolution request will also depend upon the guidelines to be received from RBI.

RESOLUTION FRAMEWORK FOR MSME SECTOR DUE TO COVID-19 RELATED STRESS.

In view of the support the viable MSME entities needs, due to fallout of above pandemic and to align these guidelines with the Resolution framework announced for other advances (discussed in the earlier pages), it has been decided to extend the scheme permitted in terms of circular dated the 11th Feb 2020, & 06th August 2020.

Accordingly, existing loans to MSMEs classified as STANDARD may be restructured without a downgrade in the Asset classification, subject to the following conditions:

- * The aggregate exposure (including non-fund based facilities) of all banks and NBFCs to the borrower does not exceed Rs.25 crore as on March 1,2020. Or as may be fixed by RBI from time to time
- * The borrower's account was standard asset as on March 1,2020.
- * The restructuring of the borrower's account is implemented by 31st March 2021. or as per guidelines of RBI from time to time.
- * The borrowing entity is GST registered on the date of implementation of Restructuring under this framework. However, this condition will not apply to MSMEs that are exempt from GST registration. This shall be determined on the basis of exemption limits Prevailing as on 1st March 20. Or as advised by RBI from time to time.
- * Accounts which may have slipped into NPA category between March 2, 2020 and the date of implementation, may be upgraded as ' Standard Asset" as on the date of the implementation of Resolution Plan.
- * The bank has noted that the classification benefit will be available only if the restructuring is done as per provisions of RBI circular no.4 dated the 6th August 2020.
- * Our bank has noted to make additional provision of 5% over and above the Provision already made for accounts restructured under these guidelines.
- * It is also noted by the Bank that accounts which have already been Restructured in terms of circular dated the Jan 1,2019 shall be ineligible For restructuring under this framework.
- * All enterprises are required to register online and obtain Udyog Registration Certificate. All banks, may therefore, obtain above certificate from the entrepreneurs.

- * Our bank will take the depreciated cost for Plant & Machinery (written-down –value) for all the enterprises for its classification as MSME.

OTHER REQUIREMENTS /CONDITIONS :

- * A restructuring would be treated as implemented if the following Conditions are fulfilled.
 - a) All related documentation (including execution of necessary agreements) Between our bank and borrower (like creation of charge or perfection of Securities etc) are completed.
 - b) The new capital structure or changes in T & C of the existing loans get duly reflected in the books of all the lenders (our bank) & the borrower.
- * Our bank has noted to disclose regarding MSME restructuring in the Financial statements under "Notes on Accounts"
- * Our bank has noted that all other instructions of loans to MSME borrowers are strictly followed.
- * The bank has noted to regularly monitor these accounts like other accounts Our bank has framed this Policy based on the circular of RBI dated the 06th August 2020 and other referred circulars therein, as applicable to our bank.

Annexure "A"

| Sr.No | Data Element | Harmonized Definition |
|-------|-----------------|--|
| 1 | Consumer Credit | Consumer credit refers to the loans given to individuals which consists of (a) loans for consumer durables, (b) credit card receivables, (c) auto loans (other than loans for commercial use,) (d) personal loans secured by gold, gold jewelry, immovable property, fixed deposits (including FCNR (B)) shares and bonds, etc (other than for business / commercial purposes) (e) personal loans to professionals (excluding loans for business purposes), and (f) loans given for other consumptions purposes (e.g., social ceremonies, etc.) However, it excludes (a) education loans (b) loans given for creation /enhancement of immovable assets (e.g. housing etc) (c) loans given for investment in financial assets (shares, debentures, etc) and (d) consumption loans given to farmers under KCC. For risk weighting purposes under the Capital Adequacy Framework, the extant regulatory guidelines will be applicable. |
| 2 | Personal loans | Personal loans refers to loans given to individuals and consist of (a) consumer credit (b) education loan, (c) loans given for creation / enhancement of immovable assets (a.g. housing, etc.) and (d) loans given for investment in financial assets (shares, debentures, etc) |

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{ This Policy on Resolution frame work for Covid-19 related stress has been approved by the Board of Directors in their meeting held on 31.12.2020 vide Resolution No.22(1) }