

Annexure

Resolution Framework 2.0

Resolution of Covid-19 related stress of Individual Borrowers and Small Business Borrowers

Preamble:

The first wave of Covid -19 during the financial year 2019-20 created a significant financial stress for borrowers across the board impacting the long term viability and cash flows of all including people having a good track record.

Reserve Bank of India, in order to provide relief to the borrowers and to revive the economy has introduced Resolution framework for personal loan borrowers as per Cir No. RBI/2020-21/16 DOR.No.BP.BC/3 /21.04.048/2020-21 dated 06.08.2020, providing guidelines to Banks to reschedule, conversion of Interest or granting of Moratorium based on the assessment of Cash flows of the Borrower.

Accordingly our Bank has brought out a Board approved policy and implemented the same in accordance with the guidelines of RBI Circular dated 06.08.2020. The Resolution Framework was invoked before 31.12.2020 and implemented within 90 days from the date of invocation to the eligible borrowers who have opted for it.

Now during the present Calendar year after March, the second wave of Covid has begun and started devastating the lives of the people, thereby the economy. The impact of the devastation of the resurgence of the pandemic covid-19 is yet to be unfolded.

In view of the uncertainty created by the resurgence of the Covid-19 pandemic, Reserve Bank of India, has now, decided to extend the facility for restructuring existing loans without a downgrading in the Asset Classification (vide their circular No. DOR.STR.REC.11/21.04.048/2021-22 dated 05.05.2021 with certain modifications to the earlier Resolution Framework 1.0.

Name of the Policy

The present policy is termed by RBI as "Resolution Framework 2.0: Resolution of Covid-19 related stress of Individuals and small Business".

Objective of the Policy

The resurgence of the Covid 19 may impact the recovery process and create new uncertainties. With the objective of alleviating the Potential Stress to Individual borrowers and small Businesses, RBI has announced certain measures which are broadly in line with the guidelines of earlier Resolution Framework – 1.0 with suitable modifications wherever necessary.

Guidelines

These guidelines are divided into three parts for requirement of specific resolution of advances:

PART A

Deals with Advances to Individual and small businesses.

PART B

Pertains to Working Capital support for:

- a. Individuals who have availed loans for Business purposes and
- b. Small business where resolution plans were implemented previously.

PART C

Deals with the disclosures and credit reporting requirements by Banks with respect to resolution plans implemented under Resolution Framework – 2.0

Part A: Advances to Individuals and Small Business

Eligibility:

1. Individuals who have availed Personal loans (as defined in Cir No. DBR.No.BP.BC.99 /08.13.100/2017-18 dated 04.01.2018) but excluding loans sanctioned by our Bank to our staff.
2. Individuals who have availed loans and advances for Business purposes and whose total credit exposures are not more than Rs.25.00 crores as on 31.03.2021.
3. Small Business including those engaged in retail and wholesale trade other than those classified as MSME as on 31.03.2021 whose total credit exposures are not more than Rs.25 cores as on 31.03.2021.
4. Further, to be eligible under the present Framework the exposure to the borrower accounts were to be classified as Standard Assets as on March 31, 2021.
5. In case of any breach in the guidelines, the usual Prudential Norms for as mentioned in the guidelines on Prudential Framework for

Resolution of Stress Assets issued on June' 7, 2019 or any other relevant instruction applicable to State Cooperative Banks issued by RBI.

6. The Borrower should not have availed any Resolution in terms of Resolution Framework subject to the guidelines mentioned below under the heading Convergence Norms.

Invocation of Resolution Process:

The lending Institutions shall frame a Board approved Policy at the earliest, within 4 weeks from the issue of RBI Circular dated 05.05.2021 i.e, on or before 02.06.2021.

The Resolution Framework – 2.0 Policy framed in accordance with RBI guidelines and approved by our Board shall be sufficiently brought to the attention of the Public through suitable accessible manner and should be available on the website of our Bank.

The process for Resolution is as under:

1. After due publication of the Policy, the customer has to apply to the Bank for invoking Resolution Plan under the process.
2. The Bank has to laydown guidelines in accordance with the Policy and has to establish a system for redressal of the Borrower who applies under the Policy.
3. The Bank within 30 days of the receipt of application has to communicate in writing to the applicant of its decision.
4. The Last date for invocation of resolution permitted under the present policy is September 30th, 2021.

Permitted Features of Resolution Plans and Implementation:

1. The Resolution Plan implemented under this Framework may, inter alia, include
 - a. Rescheduling of Payments.
 - b. Funding of Interest accrued or to be accrued into Funded Interest Term Loan (FITL)
 - c. Granting of Moratorium.
&
 - d. Revision of Working Capital sanctions.All these/any of the above reliefs shall be based on income streams of the Borrowers. No compromise settlements are permitted under this Framework.

2. The Moratorium, if granted may be for a maximum period of Two years and shall come into force immediately upon implementation of the Plan.
3. The Extension of the residual tenor of the loan facility may also be granted to the borrower with or without payment moratorium shall be two years.
4. The resolution should be finalized and implemented within a period of 90 days from the date of Invocation.
5. The Mutually agreed implementation Plan in accordance with the above guidelines shall come into force only on fulfilment of the following condition:
 - a. Completion of necessary documentation by the borrower.
 - b. Revised terms and conditions gets duly reflected in Bank Books.
 - c. Borrower is not in default with the Bank as per revised terms.

Asset Classification and Provisioning:

1. In case of accounts where Resolution Plan is implemented as per the Policy, the Asset Classification “Standard” may be retained.
2. There may be certain instances where the account slipped to NPA in the intervening to Period between the date of invocation and Implementation, those accounts may be upgraded to “STANDARD” Category subsequently.

Provisioning:

Provision as per IRAC Norms applicable to the bank or 10% of the Exposure on implementation of Resolution Framework. Of these two, whichever is higher has to be provided.

Reversal of Provisions:

1. 50% of the provisions may be written back when the Borrower pays at least 20% of the outstanding loan amount.
2. The remaining 50% may be written back when the borrower pays 10% of the remaining outstanding loan amount.

The above Reversal of Provisions is subject to the condition that the account should not slip into NPA Category at the time of Reversal of Provisions.

Post Implementation Performance:

The subsequent Asset classification on implementation will be governed by extant guidelines of RBI Circular dated 01.07.2015 or any other RBI Circular

applicable to our Bank.

Convergence of Norms for Loans resolved previously:

In case of eligible borrower where Resolution Plan has already been implemented in terms of Resolution Framework 1.0 and where the borrowers have not utilized / partially utilized the benefit or moratoria/ extension of Residual tenor by a period of less than two years, Banks are permitted to use the present Framework to modify such plans for extension of Moratorium/ Extension of Residual Tenor subject to the overall cap of two years. For these convergence, the date of Invocation, Implementation are same as mentioned earlier.

Working Capital Support for Small Businesses where Resolution Plans were implemented previously:

In respect of eligible Borrowers where our Bank has earlier implemented Resolution Framework 1.0, RBI has permitted Banks as a one-time measure to:

- a. Review the working capital sanctioned on reassessment of Working Capital Cycle.
- b. Reduction of Margins

The above exercise shall not be treated as Restructuring.

The decision of Working Capital support as mentioned above shall be implemented before September 30th 2021 with a stipulation that the revised Working capital limits and margins to be restored to the original levels by 31st, March 2022.

Disclosure and Reporting:

Our Bank shall make necessary disclosures in the Financial Statements to be published every year.

Reporting to Credit Information Companies:

1. Upon implementation of the Resolution Plan, the credit reporting by Banks to credit information companies will reflect restructured status as “Restructured due to COVID-19” in the respective credit reports of Borrower.
2. Accordingly the credit history of the Borrower shall consequently be governed by respective policies of credit information companies as applicable to restructured Accounts.

Managing Director

