

VARDHAMAN (MAHILA) CO-OP URBAN BANK LTD.

RECOVERY and NPA MANAGEMENT POLICY

1. General

1.1 In order to reflect a bank's actual financial health in its balance sheet and as per the recommendations made by the Committee on Financial System, the Reserve Bank has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks.

1.2 Broadly, the policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks has to be done on the basis of objective criteria, which would ensure a uniform and consistent application of the norms. The provisioning should generally be made on the basis of the classification of assets into different categories.

1.3 The requirements of the State Co-operative Societies Acts and / or rules made thereunder or other statutory enactments may continue to be followed, if they are more stringent than those prescribed hereby.

2. Non-performing Assets (NPA)

2.1 Classification of Assets as non-performing

2.1.1 A non-performing asset is a loan or an advance where:

(i) Interest and / or instalment of principal remain overdue¹ for a period of more than 90 days in respect of a Term Loan.

Note: Any amount due to the bank under any credit facility, if not paid by the due date fixed by the bank, becomes overdue.

(ii) The account remains 'out of order'², in respect of an Overdraft / Cash Credit (OD/CC) and all other loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits.

Note: An account should be treated as 'out of order' if :

(a). the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or

(b). the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period. The aforesaid 'previous 90 days period' is inclusive of the day for which the day-end process is being run.

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

(iv) In the case of direct agricultural advances as listed in [Annex 1](#), the overdue norm specified at para 2.1.3 would be applicable. In respect of agricultural loans other than those specified in [Annex 1](#), identification of NPAs would be done on the same basis as non-agricultural advances.

(v) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

(vi) In addition, an account may also be classified as NPA in terms of certain specific provisions of this Master Circular, including inter alia paragraphs 2.2.7 and clarifications provided under the frequently asked questions (FAQs) in [Annex-4](#).

2.1.2 The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. should be clearly specified in the loan agreement and the borrower should be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan.

2.1.3 Agricultural Advance

There are no direct agricultural advances to farmers in our Ban and whenever any direct agricultural advance is taken up policy will be amended as per RBI guidelines.

2.1.4 Identification of Assets as NPAs on an ongoing basis:

(i) The system should ensure that identification of NPAs is done on an on-going basis and accounts are classified as NPA immediately, as soon as they turn into NPA.

(ii) The borrower accounts shall be flagged as overdue by system as part of the bank's day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA³ as well as NPA shall be done by the system as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day

end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

Example: If due date of a loan account is March 31, 2022, and full dues are not received before the bank runs the day-end process for this date, the date of overdue shall be March 31, 2022. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2022 i.e., upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2022.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2022 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2022.

(iii) As per RBI guidelines UCBs having total assets of ₹1000 crore or above are required to implement system based asset classification. However, our Bank has already implemented system-based identification of asset classification and the same shall be continued even though it is not mandatory for the Bank implement system based identification of asset classification.

2.1.5 Charging of Interest at monthly rests

Banks shall charge interest at monthly rests in the context of adoption of 90 days norm for recognition of loan impairment w.e.f. from the year ended March 31, 2004 and consequential need for close monitoring of borrowers' accounts.

2.1.6 Classification as Special Mention Account (SMA) and Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) -

SMA is an account which is exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of his/her debt obligations, though the account has not yet been classified as NPA. As early recognition of such accounts enables banks to initiate timely remedial actions to prevent their potential slippages into NPAs, the Bank shall classify loans/advances accounts as SMA, as under in tune with RBI guidelines:

SMA Sub-categories	Basis for classification Principal or interest payment or any other amount wholly or partially overdue for
SMA -0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

In case of revolving credit facilities like cash credit, the SMA sub-categories will be as follows:

SMA Sub-categories	Basis for classification Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

(ii) The above-mentioned instructions on classification of borrower accounts into SMA categories are applicable for all loans, including retail loans, irrespective of size of exposure.

(iii) As per RBI guidelines, CBS having total assets of ₹500 crore and above are required to submit CRILC Report on quarterly basis with effect from December 31, 2019. Detailed operating instructions have been issued vide [circular DoS.OSMOS.No.4633/33.05.018/2019-20 dated January 16, 2020](#) on 'Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) – UCBs' by the Department of Supervision, Reserve Bank of India. The Bank shall follow the same and report to CRILC periodically.

(iv) Bank shall take utmost care about data accuracy and integrity while submitting the information /data on large credit to RBI.

2.2 Treatment of Accounts as NPAs:

2.2.1 Record of Recovery

(i) The treatment of an asset as NPA should be based on the record of recovery. An advance should not be treated as NPA merely due to existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power, balance outstanding exceeding the limit, non-submission of stock statements and the non-renewal of the limits on the due date, etc. Where there is a threat of loss, or the recoverability of the advances is in doubt, the asset should be treated as NPA.

(ii) A credit facility should be treated as NPA as per norms given in paragraph 2.1 above. However, where entire overdues pertaining to all the credit facilities availed by a borrower from a given bank have been regularised by repayment through genuine sources (not by sanction of additional facilities or transfer of funds between accounts), the accounts may be upgraded to 'standard' asset category. In such cases, it should, however, be ensured that the accounts remain in order subsequently and a

solitary credit entry made in an account on or before the balance sheet date which extinguishes the overdue amount of interest or instalment of principal is not reckoned as the sole criteria for treatment of the account as a standard asset.

2.2.2 Treatment of NPAs - Borrower-wise and not Facility-wise

(i) In respect of a borrower having more than one facility with a bank, all the facilities granted by the bank will be treated as NPA and not the particular facility or part thereof which has become irregular/NPA.

(ii) However, in respect of consortium advances or financing under multiple banking arrangements, each bank may classify the borrowal accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances. Each bank shall follow the principle at (i) above for NPA classification of a borrower.

2.2.3 Housing Loan to Staff

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 month 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.

2.2.4 Prudential Guidelines on Restructuring of Advances

The prudential guidelines on restructuring of advances are detailed as under:

(a) Asset Classification Norms

2.2.5.1 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'.

2.2.5.2 The accounts classified as 'standard assets' should be immediately re-classified as 'sub-standard assets' upon restructuring.

2.2.5.3 The non-performing assets, upon restructuring, would slip into further lower asset classification category as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

2.2.5.4 All restructured accounts which have been classified as non-performing assets upon restructuring, would be eligible for upgradation to the 'standard' category after observation of 'satisfactory performance' during the 'specified period' ([Annex 5](#)).

2.2.5.5 In case, however, satisfactory performance during the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the **pre-restructuring payment schedule**.

2.2.5.6 Any additional finance may be treated as 'standard asset', up to a period of one year after the first interest / principal payment, whichever is earlier, falls due 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 one year period, the additional finance shall be placed in the same asset classification category as the restructured debt.

2.2.5.7 In respect of loan accounts which enjoy special regulatory treatment, upon restructuring, such non-performing assets would continue to have the same asset classification as prior to restructuring. In case satisfactory performance of the account is not evidenced during the 'specified period', it would slip into further lower asset classification categories as per extant asset classification norms with reference to the **pre-restructuring repayment schedule**.

2.2.5.8 In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier in terms of the current restructuring package subject to satisfactory performance.

(b) Income Recognition Norms

2.2.5.9 Subject to provisions of paragraphs 2.2.5.6 and 2.2.5.22 interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the account classified as 'non performing assets' will be recognized on cash basis.

(c) Provisioning Norms

2.2.5.10 Normal Provisions

Banks will hold provision against the restructured advances on the basis of classification of assets into prescribed categories as detailed in paragraph 3 below.

2.2.5.11 Provision for Diminution in the Fair Value of restructured Advances

The erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring". Fair value of the loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring".

2.2.5.12 It may please be noted that the above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently in future.

2.2.5.13 Further, it is reiterated that the provisions required as above arise due to the action of the banks resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

2.2.5.14 It is also re-emphasised that the guidelines on restructuring of advances by RBI are aimed at providing an opportunity to banks and borrowers to preserve the economic value of the units and should not be looked at as a means to evergreen the advances.

2.2.5.15 In the published annual Balance Sheets, banks shall make disclosures as per [Annex-6](#)

2.2.5.16 In the case of working capital facilities, the diminution in the fair value of the cash credit / overdraft component may be computed as indicated in para 2.2.7.11 above, reckoning the higher of the outstanding amount or the limit sanctioned as the principal amount and taking the tenor of the advance as one year. The term premium in the discount factor would be as applicable for one year. The fair value of the term loan components (Working Capital Term Loan and Funded Interest Term Loan) would be computed as per actual cash flows and taking the term premium in the discount factor as applicable for the maturity of the respective term loan components.

2.2.5.17 In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1 This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

2.2.5.18 The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

2.2.5.19 If due to lack of expertise / appropriate infrastructure, a bank finds it difficult to ensure computation of diminution in the fair value of advances extended by small branches, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, banks will have the option of notionally computing the amount of diminution in the fair value and providing therefore, at five percent of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than rupees one crore.

2.2.5.20 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

(d) Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL)

2.2.5.21 Asset Classification Norms

The FITL created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL would also be determined based on the subsequent asset classification of the restructured advance.

2.2.5.22 Income Recognition Norms

(i) The income, if any, generated may be recognised on accrual basis, if FITL is classified as 'standard', and on cash basis in the cases where the same has been classified as a non-performing asset.

(ii) The unrealised income represented by FITL should have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalization)".

(iii) Only on repayment in case of FITL, the amount received will be recognized in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

(e) Special Regulatory Treatment for Asset Classification

2.2.5.23 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in para 2.2.5.1 to 2.2.5.8, will be available to the borrowers engaged in important

business activities, subject to compliance with certain conditions as enumerated in para 2.2.5.28 below. Such treatment is not extended to the following categories of advances:

(i) Consumer and personal advances including advances to individuals against the securities of shares / bonds / debentures, etc.

(ii) Advances to traders

2.2.5.24 The asset classification of the above two categories of accounts as well as that of other accounts which do not comply with the conditions enumerated in para 2.2.5.28, will be governed by the prudential norms in this regard described in para 2.2.5.1 to 2.2.5.8 above.

(f) Elements of Special Regulatory Framework

2.2.5.25 The special regulatory treatment has the following two components:

(i) Incentive for quick implementation of the restructuring package.

(ii) Retention of the asset classification of the restructured account in the pre restructuring asset classification category

2.2.5.26 Incentive for Quick Implementation of the Restructuring Package

During the pendency of the application for restructuring of the advance with the bank, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the bank within 90 days from the date of receipt of application by the bank, the asset classification status may be restored to the position which existed when the restructuring application was received by the bank.

2.2.5.27 Asset Classification Benefits

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para 2.2.5.1 to 2.2.5.8:

(i) In modification to para 2.2.5.2, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

(ii) In modification to para 2.2.5.3, during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

2.2.5.28 However, these benefits will be available subject to compliance with the following conditions:

i) The dues to the bank are 'fully secured' as defined in [Annex 5](#). The condition of being fully secured by tangible security will not be applicable in the following cases:

(a) SSI borrowers, where the outstanding is up to ₹25 lakh.

(b) infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing bank(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.

(c) WCTL created by conversion of the irregular portion of principal dues over the drawing power, subject to the condition that provisions are made against the unsecured portion of the WCTL, as under:

- Standard Assets: 20%
- Substandard Assets: 20% during the first year and to be increased by 20% every year thereafter until the specified period (one year after the first payment is due under the terms of restructuring)
- If the account is not eligible for upgradation after the specified period, the unsecured portion will attract provision of 100%.

ii) The unit becomes viable in 10 years, if it is engaged in infrastructure activities, and in 7 years in the case of other units.

iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances. The Board of Directors of the banks should prescribe the maximum period not exceeding 15 years for restructured advances keeping in view the safety and soundness of advances.

iv) Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of banks' sacrifice.

v) Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry.

vi) The restructuring under consideration is not a 'repeated restructuring' as defined in para (iv) of [Annex 5](#).

(g) Disclosures

2.2.5.29 Banks should disclose in their published annual Balance Sheets, under 'Notes on Accounts', information relating to number and amount of advances restructured and the amount of diminution in the fair value of the restructured advances in [Annex 6](#).

(h) Illustrations

2.2.5.30 A few illustrations on the asset classification of restructured accounts are given in [Annex 7](#).

2.2.5.31 Resolution of Covid-19 related stress implemented under the following circulars shall be subject to the specific requirements, including the prudential requirements, specified therein:

(i) [DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020](#) on "Resolution Framework for COVID-19-related Stress" read with [DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020](#) on "Resolution Framework for COVID-19-related Stress – Financial Parameters";

(ii) [DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020](#) on "Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances";

(iii) [DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021](#) on "Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses" read with [DOR.STR.REC.20/21.04.048/2021-22 dated June 4, 2021](#) on "Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses – Revision in the threshold for aggregate exposure";

(iv) [DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021](#) on 'Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)' read with [DOR.STR.REC.21/21.04.048/2021-22 dated June 4, 2021](#) on 'Resolution Framework - 2.0: Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) – Revision in the threshold for aggregate exposure'

2.2.7.32 MSME accounts restructured under the [circulars DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019](#) and [DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020](#) shall be subject to the prudential requirements specified therein.

2.2.8 Other Advances

(i) Advances against term deposits, NSCs eligible for surrender, KVPs and Life policies need not be treated as NPAs although interest thereon may not have been paid for more than 90 days, provided adequate margin is available in the accounts.

(ii) Banks should fix monthly / quarterly instalments for repayment of gold loans for non-agricultural purposes taking into account the pattern of income generation and repayment capacity of the borrowers and such gold loan accounts may be treated as NPAs if instalments of principal and / or interest thereon are overdue for more than 90 days.

(iii) As regards gold loans granted for agricultural purposes, interest is required to be charged as per Supreme Court judgment at yearly intervals and payment should coincide with the harvesting of crops. Accordingly, such advances will be treated as NPA only if instalments of principal and / or interest become overdue after due date.

2.2.9 Recognition of Income on Investment Treated as NPAs

The investments are also subject to the prudential norms on income recognition. Banks should not book income on accrual basis in respect of any security, irrespective of the category in which it is included, where the interest / principal is in arrears for more than 90 days.

2.2.10 NPA Reporting to Reserve Bank

Banks should report the figures of NPAs to the Regional Office of the Reserve Bank at the end of each year within two months from the close of the year in the prescribed proforma given in the [Annex 2](#).

2.2.11 Consumer Education on SMA/NPA

With a view to increasing awareness among the borrowers, banks should place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process. Banks should also consider displaying such consumer education literature in their branches by means of posters and/or other appropriate media. Further, it shall also be ensured that their front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction/disbursal/renewal of loans.

3. Asset Classification

3.1 Classification

3.1.1 Banks shall classify their assets into the following broad groups, in tune with RBI guidelines viz. -

- (i) Standard Assets
- (ii) Sub-standard Assets
- (iii) Doubtful Assets
- (iv) Loss Assets

3.2 Definitions

3.2.1 Standard Assets

Standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

3.2.2 Sub-standard Assets

With effect from March 31, 2005 an asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that

jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

3.2.3 Doubtful Assets

With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

3.2.4 Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India's inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

3.3 Guidelines for Classification of Assets

3.3.1 Basic Considerations

- (i) Broadly speaking, classification of assets into above categories should be done taking into account the degree of well-defined credit weaknesses.
- (ii) In respect of accounts where there are potential threats to recovery on account of erosion in the value of security, it will not be prudent for the banks to classify them first as sub-standard and then as doubtful after expiry of 12 months from the date the account has become NPA. Such accounts should be straight away classified as doubtful asset or loss asset, as appropriate, irrespective of the period for which they have remained as NPA.

3.3.2 Advances Granted under Rehabilitation Packages Approved by Term Lending Institutions

- (i) Banks are not permitted to upgrade the classification of any advance in respect of which the terms have been re-negotiated unless the package of re-negotiated terms has worked satisfactorily for a period of one year. While the existing credit facilities sanctioned to a unit under rehabilitation packages approved by term lending institutions will continue to be classified as sub-standard or doubtful, as the case may be, in respect of additional facilities sanctioned under the rehabilitation packages, the income recognition and asset classification norms will become applicable after a period of one year from the date of disbursement.
- (ii) A similar relaxation be made in respect of SSI units which are identified as sick by banks themselves and where rehabilitation packages / nursing programmes have been drawn by the banks themselves or under consortium arrangements.

3.3.3 Internal System for Classification of Assets as NPA

- (i) Banks may adhere to the timelines for implementation of system-based asset classification mentioned at paragraph 2.1.4 above.
- (ii) Banks, which are not required to implement system-based asset classification in terms of the instructions at paragraph 2.1.4, should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts. The banks may fix a minimum cut-off point to decide what would constitute a high value account depending upon their respective business levels. The cut-off point should be valid for the entire accounting year.
- (iii) Responsibility and validation levels for ensuring proper asset classification may be fixed by the bank.
- (iv) The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines.
- (v) Banks should ensure scrupulous compliance with the instructions for recognition of credit impairment and view aberrations by dealing officials seriously.
- (vi) RBI would continue to identify the divergences arising due to non-compliance, for fixing accountability. Where there is wilful non-compliance by the official responsible for classification and is well documented, RBI would initiate deterrent action including imposition of monetary penalties.

4. Income Recognition

4.1 Income Recognition - Policy

4.1.1 The policy of income recognition has to be objective and based on the record of recovery. Income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, bank shall not take interest on non-performing assets to their income account on accrual basis.

4.1.2 However, interest on advances against term deposits, NSCs, KVPs and life insurance policies shall be taken to income account on the due date, provided adequate margin is available in the accounts.

4.1.3 Fees and commissions earned by the bank as a result of re-negotiations or rescheduling of outstanding debts shall be recognised on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit.

4.1.4 If Government guaranteed advances remain 'overdue' for more than 90 days, the interest on such advances should not be taken to income account unless the interest has been realised. This shall be applicable in cases of both Central and State Government guaranteed accounts.

4.1.5 In cases of loans where moratorium has been granted for repayment of interest, banks may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'. This shall be evaluated against the definition of 'restructured accounts' provided at sl.no. (iii) of [Annex-5](#) to this Master Circular

4.2 Reversal of Income on Accounts Becoming NPAs

4.2.1 If any advance, including bills purchased and discounted, becomes NPA, interest accrued and credited to income account, should be reversed or provided for, if the same is not realised. This will also apply to Government guaranteed accounts which remain overdue for more than 90 days.

4.2.2 However, if loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest, if any, corresponding to the interest accrued during such moratorium period need not be reversed.

4.2.3 In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

4.2.4 In case of equipment leasing, the Bank shall follow prudential accounting standards. Lease rentals comprises of two elements - a finance charge (i.e. interest charge) and a charge towards recovery of the cost of the asset. The interest component alone should be taken to income account. Such interest component taken to income account, before the asset became NPA, if unrealised should be reversed or provided for.

4.3 Booking of Income on Investments in Shares & Bonds

4.3.1 As a prudent practice and in order to follow uniform accounting practice for booking of income on units of UTI and equity of All India Financial Institutions, such income shall be booked on cash basis and not on accrual basis.

4.3.2 However, in respect of income from Government securities / bonds of public sector undertakings and All India Financial Institutions, where interest rates on the instruments are predetermined, income shall be booked on accrual basis, provided interest is serviced regularly and is not in arrears

4.4 Partial Recovery of NPAs

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

4.5 Interest Application

4.5.1 In case of NPAs, as a prudential norm, there is no use in debiting the said account by interest accrued in subsequent months and taking this accrued interest amount as income of the bank as the said interest is not being received. It is simultaneously desirable to show such accrued interest separately or park in a separate account so that interest receivable on such NPA account is computed and shown as such, though not accounted as income of the bank for the period.

4.5.2 The interest accrued in respect of performing assets shall be taken to income account as the interest is reasonably expected to be received. However, if interest is not actually received for any reason in these cases and the account is to be treated as an NPA, then the amount of interest so taken to income shall be reversed or shall be provided for in full.

4.5.3 With a view to ensuring uniformity in accounting the accrued interest in respect of both the performing and non-performing assets, the following guidelines shall be adopted notwithstanding the existing provisions in the respective State Co-operative Societies Act.

(i) Interest accrued in respect of non-performing advances shall not be debited to borrowal accounts but shown separately under 'Interest Receivable Account' on the 'Property and Assets' side of the balance sheet and corresponding amount shown under 'Overdue Interest Reserve Account' on the 'Capital and Liabilities' side of the balance sheet.

(ii) In respect of borrowal accounts, which are treated as performing assets, accrued interest shall be debited to the borrowal account and credited to Interest account and taken to income account. In case the accrued interest in respect of the borrowal account is not actually realised and the account has become NPA, interest accrued and credited to income account shall be reversed or provided for.

(iii) The illustrative accounting entries to be passed in respect of accrued interest on both the performing and non-performing advances are indicated in the [Annex 3](#).

4.5.4 In the above context, it may be clarified that overdue interest reserve is not created out of the real or earned income received by the bank and as such, the amounts held in the Overdue Interest Reserve Account cannot be regarded as 'reserve' or a part of the owned funds of the banks. It will also be observed that the Balance Sheet format prescribed under the Third Schedule to the Banking

Regulation Act, 1949 (As Applicable to Co-operative Societies) specifically requires the banks to show 'Overdue Interest Reserve' as a distinct item on the 'Capital and Liabilities' side vide item 8 thereof.

5. Provisioning Norms

5.1 Norms for Provisioning on Loans & Advances

5.1.1 In conformity with the prudential norms, provisions should be made on the non-performing assets on the basis of classification of assets into prescribed categories as detailed in paragraph 3 above.

5.1.2 Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the bank, the banks should make provision against loss assets, doubtful assets and sub-standard assets as below:

(i) Loss Assets

The entire assets should be written off after obtaining necessary approval from the competent authority and as per the provisions of the Co-operative Societies Act / Rules. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding shall be provided for.

i) Doubtful Assets

(a) Provision shall be 100 per cent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse. The realisable value should be estimated on a realistic basis.

(b) In regard to the **secured portion**, provision shall be made on the following basis, at the rates ranging from 20 per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision Requirement
Up to One Year	20%
One to Three years	30%
Advances classified as 'doubtful for more than three years	100%

(iii) Sub-standard Assets

A general provision of 10 per cent on total outstanding shall be made without making any allowance for ECGC guarantee cover and securities available.

(iv) Provision on Standard Assets

(a) Tier -I banks should make a general provision of a minimum of 0.25 per cent on standard assets.

(b) Tier II banks shall maintain a general provision of minimum 0.40 per cent for 'standard advances'. However, direct advances to agricultural and SME sectors which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto.

(c) The standard asset provisioning requirements are summarized as under:

Category of Standard Asset	Rate of Provisioning
Direct advances to Agriculture and SME sectors	0.25%
Commercial Real Estate (CRE) sector	1%
Commercial Real Estate-Residential Housing Sector (CRE-RH)	0.75%
All other loans and advances not included above	0.40%

(f) The provisions towards "standard assets" need not be netted from gross advances but shown separately as "Contingent Provision against Standard Assets" under "Other Funds and Reserves" (item.2 (viii) of Capital and Liabilities) in the Balance Sheet.

(g) In case banks are already maintaining excess provision than what is required / prescribed by Statutory Auditor / RBI Inspection for impaired credits under Bad and Doubtful Debt Reserve, additional provision required for Standard Assets may be segregated from Bad and Doubtful Debt Reserve and the same may be parked under the head "Contingent Provisions against Standard Assets" with the approval of their Board of Directors. Shortfall if any, on this account may be made good in the normal course.

(h) The above contingent provision will be eligible for inclusion in Tier II capital.

(v) Higher Provisions

There is no objection if the banks create bad and doubtful debts reserve beyond the specified limits on their own or if provided in the respective State Co-operative Societies Acts.

5.2 Provisioning for Retirement Benefits

Bank is retirement benefit schemes for their staff, viz. Leave Encashment and Gratuity. It is necessary that such liabilities are estimated on actuarial basis and full provision shall be made every year for the purpose in Profit and Loss Account.

5.3 Provisioning Pertaining to Fraud Accounts

With effect from May 14, 2015, provisioning norm in respect of all cases of fraud identified in terms of the Master Circular on Frauds - Classification and Reporting, as updated from time to time, are as under:

5.3.1 The entire amount due to the bank (irrespective of 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;

5.3.2 However, where there has been delay beyond the prescribed period, in reporting the fraud to Reserve Bank, the entire provisioning is required to be made at once. In addition, Reserve Bank of India may also initiate appropriate supervisory action where there has been delay by the bank in reporting a fraud or provisioning there against.

5.4 Guidelines for Provisions in Specific Cases

(i) State Government guaranteed Advances

From the year ended March 31, 2006, State Government guaranteed advance and investment in State Government guaranteed securities would attract extant provisioning norms on the basis of classification of assets into prescribed categories as detailed in paragraph 3 above.

(ii) Advances granted under Rehabilitation Packages approved by Term Lending Institutions

(a) The existing credit facilities sanctioned to a unit under rehabilitation package approved by term lending institutions, should continue to be classified as sub-standard or doubtful asset as the case may be.

(b) However, the additional facilities sanctioned as per package finalised by term lending institutions, the income recognition and asset classification norms will become applicable after a period of one year from the date of disbursement.

(c) In respect of additional credit facilities granted to SSI units which are identified as sick and where rehabilitation packages / nursing programmes have been drawn by the banks themselves or under consortium arrangements, no provision need be made for a period of one year.

(iii) Advances against fixed / term deposit, NSCs eligible for surrender, KVPs, and life policies are exempted from provisioning requirements.

(iv) Advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.

6. Follow-up and Recovery of Overdues/NPA accounts:

6.1 SARFAESI / Appeal to Co-operative Dept:

If follow up with the borrower / guarantor for regularization/ recovery does not yield the desired result, depending on the security available and the quantum of dues to the Bank, action shall to be initiated either under SARFAESI Act, 2002 or matter has to be referred to Dept of Co-operation.

In case of auction, valuation of the properties may be taken from different valuer other than the valuer at the time of sanction / renewal for fixation of Reserve Price. In case this is not possible approval of the Board has to be taken for obtaining valuation from the earlier valuer.

A suit shall be filed in DRT / Court or a recovery petition shall be filed with Dept of Co-operation for the recovery of the residual dues, if any, after crediting the sale proceeds realized under SARFAESI Or when action cannot be taken under SARFAESI.

6.2 Waiver of legal action:

Where all remedies for recovery are exhausted, it is prudent to take judicious decision permitting waiver of legal action, considering the following aspects.

- a) Nature of loans and quantum of amount outstanding;
- b) Record of efforts made earlier for recovery of the loan;
- c) Availability & realisability of securities whether charged or not-charged to the Bank;
- d) Whether all secured moveable assets are disposed and appropriated to loan account
- e) Prospects of recovery by a compromise settlement
- f) Whether examination of staff lapses is completed.
- g) Waiver proposal to be put up well before expiry of security documents.

7.0 Compromise:

7.1 Compromise and write-offs involve sacrifices by the Bank. Therefore, subject to the guidelines of the APCS Act, the authority to accept compromises / write-offs lies solely with the Board of Directors.

Bank's approach to compromise as a recovery option will be based on an analysis of the strengths and weaknesses in a given case and with an endeavour to recover its dues to the maximum extent possible, with minimum sacrifice. Settlements through compromises will be a negotiated settlement.

The following basic principles are to be kept in view while considering the compromise offers related to advances.

7.2 Applicability: The compromise settlement may be considered in –

- a) All NPAs.
- b) All suit filed, including decreed accounts. Wherever compromises have entered in these accounts, consent decree may be obtained from respective courts.
- c) All accounts where legal action is waived; written off accounts.
- d) Cases of fraud can be settled under compromise with the approval of the Board.

7.3 Basic factors governing compromise settlement:

Compromise Settlement shall be considered particularly based on:

- a) Realizable value of the securities, based on the saleability and its present discounted value; (Net present value)
- b) The latest status of the borrowing entity i.e., Level of activity.
- c) The influence of group or sister concerns, on the defaulting borrower for securing a better offer
- d) Present quality of assets charged to the Bank and enforceability of documents.
- e) Knowledge of worth of borrower and guarantor and details of other properties owned by them.
- f) Status / stage of the legal process; (in case of decreed accounts the scope for compromise shall be governed by considerations of enforceability)
- g) Extent of actual loss by write off involved.
- h) Proper distinction needs to be made between wilful defaulter and defaults in repayment due to circumstances beyond their control.

7.4 Scope of Concessions:

Keeping in view the various factors, any one or more of the following concessions can be considered:

- a) Waiver / concession either in full or part, rate and/ or amount of interest / penal interest charged / accrued so far;
- b) Waiver / concession in interest to be charged for a predetermined further period;
- c) Remission of a part of the principal dues (in addition to partial or full remission of interest);
- d) Compromise settlement does not necessarily mean One Time Settlement alone, but should to be viewed as a process of negotiation resulting in rephasing of repayment with one or more of the above concessions.

7.5 Computation of total liability:

- a) For the purpose of computing total liability / extent of sacrifice, interest has to be recalculated at the contracted Rate from the date the account has been identified as NPA up-to the end of the previous month of the proposal / offer. Any subsequent credits appropriated to be taken into account.
- b) The compromise amount should not generally be less than the Principal amount.
However, the Board shall be final authority in deciding on the amount of sacrifice in principal as well as interest.
- c) The Court fee/ costs/ expenses incurred / valuation charges etc and Advocate Professional fee paid/ payable in the recovery proceedings shall be taken into account for the purpose of computation of total liability.
- d) All compromise proposals shall clearly spell out the basis on which the negotiated amount of settlement has been arrived at.
- e) While considering compromise proposals, fresh valuation of collaterals shall be obtained if the existing valuation is older than six months. In genuine cases of difficulty for compliance with this requirement, the sanctioning authority may approve the compromise proposal with deviation.
- f) All settled compromises shall be properly documented and duly acknowledged by the borrowers / guarantors;
- g) All compromise sanctions shall contain a default clause and in case of default, any credit made into the borrower's account will automatically extinguish the borrower's liability and no claim for refund shall be entertained.
- h) In all suit filed cases (Civil/ DRT) compromise decrees have to be filed in the court with proper default clause.

7.6 Terms of payment:

- a) A down payment of 10% to 25% of the outstanding dues shall normally be insisted upon, which shall be held in a "no lien" account.
- b) The sources of funds to pay the compromise amount shall be identified and recorded particularly where the payment is proposed to be paid in installments.
- c) The entire compromise amount unless otherwise indicated, shall be paid within a maximum period of three months from the date of communication to the borrower. Sometimes the borrowers approach the Bank for extension of time for payment of compromise amount for various valid reasons. The same requires the approval of the Sanctioning Authority, which approved the compromise, subject to payment of interest at prevailing base rate.

- d) In case the borrower is allowed to pay in instalments, unless otherwise approved by the Competent Authority, interest should be charged for the delayed period at a rate approved by the sanctioning authority.
- e) In all cases where compromise amount is payable in instalments, postdated cheques are to be insisted upon from the borrowers, so as to invoke the provisions under section 138 of the Negotiable Instruments Act 1881, in the event of dishonour of cheques;
- f) Recoveries received in compromise settled accounts will be first appropriated towards principal compromise amount and thereafter towards the interest amount on the compromise amount.
- g) Approval of a compromise proposal also tantamount to approval of additional provision, write off of residual balance, release of securities, withdrawal of legal action, stoppage of invocation of provision under the SARFAESI Act and dropping of residual balance from AUCA.
- h) Wherever there is default in payment as per settlement/ terms of compromise, Branch has to invariably serve a letter/ notice to the parties informing the cancellation of compromise and demanding payment of entire outstanding liability as per records/ decree/Recovery certificate/ Award/ suit amount. The upfront amount paid (if any) will be appropriated towards the total dues.

7.7 Accounting aspects of NPA a/cs

- i. In respect of NPA accounts, expenses including insurance premium, paper publication charges, security guard wages, legal expenses etc. shall be debited to Branch / HO Expenses accounts and a separate record shall be maintained for future reference and recovery. At the time of recovery, the Expenses account shall be credited.
- ii. Recoveries in NPA accounts shall be first appropriated towards expenses incurred but not debited to borrower's account. Further recovery shall be appropriated towards interest reversed on identification of the account as NPA and parked in Overdue Interest Reserve a/c. Further recovery shall go towards recovery of principal.

Any receipts in to the account after write off shall be credited to P & L.

Branches may send proposal to the Board, which will be considered by the Board on a case to case basis.

7.8 Factors for arriving at quantum of sacrifice:

For the purpose of calculating quantum of compromise, the NPA accounts are classified into two categories.

Suits filed

Suits not filed.

In case of suits not filed accounts, the amount of sacrifice would be arrived by calculating the difference between the amount of balance in the real account plus interest calculated at the rate of 12.00 % P A from the date of NPA or as decided by the Board or PLR/Base Rate and the amount offered by the borrower.

In case of Suits Filed Accounts

a) Where the suits are not decreed:

1. Amount due (Suit amount + interest @12.00% P A from the date of suit)
2. Compromise amount.

Amount of concession (1-2)

Where suits are decreed:

1. Amount Due (suit amount interest at decreed rate or 12.00 % P A whichever is lower)
2. Compromise amount

Amount of concession (1-2)

7.9 Economics of Compromise

Any settlement proposal results in net loss to the bank either as write off or as waiver. The estimated net loss is arrived at as under:

Net Loss

- a. Balance outstanding (as per real account)
- b. Expenses
- c. Undebited interest (@ 12.00 % P A or as decided by Board)
- d. Total amount due (a+b+c)
- e. Compromise offer
- f. Net loss (d-e)
- g. Write off/waiver

It would be necessary that a committee is to be set up to discuss with the borrowers on compromise settlements and to examine the settlements. The committee, with approval of chairman has to recommend to the Board on compromise settlements. The committee has also to examine the write off proposals and put up to the Board for such writings off. The guidelines in this regard from Reserve Bank of India is that the writing off proposal to be done in accordance with the Cooperative Societies Act. The Co-op Society Act specifies that the General Body has to take "decision on Bad Debts considered irrecoverable"

For the purpose of compromise settlement, the committee will have the following members.

1. Branch Manager where account is being maintained.
2. Assist. General Manager / Branch Manager of any other branch.
3. Deputy General Manager
4. General Manager
5. Secretary
6. Chief Executive Officer

(Minimum quorum three members – However Either Secretary or CEO is must)

In case of delay in payment of settlement amount, interest to be charged @ 12.00 % for the delayed payment. However, CEO with approval of chairman may permit waiver of interest either fully or partly for delayed payment of settlement amount.

7.10 Wilful Defaulters:

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

- a) the unit has defaulted in meeting its payment / repayment obligations to the lender even when it has capacity to honour the said obligation.
- b) the unit has defaulted in meeting its payment / repayment obligation to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes or siphoned off.
- c) the unit has defaulted in meeting its payment / repayment obligation to the lender and has also disposed of or removed the movable fixed assets or immovable property given by it for the purpose of securing a term loan, without the knowledge of the bank/lender. Collection and dissemination of information on cases of wilful default of Rs. 25.00 lakhs and above has to be reported RBI periodically for placing in public domain.

7.11 Penal Measures:

The following measures should be initiated against wilful defaulters:

- (a) No additional facilities be granted to the listed wilful defaulters. In addition, the entrepreneurs / promoters of companies where bank have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance for floating new ventures for a period of 5 years from the date the name of the wilful defaulter is published in the list of wilful defaulters by the Reserve Bank of India.
- b) The legal process, where warranted, against the borrowers / guarantors and foreclosure of loans should be initiated expeditiously. The bank may also initiate criminal proceedings.

7.12 Procedure to be followed in case of overdue gold loans:

Branches shall generate a report of gold loans every month where the due date is getting over during the next month and send notices to the respective borrowers informing them that the due date is getting over and advising them to close the loan account/s before the due date.

If the borrower does not respond to the notice given by the Branch and the due date is over, then branch has to send another notice by registered post with acknowledgment due to the borrower giving a time limit of 10 days for closure of the overdue gold loan. If the borrower fails to close the overdue gold loan within the time mentioned in the notice, then, branch has to furnish the details of all such gold loans to Head Office which in turn arrange for publishing auction of gold ornaments pledged duly fixing the date for auction either at Branch premises or at HO.

On the date mentioned in the paper publication, the gold ornaments shall be put for open auction. The bidders participating in the open auction of gold ornaments are required to pay security deposit. Those bidders who deposit security deposit shall only be allowed to participate in the auction.

The bidder who has quoted highest amount in the open auction shall be declared as successful bidder and the person has pay the bid amount immediately and take delivery of the ornaments. If the successful bidder fails to pay the bid amount, Bank shall forfeit the security deposit and shall have the right either to cancel the bid or to accept the bid of the second highest bidder.

After the receipt of bid amount from the successful bidder, the amount is to be adjusted towards closure of the Gold loan and there remains any surplus, the amount is to be refunded to the gold loan borrower either by crediting to his/her Saving bank account or by way of Pay order/ Banker's cheque. The pay order/ Banker's cheque shall be dispatched to the latest available address of the gold loan borrower immediately.

In case the auction proceeds of gold ornaments are not sufficient to close the gold loan account, then a notice is to be served on the borrower for payment of the remaining amount together with interest till the date of closure of the gold loan.

Annex 1
(vide para 2.1.3)

Direct Finance to Agriculture

1.1 Finance to Individual Farmers for Agriculture and Allied Activities (Dairy, Fishery, Piggery, Poultry, Bee-keeping, etc.)

Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such loans] engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (up to cocoon stage).

1.2 Loans to others [such as corporates, partnership firms and institutions] for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) up to an aggregate limit of 2 crore per borrower for the following purposes:

- (i) Short-term loans for raising crops, i.e. for crop loans. This will include traditional/non-traditional plantations, horticulture and allied activities.
- (ii) Medium & long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm and development loans for allied activities).
- (iii) Loans for pre-harvest and post-harvest activities viz. spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
- (iv) Loans to farmers up to ₹50 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not.
- (v) Loans to small and marginal farmers for purchase of land for agricultural purposes.
- (vi) Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral.
- (vii) Export credit for exporting their own farm produce.

Annex 4

(Clarification on certain frequently asked questions)

(vide para 7)

1. Whether a working capital account will become an NPA if the stock statements are not submitted regularly? What should be the period for which the stock statements can be in arrears before the account is treated as an NPA?

Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are first appropriated in times of distress. Considering the practical difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months would be deemed as irregular. A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days.

2. Whether an account will become an NPA if the review / renewal of regular / ad-hoc credit limits are not done when due? What should be periodicity of review / renewal to decide the present status of an account?

Banks shall adhere to the instructions contained in the [Master Circular for Urban Cooperative Banks \(UCBs\) on Management of Advances – UCBs dated July 1, 2015](#), as updated from time to time, regarding the requirement of policy for periodic review of the working capital limits. Further, banks shall also adhere to the instructions issued vide [circular DoS.CO.PPG.BC.1/11.01.005/2020-21 dated August 21, 2020](#) on 'Ad-hoc/Short Review/Renewal of Credit Facilities', including inter alia the requirement of a detailed Board approved policy on methodology and periodicity for review/renewal of credit facilities within the overall regulatory guidelines and strict adherence to the same. An account where the regular / ad-hoc credit limits have not been reviewed or have not been renewed within 90 days from the due date / date of ad-hoc sanction will be treated as NPA. 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.

3. Regularisation of the account around the date of balance sheet - Whether it will be in order to treat a borrowal account as 'standard', if it has been irregular for a major part of the year, but has been regularised near 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 banks must furnish satisfactory evidence to the Statutory Auditors / Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

4. Classification of NPAs where there is a threat to recovery

How should the instructions on classification of NPAs straightaway as doubtful or a loss asset be interpreted and what can be termed as a 'significant credit impairment'?

An NPA need not go through the various stages of classification in case of serious credit impairment and such assets should be straightway classified as a doubtful / loss asset as appropriate. Erosion in the value of security can be reckoned as significant when the realizable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category and provisioning should be made as applicable to doubtful assets.

5. Classification of credit facilities under consortium

In certain cases of consortium accounts, though the record of recovery in the account with a member bank may suggest that the account is a NPA, the banks submit that, at times, the borrower has deposited adequate funds with the consortium leader / member of the consortium and the bank's share is due for receipt. In such cases, will it be in order for the member bank to classify the account as 'standard' in its books?

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

6. Appropriation of recoveries - What is the practice to be adopted by banks regarding appropriation of recoveries in NPA accounts?

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards Principal or interest due) banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

7. Overdues in other credit facilities - There are instances where banks park the dues from a borrower in respect of devolved letters of credit and invoked guarantees in a separate account, irrespective of whether the borrower's credit facilities are regular or not. How to determine when the account in which such dues are parked has become an NPA?

A number of banks adopt the practice of parking the dues of the borrower in respect of devolved letters of credit and invoked guarantees in a separate account which is not a regular sanctioned facility. As a result, these are not reflected in the principal operating account of the borrower. This renders application of the prudential norms for identification of NPAs difficult. It is, therefore, advised that if the debts 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.

8. Treatment of loss assets - An NPA account will be classified as a loss asset only when there is no security in the account or where there is considerable erosion in the realisable value of the security in the account. What can be termed as a 'considerable' erosion for the account to be classified as a loss asset?

If the realisable value of the security, as assessed by the bank / approved valuers / RBI is less than 10 per cent of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset. It may be either written off after obtaining necessary permission from the competent authority as per the Co-operative Societies Act / Rules, or fully provided for by the bank.

9. Valuation of Security - A major source of divergence in provisioning requirement was the realisable value of the primary and collateral security. Can uniform guidelines be prescribed for adoption in this area, at least for large value accounts?

With a view to bringing down divergence arising out of difference in assessment of the value of security it has been decided that in cases of NPAs with balance of ₹10 lakh and above:

- a) The current assets and their valuation are looked into at the time of Statutory Audit / Concurrent audit. However, in order to enhance the reliability on stock valuations, stock audit at annual intervals by external agencies could be considered in case of larger advances. The cut off limit and the names of the external agencies may be finalised by the Board.
- b) 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.

Annex 5

**Prudential Guidelines on Restructuring of Advances
Key Concepts**

i) Advances

The term 'Advances' will mean all kinds of credit facilities including cash credit, overdrafts, term loans, bills discounted / purchased, receivables, etc. and investments other than that in the nature of equity.

ii) Fully Secured

When the amounts due to a bank (present value of principal and interest receivable as per restructured loan terms) are fully covered by the value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security.

iii) Restructured Accounts

A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons).

iv) Repeatedly Restructured Accounts

When a bank restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period up to which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

v) SMEs

Small and Medium Enterprises as defined in terms of the [circular FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21 dated August 21, 2020](#) on 'New Definition of Micro, Small and Medium Enterprises – clarifications', as updated from time to time.

vi) Specified Period

Specified Period means a period of one year from the date when the first payment of interest or installment of principal falls due under the terms of restructuring package.

vii) Satisfactory Performance

Satisfactory performance during the specified period means adherence to the following conditions during that period.

Non-Agricultural Cash Credit Accounts

In the case of non-agricultural cash credit accounts, the account should not be out of order any time during the specified period. In addition, there should not be any overdues at the end of the specified period.

Non-Agricultural Term Loan Accounts

In the case of non-agricultural term loan accounts, no payment should remain overdue for a period of more than 90 days. In addition, there should not be any overdues at the end of the specified period.

All Agricultural Accounts

In the case of agricultural accounts, at the end of the specified period the account should be regular.

Prudential Guidelines on Restructuring of Advances

Particulars of Accounts Restructured		(₹ in lakh)		
		Housing Loans	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			
Sub-standard advances restructured	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			
Doubtful advances restructured	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			
Total	No. of Borrowers			
	Amount outstanding			
	Sacrifice (diminution in the fair value)			
Application for restructuring which are under process, package not approved	No. of borrowers			
	Amount outstanding			

Any amount due to the bank under any credit facility, if not paid by the due date fixed by the bank, becomes overdue.

2. An account should be treated as 'out of order' if:

i. the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or

ii. the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period. The aforesaid 'previous 90 days period' is inclusive of the day for which the day-end process is being run.

3. Refer paragraph 2.1.6

4. 'System-based asset classification' would mean asset classification (downgrading as well as upgrading) carried out by the CBS / computerized systems of the bank in an automated manner on an ongoing basis, based on the relevant RBI instructions/guidelines.

5. (i) Banks having deposits below ₹100 crore, operating in a single district.

ii) Banks with deposits below ₹100 crore operating in more than one district, provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95% of the total deposits and advances respectively of the bank.

iii) Banks with deposits below ₹100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganization of the district.

The deposits and advances as referred to in the definition may be reckoned as on 31st March of the immediate preceding financial year.

6. Banks not qualifying as Tier I.

7. CRE-RH would consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. However, integrated housing projects comprising some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10% of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10%, the project loans should be classified as CRE and not CRE-RH.

8. For greenfield projects, financial closure is defined as a legally binding commitment of equity holders and debt financiers to provide or mobilise funding for the project. Such funding must account for a significant part of the project cost which should not be less than 90 per cent of the total project cost securing the construction of the facility.