SCHEME OF COVID STRESS RESOLUTION FRAMEWORK 2.0 UNDER RBI CIRCULAR DATED 5TH MAY 2021
- EXTRACTS FROM THE BANK'S COVID STRESS RESOLUTION POLICY 2.0
(Policy approved by Board on 29th May 2021)

1. INTRODUCTION:

RBI earlier notified "Prudential Framework for Resolution of Stressed Assets" vide its circular no. RBI/2018-19/ 203 / DBR.No. BP.BC.45 / 21.04.048 / 2018-19 dated 7th June 2019. This is covered in the Bank's Resolution of Stressed Assets and Recovery Policy approved by Board on 22nd July 2019.

Due to COVID-19 pandemic, RBI had notified COVID-19 Regulatory Package on 27.03.2020 valid up to 31.05.2020 and extended the scheme up to 31.08.2020. Further, RBI has introduced a new framework for resolution of stress for COVID-19 impacted borrowers, vide circular no. RBI/2020-21/16 / DOR.No.BP.BC/3/21.04.048/2020-21 dated 6th August 2020 (COVID Stress resolution framework, say COVID Resolution Framework 1.0). As per this framework, restructuring can be undertaken without the borrower being classified as substandard.

The resurgence of Covid-19 pandemic in India during 2021 so far and the consequent containment measures to check the spread of the pandemic 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 notified relief measures vide circular no. RBI/2021-22/31 DOR.STR.REC.11 / 21.04.048 / 2021-22 dated 5th May 2021 titled 'Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses'. This policy of the Bank covers the COVID Resolution Framework 2.0 announced by RBI. Under this framework, standard classification may be continued for borrowers after implementation of restructuring.

2. SCOPE OF THE POLICY:

- This policy shall be applicable Pan-Bank.
- This policy shall be subject to relevant stipulations of RBI and laws & regulations in force from time to time.
- This policy shall be read in conjunction with RBI circular dated 5th May 2021 on COVID Resolution Framework 2.0; COVID stress resolution framework vide circular dated 6th Aug 2020; Prudential framework for resolution of stressed assets vide circular dated 7th June 2019 and relevant internal policies of the Bank.

3. VALIDITY PERIOD:

Resolution under this framework may be invoked up to and not later than 30th September 2021 or such other time as may be permitted by RBI in future.

4. EXISTING PRUDENTIAL FRAMEWORK:

The Bank had adopted revised & updated 'Resolution of Stressed Assets and Recovery Policy' with Board approval on 22nd July 2019. This is pursuant to 'Prudential Framework for Resolution of Stressed Assets' notified by RBI on 7th June 2019, as referred above.

Any resolution plan to be implemented contrary to the provisions of this COVID stress resolution framework 2.0, or beyond the timelines provided by this framework, shall be governed by the normal provisions for resolution of stressed assets covered in the 'Resolution of Stressed Assets and Recovery Policy'. This means that any restructuring of standard assets not implemented within timelines stipulated herein or in breach of other stipulations, would lead to downgrade of the asset to NPA status.

5. <u>BORROWERS QUALIFIED FOR RESTRUCTURING UNDER COVID RESOLUTION FRAMEWORK 2.0:</u>

5.1 <u>Basic eligibility conditions:</u>

a) The borrowers should not have availed of any resolution with the Bank in terms of the COVID Resolution Framework – 1.0 subject to the special exemption mentioned in **section 6 clause (b) and clause (c).** However, the resolution under this COVID resolution framework 2.0 may also be invoked for borrowers who have availed benefits like moratorium/deferment of interest under the COVID regulatory package earlier announced by RBI in March 2020.

b) The credit facilities / investment exposure to the borrower was classified as **Standard by the Bank as on March 31, 2021.**

c) Resolution under this policy shall be provided only to the borrowers **having stress on account of Covid-19**. This shall be evaluated as per guidelines specified in **section 5.4** below.

Any resolution plan implemented in breach of the stipulations of this COVID Resolution Framework 2.0 shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 ("Prudential Framework").

5.2 <u>Eligible borrowers:</u>

The following shall be the eligible borrowers under the COVID resolution framework 2.0:

a) Individuals who have availed of personal loans * (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics"), excluding the credit facilities provided by lending institutions to their own personnel/staff.
b) Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have <u>aggregate exposure</u> of not more than Rs.25 crore as on March 31, 2021.
c) Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the lending institutions have <u>aggregate exposure</u> of not more than Rs.25 crore as on March 31, 2021.

* For the purpose of clause (a) above, 'Personal loans' shall have the same meaning as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics". As per this circular, 'Personal loans' refer to loans given to individuals and consist of:

1) Consumer credit : This 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 jewellery, 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.).

2) Education loans,
3) Loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and
4) Loans given for investment in financial assets (shares, debentures, etc.).

5.3 Borrowers not eligible:

The following exposures of the Bank are not eligible for resolution under this policy. These were specified by RBI in COVID Resolution Framework 1.0. Now it is stipulated that these exclusions will also apply to COVID Resolution Framework 2.0.

a) Credit facilities provided by the Bank to own personnel/staff.

b) MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs.25 crore or less as on March 31, 2021. It may be noted that the Bank's Policy on Revival and Rehabilitation of MSMEs will apply for such MSME borrowers.

c) Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated), on priority sector lending, or other relevant instructions as applicable to specific category of lending institutions. In this regard, reference may be made to para 8.1 of the latest Master Directions on priority sector lending dated 4th Sep 2020 as updated till 29th Apr 2021 or as may be subsequently updated/modified.

Note: As per FAQs of RBI issued on COVID Resolution Framework 1.0, farm credit is excluded from the scope of this Resolution Framework, except for loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. Subject to the above, loans given to farmer households would be eligible for resolution under the Resolution Framework if they do not meet any other conditions for exclusions listed in the Resolution Framework.

d) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.

e) Exposures to financial service providers as in sub-section (17) of Section 3 of the Insolvency and Bankruptcy Act, 2016.

f) Exposures to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

Other exclusions:

- Borrowers / promoter directors/partners who are classified as willful defaulters / fraud with any lender shall not be eligible for restructuring relief / additional finance under this policy. Fraud classification may be identified by check of Central Fraud Registry. However, as provided by RBI, there may be cases of fraud/malfeasance where the existing promoters are replaced by new promoters and the borrower company is totally delinked from such erstwhile promoters/management. In such cases, the Bank may take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters/management.
- Borrowers who/which are under insolvency resolution process under Insolvency and Bankruptcy Code (IBC) shall not be eligible for relief under this policy.
- Borrowers who have been classified as RFA with the Bank will also be excluded from restructuring under this policy.

5.4 COVID impact evaluation:

COVID impact on the borrowers may be evaluated as follows. In the credit appraisal / evaluation note, the factors due to which the borrower is deemed as under stress due to COVID pandemic shall be recorded.

Personal Loans:

Individual borrowers impacted by COVID-19 would, inter alia, include those whose activities were adversely affected by income and/or expense factors like:

- Reduction in salary,
- Job loss,
- Drop in income of individuals/family impacting his/her repayment capacity,
- Any other factors arising due to COVID (which has impacted the financial /repayment ability of the borrower or the family – Ex: Hospitalisation expenses)

Other Exposures impacted by COVID:

In case of exposures other than personal loans, resolution plans for eligible borrowers under this framework is provided only to individuals and small businesses who availed credit facilities for business purposes and having stress on account of Covid-19. Borrowers impacted by COVID19 would include those whose business activities have been adversely affected by factors like –

- Cancellation / deferment / re-schedulement of orders/drop in demand
- Changes in government/regulatory policies
- Disruption arising out of lockdown, containment zones and other restrictions
- Shutdown of unit / work place,
- Non-availability of adequate manpower,
- Non-availability or inadequate availability of inputs/raw materials required for business activity,
- Halting or slow-down of project under implementation,
- Inadequate transportation facilities for transport of goods / people,
- Death of key promoter director / managerial personnel due to COVID, which disrupted business decision administration & operations,

- Non-realization of debtors or elongation of realization period,
- Any other factors arising due to COVID (which has impacted the financial /repayment ability of the borrower).

6. PERMITTED FEATURES OF RESOLUTION PLANS AND INVOCATION PROCESS:

a) **Restructuring:** The resolution plans implemented under the COCOD Resolution Framework 2.0 may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as a resolution plan for this purpose.

b) **Maximum moratorium / tenor extension:** The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.

Modification of existing resolution plan: In case resolution plan was implemented under COVID resolution framework 1.0, but the resolution plan had permitted no moratorium or moratorium of less than two years and / or extension of residual tenor by a period of less than two years, then the it is permitted to use COVID Resolution Framework 2.0 to modify such plans. Resolution plans sanctioned under Resolution Framework 1.0 may be modified only to the extent of increasing the period of moratorium / extension of residual tenor up to the cap of 2 years specified above, and the consequent changes necessary in the terms of the loan for implementing such extension. The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework 2.0 combined, shall be two years.

c) **Review of working capital requirement for existing resolution implemented cases:** In respect of borrowers specified in section 5.2 (b) & (c) above, i.e. individuals who availed business loans and small businesses, where resolution plans had been implemented in terms of the Resolution Framework 1.0, it is permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The margins and working capital limits to be restored (to the levels as per the resolution plan implemented under Resolution Framework 1.0), by March 31, 2022.

d) **Additional finance:** It is also permitted to sanction additional finance as part of resolution plan, even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance may be classified as ‘Standard’ till implementation of the plan regardless of the actual performance of the borrower in the interim.

e) **Conversion of debt into marketable securities:** The resolution plan in the nature of restructuring plan may provide for conversion of a portion of the debt into equity or other marketable, nonconvertible debt securities issued by the borrower, provided the amortisation schedule and the coupon carried by such debt securities, post implementation of resolution plan, are similar to the terms of the debt held on the books of the Bank. The holding of such instruments by the Bank shall be subject to the extant instructions of RBI on investments as applicable to them. **

** **Note:** In case of option (c) above, the valuation of equity instruments issued, if any, shall be governed by the provisions of Paragraphs 19(c) and 19(d) of the Annex to the Prudential Framework (RBI circular dated 7th June 2019) whereas debt securities shall be valued as per the instructions compiled at Paragraph 3.7.1 of the Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015 (as amended from time to time), or other relevant instructions as applicable to specific category of lending institutions. In case the lending institutions convert any portion of the debt into any other security, the same shall collectively be valued at Re.1.

6.1 RESOLUTION INVOCATION:

- The resolution process under this Framework 2.0 shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.
- In respect of applications received by the Bank from customers for invoking resolution process under this Framework, the decision on the application shall be communicated in writing to the applicant within 30 days of receipt of such applications. In order to optimise the processing time, product-level standardized templates for resolution under this Framework would be put in place.
- The decision to invoke the resolution process under this framework shall be taken by the Bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- The last day for invocation of resolution under this Framework 2.0 is **30th September 2021**.

6.2 RESOLUTION PLAN IMPLEMENTATION:

The resolution plan should be finalised and implemented within **90 days** from the date of invocation of the resolution process under this Framework 2.0. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:

- All related documentation, including execution of necessary agreements between the Bank and borrower and collaterals provided, if any, are completed in consonance with the resolution plan being implemented;
- The changes in the terms and conditions of the loans get duly reflected in the Bank's books; and,
- The borrower is not in default with the Bank as per the revised terms.

6.3 EVALUATION OF BORROWERS:

While sanctioning the moratorium period / tenor extension (within 2 years stipulated by RBI) or any additional finance, the following principles may be considered by the relevant business segments of the Bank:

- The eligible borrowers would be those whose immediate ability to repay their loans has been impacted on account of COVID19, but who otherwise has a capability to meet his loan obligations upon being given a tenor extension and/or moratorium upto a maximum of 2 years, within the ambit of extant regulatory stipulations.
- The parameters to decide the eligible borrowers would, inter alia, include leverage, debt servicing capability, liquidity, past repayment track record, the Credit Bureau score, internal score card, loan to value in case of loans secured against hard collateral, total number loans / credit cards availed, Cheque/ECS bounces in the past, etc., depending on the nature of exposure and type of borrower.
- Bank will consider a resolution plan, depending on the profile of the customer.

7. ASSET CLASSIFICATION AND PROVISIONING:

This will be in accordance with extant RBI stipulations.

8. DISCLOSURES AND REPORTING:

This will be in accordance with extant RBI stipulations.

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