Tamilnad Mercantile Bank Ltd

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Potential NPAs Policy & Procedures : 2016-17

DOCUMENT VERSION CONTROL

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Document History

Version No.	**Date of Approval**	**Brief Description of Changes**	**Reason**
1.0	27.12.2013 (Board)	Newly Developed The following aspects to be included as early alerts. 1. Dispute among partners of the borrower firm. 2. Abrupt change in product lines. 3. Presence of too much stagnant stocks. 4. Too much of sales returns on account of quality issues. 5. Pollution concerns 6. Disputes with revenve authorities. 7. Change in management 8. Adverse rating migrations.	Rectification of AFI 2013-2014 Observation
2.0	18.09.2015 (Board)	Additional Timely submission of credit information to CRILC and accessing information therefrom,prompt formation of Joint Lender's Forums(JLFs), monitoring the progress of JLFs and adoption of Corrective Action Plans (CAPS),etc.	Rectification of AFI 2014-15 Observation

Next Review Date: 31.03.2017 The document should be reviewed every year.

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TAMILNAD MERCANTILE BANK LTD., HEAD OFFICE, THOOTHUKUDI

CREDIT AUDIT & MONITORING DEPARTMENT

POTENTIAL NPAs - POLICY AND PROCEDURES
2016-2017

1. Introduction:

1.1 The health of the Credit portfolio in banks in India has been receiving re-iterated regulatory attention, in view of the increasing incidence of Non-Performing Assets (NPAs).

1.2 Accent is on not only in speedy recovery of NPAs but also on the prevention of assets from falling into the NPA category: i.e., identification of Potential NPAs and resolving the related problems.

1.3 This Memorandum seeks to present:

- The categorization proposed for Stressed Assets in the pre-substandard category.
- The Bank's policy regarding the category of potential NPAs.
- Bank's approach towards Potential NPA accounts i.e. on Special Mention Accounts (SMA).
- Bank's policy on their large borrowers having aggregate fund-based and non fund-based exposure of Rs 5 crores and above.

1.4 This Memorandum covers Potential NPA of all sectors that is MSME, Agriculture, Retail etc., with more focus on MSME.

2 Potential NPAs: Categorization:

2.1 The present accent being to identify potential NPAs or possible incipient sickness at the earliest opportunity and to help a systematic/prioritized approach, a granular segregation of irregular accounts, well before they reach the Sub-Standard stage is being introduced, based on Health status and the duration of irregularity, as follows:

<table>
<tr><th>S.No</th><th>Asset Category</th><th>Tenure</th></tr>
<tr><td>1.</td><td>Standard Assets</td><td>All regular accounts.</td></tr>
<tr><td rowspan="4">2.</td><td>Irregular Accounts</td><td rowspan="2">Irregular upto 30 days</td></tr>
<tr><td rowspan="2">Irregular (SMA 0)</td></tr>
<tr><td>Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress (Annexure - I)</td></tr>
<tr><td>Irregular – Probable Potential NPAs (SMA 1)</td><td>Irregular for more than 30 days but within 60 days</td></tr>
<tr><td>3.</td><td>Potential NPAs (SMA 2)</td><td>Irregular for more than 60 days but below 90 days.</td></tr>
<tr><td>4.</td><td>Sub-Standard</td><td>Slipped below standard assets by being irregular for 90 days & more</td></tr>
</table>

2.2 Some key characteristics of Potential NPAs (Special Mention Accounts):

- The assets have inherent weakness which requires immediate and close attention.

- Assets which have deeper malaise, may slip into sickness and become NPAs, with consequent deterioration in client's business well being and repayment capability, with parallel adverse impact on the bank's credit risk and profitability.

- An asset may be regular in its accounts but may still be sick due to internal causes; thus, parameters other than account position would require analysis to identify potential NPAs.

- Potential NPAs do not require provisioning as they are not in the NPA stage; this facilitates endeavors like alerting and helping the borrowers on financial parameters etc.

3 <u>Policy Regarding Potential NPAs.</u>

3.1 Bank has specific Policy and Processes relating to Potential NPAs, such as:

- *A software "Early Alert System" to identify Irregular accounts and Potential NPAs.*

- *34 EAS conditions parameterized in the EAS software for identifying irregular accounts /potential NPAs (see Annexure - II) and*

- *A 'Stressed Assets Management Cell' particularly focusing on Head Office Transferred Accounts.*

3.2 Likewise, Bank is having a specific Policy and Processes as related to Potential NPAs/Special Mention Accounts for the critical reasons that:

- *This is the 'incubator' stage for NPAs.*

- *Early recognition, followed by quick, adequate and appropriate initiatives to prevent credit risks is necessary to help and sustain the health of the Credit portfolio and importantly, the healthy growth of business of the clients.*

- *It is not easy to detect the causative factors for incipient sickness and to resolve them when the account slips into delinquency.*

3.3 Policy Statement:

Tamilnad Mercantile Bank is sensitized to the fact that early recognition of Potential NPAs and their resolution through speedy, appropriate and adequate initiatives is critical to support sustained health of both itself and that of its clients and is, therefore, committed to such task.

4 <u>Approach:</u>

Bank approach relating to Potential NPAs and their resolution will include the following:

4.1 Creating a Data Base.

In addition to the use of the software for preparing a list of distressed assets at the Head Office, branches are directed to collate and forward their categorized list, to their Regional Managers: they will peruse them and send them, for a all-bank database, to the Credit Audit & Monitoring Department. Parameter necessary for identification (listed below) will be explained to all branches.

The Database will be updated every month. Database creation and maintenance will be strengthened with support from the IT Department.

4.2 Identification of Potential NPAs:

a. To help such identification, the Early Alert System (EAS: list at Annexure) will be used.

b. In addition, the branches/controllers will also use or apply the five categories of parameters, both Quantitative and Qualitative, listed and placed below.

c. The potential NPAs may not exhibit any specific parameter/parameters. To help identify sickness, a comprehensive matrix of parameters may need to be used.

4.2-1.The Five categories of Parameters:

a)Transaction related Parameters (Quantitative):

These are "visible", seen in the usual account operations of the client.

Declining balances/declining operations in the account Opening of accounts and routing operations with other banks Inordinate delays in payment of bills, short payments. Return of outward bills/dishonor of cheques; Sales transactions not routed through the account Frequent requests for loans, particularly temporary overdrafts, adhoc limits etc. Frequent delays in submitting stock statements, incomplete/ false data. Delay in QIS : Absence of explanations for deviations. Diversion of funds. Persistent irregularity in the account (Note:where the irregularity persists more than 30 days the account will get categorized as probable potential NPA). Inordinate delays/ Default in repayment obligations. Devolvement of LC/Invocation of Guarantees. Inordinate delays in the submission of audited financials (say more than 3 months) Wide variation between the projected financials submitted earlier and the audited ones submitted later (normally the variation should not be more than 5%). Non compliance of the sanctioned terms & conditions. Non submission of periodic information, returns, as stipulated. Frequent Overdrawing.

b)Financial Parameters – (Quantitative):

These are generally seen in or emanate from the client's balance sheets and financial statements like cash flows, statement of receivables, income-expenditure statements, quarterly information returns (QIS), Stock audit Reports etc.

Each point would need understanding or analysis.

A comparative analysis with two or three balance sheets would help better evaluation/judgment.

- Declining Sales/ Production.
- Decrease in operating Profit/ Net Profit.
- Increase in Operating losses/net losses.
- Declining profits despite increase in sales.
- Steep fall in Current Ratio / Quick Ratio; in all Management Ratios (relating to stocks, creditors, debtors)
- Negative net working capital (NWC).
- High leverage ratio
- Wide variation in key indices like sales, profits, key financial ratios between those anticipated and the actual.
- Low Debt Service Coverage ratio or actuals showing high divergence from those projected.

- High amount of Receivables; increase in debts more than 6 months old.
- High amount outstanding in Sundry Creditors.
- Substantial increase in long-term debts in relation to capital.
- Rising level of bad debts.
- Drop in Risk rating.
- Disproportionate increase in overheads related to sales.
- Increase in loans from outsiders.
- Increase in funds lent / received from sister concerns.
- High level of statutory dues; utility bills.
- Uneven/ Inconsistent cash flow.
- Promoters pledging/selling their shares.

c) Operational Parameters: (as related to the Client's Factory Management): some Qualitative, some Quantitative.

Seen during inspections/ stock audits.
Need smart inspection and understanding by inspection staff.
Need analytical discussions with proprietors, key personnel:

- Low activity level in factory/ business.
- Evidence of aged inventory/High level of inventory.
- Pileup in finished goods, returned stocks.
- Cluttered up look; bad maintenance of factory premises, machinery, spares, tools etc.
- A not-so-peaceful ambience; disgruntled workers, frequent labour problems, frequent exit of workmen/supervisor.
- Machinery imbalance in production process.
- Arrears in wages.
- Arrears in utility bills.
- Low productivity; fall in quality standards and value addition.
- Disorderly production process, frequent changes in plans.
- Loss of critical customers
- Time and cost over-run in projects.
- Low order book.
- Non compliance of regulatory requirements.
- Closure of factory for a long time.

d) Management parameter (Qualitative):

Inadequate finance need not necessarily be the major causative factor leading to sickness.

Management ineffectiveness, inadequate administration/ controls also contribute to business decline. Need inspecting staff attention, open discussions with proprietors, market report.

- Infrequent visits by Promoters/Owners.
- Dissension among Partners/Directors/Promoters.
- Exit of partners, key personnel.
- Change in management, ownership, key personnel.
- Family disputes.
- Inadequate keeping of books, poor financial control.
- Fudging of financials.
- Poor production control; inadequate marketing efforts.
- Diversion of attention/ funds to other activities.
- Taking of undue risks.
- Unplanned expansion.

- Unplanned change in products.
- Badly designed production lines.
- Non adoption of better technology.
- In-sensitizing to changing environment and increasing competition.
- Inadequate management to meet environmental challenges.
- Poor HR practices, inadequate training of executives, workmen.
- Poor costing and pricing methodology.

e) External Factors(Qualitative):

These affect the clients business, profit and future, generally not controllable by the client.

Need good perception by operating staff/controllers;

Study of the industry sector involved; use of internet.

- Global/national recession.
- Emergence of new competition.
- Emergence of new technology, competing products.
- Changes in Government, in regulatory policy, in economic policy.
- Rising cost of inputs.
- Import of products at cheaper price.
- Natural calamities.

4.3 Approach/Processes planned:

a) Emphasis on prevention of irregularity:

Reiterated instructions to branches to tighten monitoring action like sending reminders to clients, well before due dates of interest/installment payments, conducting close and meaningful inspections.

b) When (initial) irregularity occurs:

Intensified action by branch officials for cash recovery like sending letters, reaching by phone calls and by personal visits.
In parallel, particularly when the irregularity shows signs of continuance, initiation of direct discussions with the promoters.

c) Creation of a facilitating ambience for communication:

- Even at the advent of irregularity, there should be no hardening of approach towards the client, lest communication gets blocked, preventing rational approach by the bank.

- Irregularity in an account could be a symptom of a mere lapse in cash flow-which can be resolved easily. It could also be a signal of a deeper malady requiring closure understanding and analysis.

- In the latter instance, it is critically important that clients feel free to have proactive and open discussions with bank officials; this would help the quick drawing up of comprehensive and strategic rehabilitation programs with full client participation.

4.4 Sensitizing Awareness:

To enthuse, operating officials to take quick action and draw adequate and appropriate plans of resolving the situation/rehabilitate the potential NPA account, in addition to letters, Bank shall hold seminars of officials/ controllers/ inspection department officials to explain the category, the signals to look out for and the approach expected. If necessary, short term training programs will also be organized. Excellent work done in the report will receive appreciation from the management and noting in the performance report.

4.5 Method of Resolution:

These will vary and will be unique to the client involved. Their intensity will relate to the problems identified. For eg. a transient problem caused by inconsistent cash flow or paucity in adequate liquidity (caused by, say, delays in bill payments, unexpected exigencies like payment of additional wages/statutory dues/ spurt in cost of inputs etc.) and which may get evened out over a fairly quick period of time may be met through injections of Adhoc funds, restructuring of the stipulated repayment program in the term loan and changes in the composition, of the working capital loans, reduction in margins etc.

If the cause relates to production process, say, mismatch in machinery, lack of some equipment etc., that may be rectified through designing appropriate term loans.

If an inherent serious sickness is indicated, that would require deeper analysis and planning.

Where Management deficiency is seen, perhaps counseling or the imposition of stiff covenant may be needed.

EXIT from Bank exposure may also become necessary if the problem does not look amenable to resolution in a reasonable period of time. All will, nevertheless, be done at the speediest time possible.

5. Formation of Committees:

To boost up the proactive remedial measures, for early regularization of potential NPAs and for monitoring, two committees will be formed:

a) Potential NPA accounts up to Rs 1.00 crores

- These will be identified and monitored by the respective Regional Office.
- The Chief Manager designated for this task at the RO, will collate a list of all potential NPAs in the regions branches applying the parameters listed in the EAS.
- The collated list will be a tabulated list with all essential data like the particulars of the unit identified, position of accounts, the date from which the account is irregular, the possible reason etc.
- The Regional Manager will constitute a ‘Regional Monitoring Committee’ (RMC) comprising the RM, CM, the BH concerned, the Credit Officer and where necessary, the Law Officer.
- The RMC will meet once in a month, on the 7th, or earlier/more frequency when necessary; its quorum will be three members.
- The RMC will discuss each unit in detail, involve the client and evolve a plan of resolving the problems/rehabilitation.
- The RM will submit the financial package so devised before the appropriate sanctioning authority.
- The branches will operationalize the package quickly. The Branch Head will also initiate discussions with the client.
- The RM will monitor the progress of each unit closely.
- The RM will place a monthly report to the Credit Audit & Monitoring Department at the Head Office on the details of the meetings held, the packages evolved for each unit, sickness identified, reasons found and the implementation effected.
- The Officials from Inspection Department will verify the effective functioning of the Committee and the progress made in each package.

b) Potential NPA accounts above Rs 1.00 crore:

The CAM department will undertake the following responsibilities:

- Identify all potential NPAs with the support of Finacle.
- Prepare a statement of such potential NPAs as done by the RMC and also meet, as mentioned for the RMC.
- Form a 'Head Office Monitoring Committee' with GM Credit,GM Inspection , GM Recovery & their DGMs/AGMs, with a quorum of three persons.
- This Committee will study each unit, suggest remedial measures and prepare a resolving/rehabitation packages for each unit.
- The discussions will involve the Branch Head and the client where ever necessary.
- The financial package will be placed by CAM before the appropriate sanctioning authority with necessary details and the package sphere-headed by the RM/ BH.
- The RM will monitor the progress and report to the CAM.

c) The CAM will monitor the working of both the Committees. It will place fortnightly report to the Committee of Executives at the HO, Monthly report to the NPA Committee of the Board and Quarterly Report to the Board of Directors.

d)The Inspection Department will perform its task as mentioned in the case of the Regional Monitoring Committee.

6) Modifying the Committee Approach:

The formation of the Committees has been evolved now, to have close attention of the Management as envisaged by RBI and to have the advantage of collective wisdom of people to find solutions.

All operating units - i.e the RO and the branch together develop adequate sensitivity and skills so that delays do not occur in the identification and implementation processes. The officials with skills so developed will help the preparation of the packages as comprehensive as possible, by themselves.

This will reduce, over a period of time, the entire work being done by the Committee.

7) Monitoring of Large Value Borrowal Accounts :

The Reserve Bank of India has given various guidelines on " Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders : Framework for Revitalizing Distressed Assets in the Economy ". These guidelines will also be applicable for lending under Consortium and Multiple Banking Arrangements. The gist of the guidelines are appended below for the usage of the Branches in effective monitoring on large borrowal accounts.

a) Reporting information of SMA2 accounts:

1) The Borrowers having aggregate fund-based and non-fund based exposure of Rs 5 crores and above with the Bank have come under the purview of monitoring and mandatory reporting to RBI.
2) RBI has formed Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to Banks.
3) The Bank has to submit a quarterly return on large credit borrowers.
4) The Bank has to report SMA-2 category account to the CRILC on a weekly basis at the close of business on every Friday. If Friday happens to be a holiday they will report the same on the preceding day of the week.

b) Formation of Joint Lenders' Forum:

1) As soon as an account is reported by any of the lenders to CRILC as SMA-2, they should mandatorily form a committee to be called Joint Lenders' Forum (JLF) if the Aggregate Exposure (AE) fund based and non-fund based taken together of lenders in that account is Rs100 crores and above. Bank also have the option of forming a JLF even when the Aggregate Exposure in an account is less than Rs 100 crores and /or when the account is reported as SMA-0 or SMA-1.

2) While the existing Consortium Arrangement for consortium accounts will serve as JLF with the Consortium Leader as convener, for accounts under Multiple Banking Arrangements (MBA), the lender with the highest Aggregate Exposure will convene JLF at the earliest and facilitate exchange of credit information on the account. In case there are multiple consortium of lenders for a borrower the lender with the highest Aggregate Exposure will convene the JLF. If account is under Sole Banking, the sole lending bank will prepare Corrective Action Plan (CAP).

3) When a borrower request the lender/s with substantiated grounds for formation of a JLF on account of imminent stress, the account should be reported to CRILC as SMA-0, and the lenders should also form the JLF immediately if the AE is Rs 100 crores and above.

4) The JLF may explore various options to resolve the stress in the account. The options under CAP by the JLF would generally include Rectification, Restructuring and Recovery.

5) The decisions agreed upon by a minimum of 75% of creditors by value and **50%** of creditors by number in the JLF would be considered as the basis for proceeding with the restructuring of the account and will be binding on all lenders under the terms of the Inter Creditor Agreement (ICA). However, if the JLF decides to proceed with recovery, the minimum criteria for binding decision, if any under any relevant laws/Acts would be applicable.

c) Corrective Action Plan (CAP):

1) The JLF is required to arrive at an agreement on the option to be adopted for CAP within 45 days from (i) the date of an account being reported as SMA-2 by one or more lender, or (ii) receipt of request from the borrower to form a JLF, with substantiated grounds, if it senses imminent stress. The JLF should sign off the detailed final CAP within the next **30** days from the date of arriving at such an agreement.

2) If the JLF decides to restructure an account, the JLF should carry out the detailed Techno_Economic Viability (TEV) study, and if found viable, finalize the restructuring package within **30 d**ays from the date of signing of the final CAP.

3) For accounts with AE of less than Rs 50 crores restructuring package should be approved by JLF and conveyed by the lenders to the borrower within the next 15 days for implementation.

4) For accounts with AE of Rs 50 crores and above, the above mentioned TEV study and restructuring package will have to be subjected to an evaluation by an Independent Evaluation Committee(IEC) of experts fulfilling certain eligibility conditions. The IEC will look into the viability aspects after ensuring that the terms of restructuring are fair to the lenders. The IEC will be required to give their recommendation in these cases to the JLF within a period of 30 days. Thereafter considering the views of IEC if the JLF decides to go ahead with the restructuring, the restructuring package including all terms and conditions as mutually agreed upon between the lenders and borrower, would have to be approved by all the lenders and communicated to the borrower within next 15 days for implementation.

5) Restructuring cases will be taken up by the JLF only in respect of assets reported as Standard, SMA or Sub-Standard by one or more lenders of the JLF. While generally no account classified as doubtful should be considered by the JLF for restructuring.**JLF may decide on restructing of an account classified as " doubtful" in the books of one or more lenders similar to that of SMA2 and sub-standard assets,if the account has been assessed as viable under the TEV and the JLF-EG concurs with the assessment and approves the proposal.**

6) **The Borrower indulging in frauds and malfeasance** Wilful defaulters will normally not be eligible for restructuring.

7) The Viability of the account should be determined by the JLF based on acceptable viability benchmarks determined by them.

d) Restructuring Process:

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)

Both under JLF and CDR mechanism, the restructuring package should also stipulate the timeline during which certain viability milestones would be achieved. The JLF must periodically review the account for achievement / non-achievement of milestones and should consider initiating suitable measures including recovery measures as deemed appropriate. The JLF can also refer the account to the CDR cell for restructuring.

1) **All restructuring packages under CDR/JLF /Consortium/ MBA arrangement should be Implemented within 90 days from the date of approval . Other restructring packages should be implemented within 120 days from the date of receipt of the application by the bank.**

2) **The borrowers indulging in frauds and malfeasance are not eligible for restructuring.**

3) **JLF will have the option to initiate Strategic Debt Restructuring (SDR) to effect change of management of the borrower company in cases of failure of rectification or restructing as a CAP as decided by JLF, subject to compliance with the stipulated conditions.**

4) **When a restructed account classified as NPA and upgraded to standard category will attract 5 % provision in the first year from the date of upgradation.**

e) Adoption of Guidelines on Revitalizing Distressed Assets by RBI

Banks exposure to Large Borrowal Accounts are on increasing trend. The quantum of SMA2 accounts in total SMA account is also on higher side. Hence by knowing the importance of managing the distressed assets the Bank adopted all the guidelines of RBI on Joint Lenders' Forum and Corrective Action Plan. The Credit Audit Monitoring Department has to follow all the guidelines as explained above by RBI related to Large Borrowal Accounts and monitor the accounts effectively so as to keep the quantum of distressed large borrowal accounts at a lower level.

All the reporting to CRILC will be done by Credit Audit Monitoring Department through the Return Section of the Bank. The Department will coordinate with Credit Department and Recovery Department for the effective implementation of RBI guidelines.

f) Non Co-operative Borrowers:

A non co-operative borrower is one who does not engage constructively with his lender by defaulting in timely repayment of dues while having ability to pay, thwarting lenders' efforts for recovery of their dues by not providing necessary information sought, denying access to assets financed/ collateral securities, obstructing sale of securities, etc. In effect, a non- co operative borrower is a defaulter who deliberately stone walls legitimate efforts of the lenders to recover their dues.

1) **Cutoff limit for classifying Non Co-operative Borrowers** :

The cut off limit for classifying borrowers as non-cooperative would be those borrowers having aggregate fund-based and non-fund based facilities of Rs 5.00 crores from the concerned bank / FI A non-Cooperative borrower in case of a company will include, besides the company, its promoters and directors (excluding independent directors and directors nominated by the Government and the lending institutions). In case of business enterprises (other than companies), non-cooperative borrowers would include persons who are in-charge and responsible for the management of the affairs of the business enterprise.

2) **Committee of Executives for classification of Non-Cooperative Borrowers :**

A transparent mechanism for classifying borrowers as non-cooperative is required to be put in place. Accordingly the bank will form a committee of Higher Functionaries headed by Chief General Manager, General Managers of Credit Department, Recovery Department and Inspection Department, DGM/AGM of Credit Audit Monitoring Department.

3) **Show Cause Notice to the Non-Cooperative Borrowers :**

If the committee concludes that the borrower is non-cooperative, it shall issue show cause notice to the concerned borrower (and the promoter/whole time directors in case of company) and call for his submission, and after considering his submission, issue an order regarding the borrower to be non-cooperative borrower and the reason for the same. An opportunity is required to be given to the borrower for a personal hearing, if the Committee feels such an opportunity is necessary.

4) **Review Committee:**

The order of the Executive Committee should be reviewed by another Committee headed by the Managing Director & CEO and consisting of two directors of the Bank and the order shall became final only after it is confirmed by the Review Committee.

5) **Reporting of Non-Cooperative borrowers to CRILC :**

Banks are required to report information on the Non-Cooperative borrowers quarterly within 21 days from the close of the relevant quarter to CRILC. Declassification considering the merits of the case, on review of the non-cooperative borrowers by the Board, need to be reported separately every half-year to CRILC, with adequate reasoning/rationale for such removal.

6) **Review of the status of Non-Cooperative borrowers by Board :**

The Board of the Bank should review the status of non-cooperative borrowers for deciding whether their names can be declassified as evidenced by their return to credit discipline and cooperative dealing.

The Credit Audit & Monitoring Department has to collect the details of non co-operative borrower of all the branches through their respective regions. It is the Department's responsibility to conduct the meeting of Committee of Executives for identifying Non-Cooperative Borrowers and issuing show cause notice to them. The decision has to be placed in the Review committee of the Board on Non-Cooperative Borrowers for confirming of the classification.

The Credit Audit Monitoring Department has to place Half-Yearly note to the Board for review of the status of Non-Cooperative Borrower. And also the Department has to report on the Non-Cooperative Borrowers on quarterly basis within 21 days from the close of the relevant quarter to CRILC and declassification of the Non-Cooperative Borrowers has to be reported to the CRILC separately with adequate reasoning/rationale for such removal on half yearly basis.

8) Review:

This policy is placed before the board with the request to treat the policy as renewed and approved for the year 2016-17.This will be reviewed thereafter, with fresh guidelines as issued by RBI and/or as desired by the Board/Management, being incorporated.

Annexure- I

SMA-0 Signs of Stress

Illustrative list of signs of stress for categorizing an account as SMA-0 :

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or © non-renewal of facilities based on audited financials.

2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40 % or more: or a single event of non-cooperation/prevention from conduct of stock audits by banks, or reduction of Drawing Power (DP) by 20 % or more after a stock audit, or evidence of diversion of funds for unapproved purpose, or drop in internal risk rating by 2 or more notches in a single review.

3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds on non-availability of balance/DP in the account or return of 3 or more bills/cheques discounted or sent under collection by the borrower.

4. Devolvement of Deferred Payment Guarantee (DPG) installments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.

5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.

6. Increase in frequency of overdrafts in current accounts.

7. The borrower reporting stress in the business and financials.

8. The promoter(s) pledging/selling their shares in the borrower company due to financial stress.

Annexure - II

EARLY ALERT SYSTEMS-EAS CONDITIONS

1. Overdue in installments and interest for term loans.
2. Credit not covering the interest debited in the OD/CC accounts.
3. Excess drawings over DP other than interest and other charges debited in the OD & CC accounts.
4. Overdue in Agricultural advances.
5. Sight / Usance Bills Purchased / Discounted – Overdue / Return.
6. Cheques including Foreign Cheques purchased – Overdue / Return.
7. Delay in submission of financial data by the client for the Review of Term Loan/ Renewal of the Working Capital limits.
8. Overdue Packing Credit (DL) (except running PCL)
9. Devolvement of Inland LC / Co-acceptance.
10. Invocations of Bank Guarantees/DPG paid by the Bank.
11. Negative Balance in Current / Savings accounts(Temporary Overdraft).
12. Export Bills Negotiated / Purchased /Discounted – Overdue position / Crystallization.
13. Overdue in Advance against Foreign Bills Sent for Collection.
14. Devolvement of LC / Co-acceptance Bills / BG for short term trade credit(import).
15. Overdue in Foreign Currency Loans.
16. Delay/ Non submission of stock statement / Book Debts statement / QIS statements.
17. Collection cheque / Bills Returned/ Dishonored (as % of returned to presented)
18. Cheques issued by borrower returned (as % of returned to presented)
19. Expiry of Documents.
20. Realizable value of Primary Security against Balance outstanding.
21. Scrutiny of large lump sum debits.
22. Recovery of interest.
23. Original BG not received back and not reverted after due date.
24. % of Export Bills overdue / Returned by the importer.
25. Delay in realization of Foreign Bills under collection.
26. Turnover Vs Computed figure (in %).
27. Debit transaction in OD / CC.
28. LOD has fallen due for payment.
29. Overdue in Loan on Produce.
30. Overdue in Non – Agricultural Jewel Loan.
31. Expiry of Insurance policy.
32. Stock / Book Debts inspection.
33. Machinery inspection details.
34. Immovable property (Land & Building etc.,) inspection details (Date).

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Annexure – III

List of Circulars on Potential NPAs Consolidated in the RBI Master Circular

Sl. No	Circular No and date	Subject	Gist of Instructions
1.	DBS.CO.OSMOS/B.C/4/33.04.006/2002-2003 Dated 12.09.12	Study on preventing slippage of NPA accounts	1.Categorization of Potential NPAs 2.Key characteristics of Potential NPAs.
2.	DBOD.BP.BO.No.99/21.04.132/2012-13 dated 30.05.13	Review oif Prudential guidelines on Restructuring of advances by Banks and Financial Institutions.	1.Guidelines for Restructuring of Advances
3.	DBOD.BP.BC.No.97/21.04.132/2013-14 dated 26.02.14	Framework for revitalising distressed Assets in the Economy.	1. Formation of Joint Lender's forum. 2.Corrective Action Plan 3.Restructuring Process 4.Other issues /conditions Relating to Restructuring by JLF/CDR Cell
4.	DBOD.No.OSMOS.9862/33.01.018/2013-14 dated 13.02.14 dated 13.02.14	Central Repository of Information on Large Credits (CRILC)	1.Submission of the return for the quarter ended 2. Threshold for reporting of Large Exposure. 3. Reporting of SMA-2 accounts.
5	DBR.No.CID.BC.54/20.16.064/2014-15 dated 22.12.14	Non- Cooperative Borrowers	.Procedure for identify and reporting the Non-Cooperative Borrowes
6	DBR.No.CID.BC.22/20.16.003/2015-16 dated 01.07.15	Wilful Defaulters	Procedure for identify and reporting of Wilful Depaulters.
7	DBR.BP.BC.No.82/21.04.132/2015-16 dated 25.02.16	Review of Prudential Guidelines	1. Strategic Debt Restructuring scheme. 2.Framework to Joint Lenders Forum Empowered Group (JLF-EG)