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Policy Document - Income Recognition, Asset Classification, Provisioning & other related matters.

Policy of income recognition should be based on record of recovery and the classification of assets of the bank shall be done on the basis of objective criteria so as to ensure a uniform and consistent application of the norms. The provisioning shall be done on the basis of the classification of assets into different categories.

1.Non-performing Assets – Classification of: An asset becomes **non-performing** when it ceases to generate income for the bank.

1.1 Term Loans: A term loan is classified as Non-performing Asset where interest and/or instalment of principal remain overdue for a period of more than 90 days from the due date fixed by the Bank. It has been observed that due dates for repayments are sometimes not specifically mentioned in the loan agreements leaving scope for different interpretations. **Henceforth, (not later than December 31, 2021) the exact due dates for repayment of a loan, frequency of repayment, break-up between principal and interest, examples of SMA/NPA classification dates etc. shall be clearly specified in the loan agreement and the borrower shall 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.

1.2 Overdraft/Cash Credit: An OD/CC account shall be treated as **out of order** if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days. An even if the outstanding balance is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during the period, the account shall be treated as Out of Order.

1.2.1 NPA on account of stock statements in arrear: Since the outstanding in the account based on drawing power calculated from stock statements, a working capital account will become NPA if the stock statements are not submitted regularly. Thus the outstanding in the account based on drawing power calculated from stock statements older than three months shall be deemed as irregular. Accordingly, a working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days.

1.2.2 NPA on account of non-renewal/review of regular/ad hoc credit limits: 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 provided the Bank furnish evidence to show that delay in renewal/review of credit limits is on account of non-availability of financial statements and other data from the borrowers.

Hence timely and comprehensive review/renewal of credit facilities shall be an integral part of the Board approved loan policy and credit risk management framework, and shall avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons. Bank shall ensure to capture all the data relating to regular as well as ad-hoc/short review/renewal of credit facilities in its core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. Further, the processes governing review/renewal of credit facilities shall be brought under the scope of concurrent/internal audit/internal control mechanism. (RBI guidelines of 21.08.2020)

1.2.3 If credits are recorded before the balance sheet date: Borrowal accounts, where a solitary or a few credits are recorded before the balance sheet date, indicates inherent weakness, shall be handled with care and shall be deemed as a NPA since it remained irregular for a major part of the year and is regularised near the balance sheet date.

1.2.4 In case of interest payments: In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days. Accordingly, if any borrower account becomes overdue on or after March 31, 2022, its classification as NPA shall be based on the account being overdue for more than 90 days.

1.2.5 Threat to recovery*:* In case of serious credit impairment such as erosion in the value of security when the realizable value of security is less than 50% of the value assessed by the bank or accepted by the RBI, at the time of inspection, as the case may be, such NPA assets shall be straightway classified as a doubtful/loss asset as appropriate and provisioning shall be made as applicable to doubtful assets.

1.2.6 Loss Assets: If the realizable 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 the security shall be ignored and the asset shall be straightway classified as a loss asset. It may either be written off after obtaining necessary permission from the competent authority or fully provided for by the Bank.

1.2.7 Valuation of security: In case of NPA with balance of Rs.10.00 lac and above, collaterals such as immovable properties charged in favour of the Bank shall be got valued once in three years by valuers appointed as per the guidelines approved by the Board.

1.2.8 Identification of Assets as NPA shall be done on an on-going basis: The Bank shall ensure that system based identification of NPAs is done on an on-going basis and accounts are classified NPA immediately, as soon as they turn into NPA as per guidelines, without waiting till the end of quarter/financial year and make provisions as at the end of each calendar quarter so that the income and expenditure account for the respective quarters as well as the P&L account and balance sheet for the year end reflects the provisions made for NPAs.

1.3 Bill Purchased and Discounted: Bills remains overdue for a period of more than 90 days and any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

1.4 Overdue in other credit facilities: In cases where the bank park the dues arising out of devolvement of letters of credit or invoked guarantees in a separate account, the balance outstanding in that account shall be treated as a part of the borrower's principal operating account for the purpose of application of prudential IRAC norms & provisioning.

1.5 Special Mention Account (SMA): The Bank shall recognize the incipient stress in borrower accounts, immediately on default, and classify them as special mention accounts (SMA). The Bank shall flag the borrower accounts as overdue as part of its day-end processes irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which day end process is run. The date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date. SMA classification of borrower accounts is applicable to all loans including retail loans.

Loans other than revolving facilities: Principal or interest payment or any other amount wholly or partly overdue:

Upto 30 days	SMA-0
More than 30 days and upto 60 days	SMA-1
More than 60 days and upto 90 days	SMA-2

Revolving facilities like cash credit & overdraft: Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:

Upto 30 days	SMA-0
More than 30 days and upto 60 days	SMA-1
More than 60 days and upto 90 days	SMA-2

Example: If due date of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 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, 2021.
Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

2. Treatment of Accounts as NPAs:

2.1 Record of recovery:

a) Where there is a threat of loss, or the recoverability of the advances is in doubt, the asset shall be treated as NPA. Therefore, treatment of an asset as NPA shall be based on the record of recovery.

b) Where the accounts of the borrowers have been regularized by repayment of entire overdue amounts through genuine sources (not by sanction of additional facilities or transfer of funds between accounts) such accounts need not be treated as NPAs. 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 Borrower-wise and not facility wise: In respect of a borrower having more than one facility with the bank, all the facilities shall be treated as NPA and not the particular facility or part thereof which has become irregular/NPA.

2.3 Housing loan to staff: In 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 shall 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.

2.4 Other advances: 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. The Bank shall fix monthly / quarterly instalments for repayment of gold loans for non-agricultural purposes taking into the account the pattern of income generation and repayment capacity of the borrower 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.

2.5 Recognition of Income on Investment treated as NPAs: The investments are also subject to the prudential norms on income recognition. The Bank shall 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.

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. Further, income on units of UTI, shares and bonds shall be booked on cash basis and not on accrual basis.

2.6 Reversal of Income on Accounts becoming NPAs: If any advance, including bills purchased and discounted, becomes NPA, interest accrued and credited to the income account, shall be reversed or provided for, if the same is not realised. Fees, commission and similar income that have accrued shall cease to accrue in the current period and shall be reversed with respect to past periods, if uncollected.

2.7 Partial recovery of NPAs: Interest realised on NPAs may 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.

3. Asset Classification: The Bank shall classify its assets into the following broad groups:

3.1 Definitions:

3.1.1 Standard Assets: is the 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.

3.1.2 Sub-standard Assets: 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 bank in full. In other words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

3.1.3 Doubtful assets: The asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. It has all the inherent weaknesses as that of sub-standard asset with the added characteristic that such weaknesses put a question-mark on probability of collection & liquidation in full on the basis of facts, conditions & values of an asset.

3.1.4 Loss Assets: A loss asset is one where loss has been identified by the Bank or internal or external auditors or by RBI inspection but the amount has not been written off, wholly or partly. Such an asset is considered un-collectable and of such little value that its continuance as a bankable asset is not warranted although there my be some salvage or recovery value.

3.2 Classification of Assets: Classification of assets into standard/sub-standard/doubtful and loss category shall be done by taking into account the degree of credit weaknesses. Where there is potential threats to recovery on account of erosion in the value of security, such accounts shall be straight away classified as doubtful or loss assets irrespective of the period for which they have remained as NPA.

Further, the Bank shall adhere to the timelines for implementation of system-based asset classification. Till such time, the bank shall fix a minimum cut-off point, valid for entire accounting year, to decide what would constitute a high value account depending upon respective business levels to eliminate the tendency to delay or postponement of NPAs especially in respect of high value accounts.

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. **The bank shall ensure scrupulous compliance with the instructions for recognition of credit impairment, responsibility shall be fixed and aberrations by dealing officials in this regard shall be viewed seriously to avoid imposition of monetary penalties by the RBI in case of wilful non-compliance by the concerned officials.**

4. Interest application: With a view to ensuring uniformity in accounting the accrued interest in respect of both the performing and non-performing assets, the Bank shall ensure that:

- Interest accrued in respect of NPA shall not be debited to borrowal accounts but shown separately under ‘Interest Receivable Account on asset side of the balance sheet and corresponding amount shown under ‘Overdue Interest Reserve Account’ on the liabilities side of the balance sheet.

- In respect of performing assets, accrued interest can alternatively be debited to the borrowal account and credited to interest account taken to income account. In case, if it is not actually realised and the account has become NPA, interest accrued and credited to income account shall be reversed or provided for.

It may be clarified here that since ‘overdue interest reserve’ is not created out of the real or earned income received by the bank, the amounts held in the said account cannot be regarded as reserve or a part of the owned funds of the bank which shall be shown as ‘Overdue interest Reserve’ as a distinct item on the capital and liabilities side.

5. Provisioning Norms: 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 the security charged to the bank, the bank shall make provision against loss assets, doubtful assets and sub-standard assets as under:

5.1 Loss Assets: The entire assets shall 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.

5.2 Doubtful Assets: 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 shall be estimated on a realistic basis.

In regard to secured portion, provision shall be made as under:

Tier I and Tier II banks	
Period for which the advance has remained in ‘doubtful’ category	Provision requirement.
Upto one year	20 per cent
One to three years	30 per cent
Advances classified as ‘doubtful for more than three years’	100 per cent

5.3 Sub-standard Assets: A general provision of 10 per cent on total outstanding shall be made without making any allowance for securities available.

5.4 Standard Assets: Provisioning on Standard Assets of the bank shall be as under:

Category of Standard Asset	Rate of Provisioning
Direct advances to Agriculture & SME sectors	0.25%
Commercial Real Estate Sector (CRE)	1.00%
Commercial Real Estate – Residential Housing sector (CRE-RH)	0.75%
All other loans & advances not included above	0.40%

Provisions towards ‘standard assets’ ned not be netted from gross advances but show separately as **‘Contingent Provision against Standard Assets’** under **‘Other Funds & Reserves’** in the balance sheet.

In case excess provision already maintained 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 Board of Directors. Shortfall if any, on this count, may be made good in the normal course. This will also be eligible for inclusion in Tier-II capital.

Higher Provisions: There is no objection if the provision for bad and doubtful debts reserve is maintained beyond specified limits if provided in the State Co-operative Societies Acts.

Provisions for retirement benefits: Liabilities, such as retirement benefits viz provident fund, gratuity and pension are estimated on actuarial basis and full provision shall be made every year for the purpose in Profit & Loss Account.

Provisions for Fraud Accounts: Provisions in respect of cases relating to frauds are as under:

- 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), shall be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected;

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

All Inclusive Directions (AID): As per Section 35A read with Section 56 of BR Act, where the RBI is satisfied that in public interest or in the interest of banking policy, to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company and to secure proper management of any banking company, RBI issues directions to restricts the bank from discharging its liabilities except as permitted by the central bank. This impacts the withdrawal of interbank deposits placed by other UCBs with such bank.

The interbank exposures arising from deposits placed by UCBs with a UCB under AID and their non-performing exposures arising from discounted bills drawn under LCs issued by a UCB under AID shall be fully provided within five years at the rate of 20 per cent annually. Further, the interest receivable on the deposits shall not be recognised by the UCB.

In case the UCB choose to convert such deposits into long term perpetual debt instruments which may be recognised as capital instrument under a scheme of restructuring/revival of a

UCB under AID, provision on the portion of deposits converted into such instruments shall not be required.

Transfer of Loan Exposures: The asset classification and provisioning requirements in respect of transactions involving transfer of loans shall be as per RBI (Transfer of loan exposures) Directions dated 24.09.2021.

Upgradation of accounts classified as NPAs: Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

Consumer education: With a view to increasing awareness among the borrowers, the bank shall place consumer education literature on its websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation with specific reference to day end process. Bank shall also display such literature in its branches by means of posters and/or appropriate media. Frontline officers shall also educate the borrowers about all these concepts at the time of sanction/disbursal/renewal of loans.

This Policy Document shall be amended from time to time to align with the circular guidelines/instructions issued by RBI/RCS on the subject in future.

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(Chief Executive Officer)

This policy was approved vide Board resolution No.**_________**dated **___________**.

(C.E.O.)