Suryoday Small Finance Bank Limited

Collection and Recovery Policy

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1. Introduction

The Collections & Recovery Policy of Suryoday Small Finance Bank (hereafter referred as "the Bank" or "Suryoday") shall aim at making the recovery process faster, so that the Gross NPA level is maintained within the risk appetite of the Bank.

It is essential for a sound NPA management system to have functionality allowing for quick identification of non-performing advances, their containment at minimum levels and ensuring that their impingement on financials of the Bank are minimum.

1.1. Objectives & Principles

The quality and performances of advances have a direct bearing on the profitability of the Bank. Despite an efficient credit appraisal, disbursement and monitoring mechanism, problems can still arise due to various factors and give scope for Non-Performing Advances (NPA). These factors may be internal or external.

The Collection & Recovery Policy of Suryoday, attempts to analyse the normal/ typical reasons for delinquency, suggests corrective measures for avoidance of default, examines the various recovery tools available including the compromise route and details the action that is required to be taken in case of crystallisation of default.

Key objectives of the policy are:

- To strengthen the management and recovery of NPAs and proactive initiatives to prevent generation of fresh NPAs.
- To lay stress on the system of early identification and reporting of all existing and potential problem loans in preventing the incidence of NPAs.
- The Loan Review Mechanism shall be triggered on detection of early warning signals to ensure an effective and expeditious response for correction.
- To emphasize a broad approach, including critical parameters to be taken into account, towards the collection, recovery and resolution of loans through rehabilitation, compromise settlements etc.
- To propose an approach for cleansing of the NPA portfolio through judicious write-offs.

Following are the guiding principles for this policy:

- The Bank's recovery procedure shall be based on good manners, impartial treatment and persuasion.
- The Bank shall treat its defaulters with respect and dignity.
- The Bank shall follow only ethical practices and will not resort to unduly coercive tactics in the process of recovery of NPAs.
- The Bank shall not initiate any legal or recovery measures including repossession of the security without giving due notice to the borrower in writing. The Bank shall follow all such procedures as required under law for recovery/repossession of the security.
- Repossession of security shall be aimed at recovery of dues and not to deprive the borrower of the security. Repossession, valuation and realization of security shall be done in a fair and transparent manner.

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1.2. Policy Review & Approval process

Risk Management shall be the custodian of this Policy. The reviewed and updated Policy shall be submitted to Risk Management Committee of the Board ("RMCB") for recommendation and approval of the Board. The minutes of meeting of the Committee and the Board shall be documented.

2. Key Definitions

Default

Default is considered to have occurred when an asset is classified as non-performing asset ('NPA').

Non-performing assets

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank. A "Non-performing Asset" (NPA) [1]a loan or an advance where:

- Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan,
- The account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of Bills purchased and discounted,
- The instalment of principal or interest thereon remains overdue for two crop seasons for Short duration crops (crops with a crop season of less than one year).
- The instalment of principal or interest thereon remains overdue for one crop season for Long duration crops (crops with a crop season of longer than one year).
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a Securitisation transaction undertaken in terms of RBI guidelines on securitisation dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

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

'Out of Order' status[2]

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. in cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

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[1] Refer Master Circular – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances para 2.1
https://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9908

[2] Refer Master Circular – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances para 2.2
https://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9908

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'Overdue'[3]

Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

3. Collections

3.1. Introduction

The debt collection policy of Suryoday is built around dignity and respect to customers. Bank shall not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment and persuasion. The Bank believes in following fair practices with regard to collection of dues and thereby fostering customer confidence and long-term relationship.

The repayment schedule for any loan sanctioned by the Bank shall be fixed taking into account paying capacity and cash flow pattern of the borrower. The Bank shall keep the customer informed of the method of calculation of interest and how the Equated Monthly Instalments (EMI) or payments through any other mode of repayment will be appropriated against interest and principal due from the customers. The Bank shall encourage the customers to adhere to the repayment schedule agreed to and approach the Bank for assistance and guidance in case of genuine difficulty in meeting repayment obligations.

3.2. Giving notice to borrowers

While written communications, telephonic reminders or visits by the Bank's representatives to the borrower's place or residence shall be used as loan follow up measures, The Bank shall not initiate any legal or other recovery measures including repossession of the secured assets without giving due notice in writing. Any genuine difficulties expressed/ disputes raised by the customer shall be considered by the Bank before initiating recovery measures. The Bank shall follow all such procedures as required under law for recovery / repossession of secured assets

3.3. Repossession of Secured assets

Repossession of secured assets shall be aimed at recovery of dues and not to deprive the borrower of the secured assets. Repossession shall be done only after issuing the notice as detailed above in Section 3.2. The recovery process through repossession of secured assets shall involve repossession, valuation of secured assets and realisation of secured assets through appropriate means, in a fair and transparent manner. Due process of law shall be followed while taking repossession of the secured assets. The Bank shall take all reasonable care for ensuring the safety and security of the secured assets after taking custody, in the ordinary course of the business and relevant cost shall be charged to borrower.

[3] Refer Master Circular – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances para 2.3
https://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9908

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3.4. Valuation & sale of secured assets

Valuation and sale of secured assets repossessed by the Bank shall be carried out as per law and in a fair and transparent manner. The Bank shall have right to recover from the borrower the balance due if any, after sale of secured assets. Excess amount if any, obtained on sale of the secured assets shall be paid to the person entitled thereto in accordance with his rights and interests, after meeting all the related expenses, provided Suryoday is not having any other claims against the customer. Bank's right to general lien and its implications shall be made clear to the borrower while executing the loan documents.

In the case of hypothecated assets after taking possession if no payment is forthcoming, a sale notice of 7 days' time to respond shall be sent to the borrower. Thereafter Suryoday shall arrange for sale of the hypothecated assets in such manner as deemed fit by Suryoday. In respect of cases under SARFAESI Act as per the provisions of the Act, 30 days' notice of sale shall be sent. When public auction or by tender is envisaged, the same shall be published in two leading newspapers out of which one is in local vernacular paper.

3.5. Opportunity for the borrower to take back the secured assets

The Bank shall resort to repossession of secured assets only for the purpose of realisation of its dues as the last resort and not with intention of depriving the borrower of the secured assets. Accordingly, Suryoday shall be willing to consider handing over possession of secured assets to the borrower after repossession and before concluding sale transaction of the secured assets, provided the Bank's dues are cleared in full. If satisfied with the genuineness of borrower's inability to pay the loan instalments as per the schedule, which resulted in the repossession of secured assets, the Bank may consider handing over the secured assets after receiving the instalments in arrears. However, this shall be subject to giving an undertaking by the borrower to repay the remaining instalments / dues in future and to maintain the loan account as performing asset until closure of the account as per the terms of the loan agreements(s) to the satisfaction of Suryoday.

If the amounts are repaid, either as stipulated by Suryoday or dues settled as agreed to, possession of the seized assets shall be handed back to the borrower within 7 days after the date of grant of permission from the Chief Credit Officer (CCrO) or Court/DRT (if recovery proceedings are filed and pending before such forums).

3.6. Collection Process for MSME Loans

The Relationship Manager (RM)/ Collection Officer reporting to National Collections Manager (NCM)/ Chief Credit Officer (CCrO)/ Chief Business Officer (CBO) shall represent the Bank in collection or/ and secured assets repossession shall follow the guidelines set out below:

- The customer shall be contacted ordinarily at the place of his / her choice and in the absence of any specified place, at the place of his / her residence and if unavailable at his / her residence, at the place of business / occupation.
- Identity and authority of persons authorised to represent the Bank for follow up and recovery of dues shall be made known to the borrowers at the first instance. Suryoday staff or any person authorised to represent the Bank in collection of dues or / and secured assets, repossession shall identify himself / herself and display the authority letter issued by the Bank upon request.
- The Bank shall respect privacy of its borrowers.

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- The Bank is committed to ensure that all written and verbal communication with its borrowers shall be in simple business language and the Bank shall adopt civil manners for interaction with borrowers.
- Normally the Bank's representatives shall contact the borrower during working hours unless the special circumstance of his / her business or occupation requires Suryoday to contact at a different time.
- Borrower's request to avoid calls at a particular time or at a particular place shall be honoured as far as possible.
- The Bank shall document the efforts made for the recovery of dues and the copies of communication sent to customers, if any, shall be kept on record.
- Inappropriate occasions such as bereavement in the family or such other calamitous occasions and important social functions such as marriages shall be avoided for making calls / visits to collect dues.

3.7. Collection Process for Individual/Personal Loans

The Relationship Manager of the Bank shall be responsible for performing loss mitigation activities relating to overdue loans. The RM shall represent the Bank in collection or/ and secured assets repossession, and shall follow the guidelines set out below:

- The customer shall be contacted ordinarily at the place of his / her choice and in the absence of any specified place, at the place of his / her residence and if unavailable at his / her residence, at the place of business / occupation.
- Identity and authority of persons authorised to represent the Bank for follow up and recovery of dues shall be made known to the borrowers at the first instance. The Bank’s staff or any person authorised to represent the Bank in collection of dues or / and secured assets repossession shall identify himself / herself and display the authority letter/ ID Card issued by the Bank upon request.
- The Bank shall respect privacy of its borrowers.
- The Bank is committed to ensure that all written and verbal communication with its borrowers shall be in simple business language and the Bank shall adopt civil manners for interaction with borrowers.
- Normally Bank’s representatives shall contact the borrower during working hours, unless the special circumstance of his / her business or occupation requires Suryoday to contact at a different time.
- Borrower's request to avoid calls at a particular time or at a particular place shall be honoured as far as possible.
- The Bank shall document the efforts made for the recovery of dues and the copies of communication sent to customers, if any, will be kept on record.
- Inappropriate occasions (such as a bereavement in the family or such other calamitous occasions, and important social functions such as marriages) shall be avoided for making calls / visits to collect dues.

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3.8. Collection Process for JLG[4]

- On a fixed day and time every month, the Relationship Officer (RO)/ designated officer of the Bank shall visit the specified member's house where the entire group shall meet to collect the instalment
- The Group Leader (GL) shall collect the cash from Group members before start of the meeting and hand over the amount to CL in RM's presence during meeting.
- The amount collected during the meeting shall be entered into the loan card and signed by the RM as an acknowledgement.
- Suryoday has a unique calendar that is prepared for collections. If the collection day falls on a holiday, the collection shall be done on the next working day. Usually 2 days in a week are kept as buffer where no collections are made so as to accommodate all collections for a month

If any staff is found to violate appropriate collection practices, then he/she shall be liable for disciplinary actions as per HR policies of the Bank.

4. Recovery & Resolution Mechanism

4.1. Introduction

Continuous and focused follow up on a daily basis is the underlying principle for good recovery and also for identifying genuine problems of the borrowal units so that timely assistance shall be extended to correct any temporary mismatch of the cash flow/ review of repayment schedule etc.

- Endeavour shall be to prevent the asset from becoming NPA rather than applying remedial measures at post NPA stage.
- Timely restructuring / rehabilitation in deserving cases shall be ensured that is when the case falls within the eligibility parameters as defined in Para 4.4.1.
- Bank shall opt for One Time Settlement where chances of entire recovery are remote / time consuming.
- Bank shall consider Sale of NPA assets to ARCs/Banks/FIs.
- Bank shall enforce the provisions of identifying and declaring wilful defaulters in accordance with R.B.I guidelines[5]. General consistency in approach is expected while dealing with wilful defaulters.

Approach for recovery shall be practical and non-prejudiced. Fair treatment and persuasion are the basic principles of recovery mechanism. Enforcement of security be undertaken only where restructure / rehabilitation has failed or impossible

The recovery mechanisms for retail products like LAP, Individual/Personal Loans shall be as mentioned in section 4.4 of this policy

[4] Refer to Suryoday Branch process flow document

[5] Master Circular on Wilful Defaulters
https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9044

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The recovery mechanisms for MSMEs shall include Rectification & Restructuring and in case these options are seen as not feasible, due recovery options shall be resorted to as stated in section 4.4 of this policy

4.2. Engagement of Recovery Agents[6]

The Bank shall utilize the services of recovery agents for collection of dues and repossession of securities. Recovery agents shall be appointed as per regulatory guidelines[7] issued in this regard. In this respect:

- The name and address of all Recovery Agents on the Bank's approved panel shall be placed on their website for information.
- Only recovery agents from the approved panels shall be engaged by Suryoday.
- In case the Bank engages service of such recovery/enforcement/seizure agent for any recovery case, the identity of the agent shall be disclosed to the borrower.
- The recovery agents engaged by Suryoday shall be required to follow a code of conduct[8] covering their dealings with customers.

4.3. Invoking the Provisions of SARFAESI Act

The provisions of "Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act)[9] are applicable only for secured loans.

The moment a SARFAESI proposal is approved; Authorised Officer[10] (AO) (Chief Business Officer (CBO) shall play the role of AO) shall be identified who shall assume ownership of the account. It is the responsibility of the AO to ensure that the time frame for taking the SARFAESI proceedings forward are strictly adhered to.

Steps that shall be followed while invoking the SARFAESI are:

- Issuance of a demand notice after the account has been classified as NPA.

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[6] "Agent" in this Policy would include agencies engaged by the SFB and the agents / employees of the concerned agencies.

[7] RBI Circular on Recovery Agents engaged by Banks
https://www.rbi.org.in/commonman/English/Scripts/Notification.aspx?Id=347

[8] "*Recovery Agents should adhere to extant instructions on Fair Practices Code for lending (Circular DBOD. Leg. No. BC.104 /09.07.007 /2002-03 dated 5th May 2003) as also their own code for collection of dues. If the banks do not have their own code they should, at the minimum, adopt the Indian Banks Association's code for collection of dues and repossession of*

Security". Refer Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks, RBI/2006/167 DBOD.NO.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006
https://rbi.org.in/scripts/NotificationUser.aspx?Id=3148&Mode=0

[10] As defined by The Security Interest (Enforcement) Rules, 2002, "*"authorised officer" means an officer not less than a chief manager of a public sector bank or equivalent, as specified by the Board of Directors or Board of Trustees of the secured creditor or any other person or authority exercising powers of superintendence, direction and control of the business or affairs of the secured creditor, as the case may be, to exercise the rights of a secured creditor under the Act*"

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- If, after issuance of the demand notice, the borrower raises any objection, the AO may make changes or modifications in the demand notice and serve a revised notice within 7 days from the date of receipt of the objection.
- If the amount mentioned in the demand notice is not received within the time frame specified therein, the AO shall take necessary action to take possession of the security.
- After taking possession, and before sale, the AO shall obtain the estimated value of the security.
- The AO shall serve to the borrower a notice of 30 days for sale of the security.
- Issuance of certificate of sale by the AO.

A proper monitoring mechanism shall be put in place at the Controlling Offices[11] for monitoring the process of invoking the provisions of SARFAESI. Instances of non-adherence to the stipulated time schedule shall be immediately identified and corrective action taken. Under no circumstances action shall be deferred based on mere promise of payment or payment of token amount.

Wherever warranted, caveats shall be filed to avoid grant of Stay by DRT/ Courts. Effort shall be made to coerce the borrower to negotiate. Wherever Courts have stayed the SARFAESI proceedings, steps shall be taken to get the stays vacated by engaging the services of leading Advocates.

➢ Identification of Wilful Defaulters:

As per the scheme framed by RBI with effect from 01.04.1999[12], banks/FIs are required to submit the list of suit filed accounts of wilful defaulters of` Rs.25 lac and above as at end of every quarter to CIBIL and/or any other credit information company of which it is a member and the quarterly list of wilful defaulters of Rs.25 lac and above where suit has not been filed to RBI. However, Suryoday shall classify wilful defaulters irrespective of the amount outstanding, for internal purposes.

The term "wilful default", in accordance with RBI guidelines[13], would be deemed to have occurred:

(i) by a borrower, when the borrower defaults in meeting payment/ repayment obligations to the lender and any one or more of the following features are noticed:

a) the borrower has the capacity to honour the said obligations;
b) the borrower has diverted the funds availed under the credit facility from lender;
c) the borrower has siphoned off the funds availed under the credit facility from lender;
d) the borrower has disposed of immovable or movable assets provided for the purpose of securing the credit facility without the approval of the lender;
e) The borrower or the promoter has failed in its commitment to the lender to infuse equity despite having the ability to infuse the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment and other covenants and conditions.

(ii) by a guarantor, if the guarantor does not honour the guarantee when invoked by the lender, despite having sufficient means to make payment of the dues or has disposed of immovable or movable assets provided for the purpose of securing the credit facility, without the approval of the lender or has failed in commitment to the lender to infuse equity despite having the ability to infuse

[11] Head Office shall be the Controlling Office

[12] RBI Master Direction on Treatment of Wilful Defaulters and Large Defaulters, RBI/DoR/2024-25/122 DoR.FIN.REC.No.31/20.16.003/2024-25 dated July 30, 2024.

[13] Refer RBI Master Circular on Wilful Defaulter, RBI/2015-16/100 DBR.No.CID.BC.22/20.16.003/2015-16 dated July 1, 2015

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the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment.

Collections team shall identify the borrowers having exposure of Rs 25 lakhs and above to tag as wilful defaulters keeping in view the track record of the customer and initiate the process for tagging the customer as wilful default as per the process laid down by the Bank in line with RBI guidelines.

- The decision taken on classification of wilful defaulters shall be well documented and supported by requisite evidence. The decision shall clearly spell out the reasons for which the borrower has been declared as wilful defaulter vis-à-vis RBI guidelines15.

- A Show Cause Notice shall be issued to the borrower with a call for submissions. Subsequently, an order shall be issued recording the fact of wilful default as well as reasons for the same.

- Reporting of wilful defaulters to authorities like RBI/ CIBIL etc., shall be done as per the RBI/CIBIL etc., guidelines in this regard.

- An official of the rank of VP & above on behalf of the Identification Committee and Chief Credit Officer on behalf of Review Committee shall issue the notice and serve the order respectively.

- The customer can be re-examined after 6 months in case the wilful default is not observed during the initial examination of the customer.

- Depending on the requirement of the case, the bank may consider publishing photographs of the customers classified as wilful defaulters for total outstanding of Rs 1 cr above.

The decision regarding Forensic audit, if any, shall be arrived at by the identification committee based on the following:

1. The total outstanding amount of Rs 10 Cr and above or as maybe decided by the Bank from time to time.
2. If it is difficult to establish the underlying features of wilful default such as not making payments despite having capacity to pay, diversion of funds or siphoned off the funds extended under the credit facility.

➢ Identification Committee for wilful defaulters:

Constitution -
1. Whole-Time Director - chairperson
2. Chief Credit Officer
3. Respective Chief Business Officer/ Business Head

Quorum – mandatory presence of all three members.
Frequency of meeting – Quarterly or more frequently, if required.

➢ Review Committee for wilful defaulters:

Constitution -
1. MD & CEO - chairperson
2. Two Independent Directors

Quorum – mandatory presence of all three members.
Frequency of meeting – Quarterly or more frequently, if required.

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4.4. Tools for Recovery

The repayment record of borrowers shall be monitored both with regard to payment of interest and repayment of principal. The mode of recovery shall be decided after conducting a root cause analysis of the reason for default. Whenever a borrower defaults or is likely to default, rigorous follow-up shall be made for the collection of dues / arrears. When default occurs, oral and written communications shall be sent to the borrower to regularise their accounts within a specified period. In case the loan is secured by a guarantee (personal or corporate), steps shall be taken to recover dues from the guarantor.

Suryoday shall use any of the following broad methods for management of problem accounts:

- Restructuring, rephasement and rehabilitation
- Exit strategy
- Settlements / compromise
- Sell down Asset Reconstruction Company (ARC) / other entities
- Write-off
- Invocation of SARFAESI
- Legal Action & recovery

➢ Restructuring, Rephasement & Rehabilitation

This represents those accounts where the borrower is willing to repay his dues to the Bank but does not have the capacity/funds to do so right away. In such cases, the branch shall examine the causes of sickness and recommend the course of action. The first focus of NPA management in such cases shall be possible up gradation of the loan, by rehabilitation of the borrower's business.

The rehabilitation option shall be examined in cases where there is prima facie scope for restoring viability of the business. The action plan shall be put in place in such cases where it is possible to bring the unit back into good health by extending minimum additional funds and marginal concessions by which the unit shall be able to meet its obligations fully within a maximum period of 5-7 years.

A view on rehabilitation/ restructuring shall be taken after due consultation with the consortium banks if the borrower is financed under consortium.

The rehabilitation approach shall generally be adopted provided the Bank is satisfied that:

- Eligibility criteria and regulatory guidelines with respect to restructuring are fulfilled
- The loan has become an NPA due to factors other than lack of integrity on the part of the promoters.
- Genuineness of the obligor and viability of the proposal is established
- There is prima facie case for considering such a proposal.

The following steps shall be taken to rehabilitate the unit so that it may gain enough strength to service the borrowings over a period of time:

- Revision of interest and/or reschedulement of instalments.
- Making available need based minimum additional funds. Suryoday shall explore taking additional securities for such exposure.

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- In cases where the credit requirements of a borrower are being met by a number of institutions under consortium/multiple banking arrangements, Suryoday shall be in continuous touch with other lenders to the borrower and shall keep a close watch over their contemplated actions.

➢ Corrective Action Plan for MSMEs[14]

Rectification- This approach shall be adopted by the Bank after:

- Obtaining a commitment, specifying actions and timelines, from the borrower to regularise the account so that the account comes out of the SMA status or does not slip into the NPA category.
- The commitment shall be supported with identifiable cash flows within the required period and without involving any loss or sacrifice on the part of the existing lenders
- The process shall ideally be borrower driven but in certain exceptional cases the Committee[15] shall consider providing need based additional finance intended only for meeting unavoidable increased working capital requirement.
- Such additional finance shall be regularised within a maximum period of 6 months
- Repeated rectification with funding within a year, shall be treated as restructuring
- No additional finance to be sanctioned where the account has been reported as fraud by any lender

➢ **Restructuring-** This approach shall be adopted by the Bank:

- Only if the assets reported belong to the Standard, Special Mention Account or Sub Standard category and the borrower is not a wilful defaulter[16]. The restructuring proposals shall be recommended by Executive Credit Committee (ECC) for approval by MD&CEO or Credit Committee of the Board as per the delegation of power for approval of credit proposals, based on the size of the debt to be restructured.
- If there is commitment from the promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets
- It shall be noted that any deviation from the commitment by the borrowers affecting the security of recoverability of the loan shall be treated as a valid factor for initiating recovery process
- Cases of Frauds and Malfeasance will be ineligible for restructuring. However, in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower is

[14] Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs) https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=10304
Details of MSME account monitoring and subsequent CAP are covered in the Credit Policy
[15] Details of the committee as required by the RBI Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs) are covered in the Credit Policy
[16] Master Circular on Wilful Defaulters
https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9044

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totally delinked from such erstwhile promoters / management, banks and the Committee[17] shall 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. Further, such accounts shall also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines contained in circular on "Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)"[18].

- The restructuring package shall stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios may be achieved
- Wilful defaulters or any entity with which a wilful defaulter is associated shall not be eligible for restructuring of credit facility. Subsequent to removal of the name of wilful defaulter from the List of Wilful Defaulters (LWD) as published by the Credit Information Companies (CICs), the wilful defaulter or any entity with which a wilful defaulter is associated shall be eligible for restructuring.

➢ Exit Strategy

The Bank shall consider exit/exposure reduction on accounts gone into recovery or on accounts where the return on capital is not commensurate with their overall strategy. Since an exit strategy results in cessation of the relationship with a customer, approval for the same shall be obtained from an authority one level above.

The Bank shall consider Exit or exposure reduction for NPAs or where Early Warning Signals (EWS) are not showing healthy trends despite account being considered as standard assets.

The methods which shall be employed by the Bank include:

- Freeze the exposure at the existing level after serving due notice
- Gradual conversion of cash credit limit into bill discounting limit or reducing drawing power/limits.
- Impose cutbacks on regular credit / bills discounted
- Modify margin requirements to reduce drawing power
- Ensure through Cash Management Services (CMS), escrow of receivables and use the cash flows to gradually reduce exposure, wherever possible
- Enhance the security cover by insisting on additional collateral, personal guarantees of promoters etc.
- opt for settlement of the exposure, if necessary, at a discount
- Sell down to Asset Reconstruction Company (ARC) / other entities

➢ Settlement/Compromise

[17] Details of the committee as required by the RBI Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs) are covered in the Credit Policy

[18] Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)
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Compromise/ settlement refers to a negotiated settlement where a borrower offers to pay and the Bank agrees to accept in full and final settlement of its dues an amount less than the total amount due to them under the relative loan contract. This settlement invariably involves a certain sacrifice by way of write off and/or waiver of a portion of its dues on a one-time basis.

The Policy recognizes that it is not possible to lay down precise guidelines which can be followed uniformly in case of all compromise offers as each offer is unique in the context of circumstances necessitating its consideration as a recovery option.

The Policy however, lays down the following principles which are to be kept in view while considering compromise offers:

- Bank shall take up a compromise settlement / OTS proposal for consideration once the account turns NPA as per the delegation of power mentioned below.
- Approval limits mentioned in the below table are subject to following:
  i. Approving authority of compromise settlement / OTS proposals shall be at least one level higher in hierarchy than the authority approving / sanctioning the credit / investment exposure.
  ii. Any official who was part of sanctioning the loan (as individual or part of a committee) shall not be part of approving the same loan for compromise settlement / OTS.
  iii. In case the proposal is approved by CCB, the authority for compromise settlement / OTS shall remain with CCB considering that it is the highest decision making authority for sanctioning of credit proposals.

- **Delegation of Power (DOP) for One Time Settlement (OTS) for Retail Asset Borrowers:**

Criteria of waiver matrix for secured and unsecured loans for OTS cases:

Waiver deviations	**Non-Performing Assets (NPA)**	
Approval Authority	**Secured**	**Unsecured**
CCrO	Up to 30% on principal outstanding and principal loss of up to Rs 20 lakh	Up to 75% on principal outstanding and principal loss of up to Rs 10 lakh
MD & CEO on recommendation of ECC	Above 30% on principal outstanding and principal loss of more than Rs 20 lakh up to Rs 2 cr	Above 75% on principal outstanding and principal loss of more than Rs 10 lakh up to Rs 50 lakh
CCB	Principal loss of more than Rs 2 cr	Principal loss of more than Rs 50 lakh

**Waiver authority for interest and/or charges shall remain with the same approving authority as per above delegation with no separate limits for interest and/or charges.*

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- In exceptional circumstances of standard accounts, compromise settlement / OTS may be considered not before the account completing a period of 9 months from the date of disbursement. In such cases compromise settlement / OTS shall be approved by MD & CEO on recommendation of ECC.
- In case of relaxation in the minimum period norms for standard accounts, compromise settlement / OTS shall be approved by the following authorities:
  a. MD & CEO on recommendation of ECC for cases having principal outstanding up to Rs 10 Lakhs at the time of settlement.
  b. CCB for cases having principal outstanding more than Rs 10 Lakhs at the time of settlement on recommendation of MD & CEO basis ECC recommendation.
- Any compromise shall be a negotiated settlement under which Suryoday shall endeavour to recover its dues to the maximum extent possible, with minimum sacrifice. However, it is recognised that amicable settlements are possible only in a win-win situation and sacrifice is a part of settlement.
- The latest status of the activity of the borrowing entity which seeks a compromise shall be taken into reckoning during the course of negotiation.
- As far as possible, an initial down-payment shall be taken from the borrower as evidence of his intention to pursue the compromise settlement with the Bank.
- In case the borrower has other group companies dealing with the Bank, influence of these companies or the parent company shall be used for a better settlement and/or for getting additional security, pending realization of the entire amount of compromise.
- It shall be the endeavour of the Bank to get the entire compromise amount within 30 days from the date of settlement. In cases where the borrower is unable to pay the entire lump sum, Bank shall recover at least 25% of the settlement amount upfront. The balance 75% shall be recovered in instalments within a period of three months payment. [19]

  Any relaxation to the above norms shall be approved by MD & CEO.

  Where the time for payment of the agreed settlement amount exceeds three months shall be treated as restructuring as defined in terms of the Prudential framework on Resolution of Stressed Assets dated June 7, 2019 or as modified from time to time.
- At the time of One Time Settlement negotiation when OTS amount is proposed to be paid in instalments seriousness and preparedness of the borrower to honour OTS commitments shall be looked into.
- In the case of suit filed account if need be and if practical, the terms and conditions of settlement shall be finalized and consent decree from the court shall be obtained.

[19] Refer RBI Guidelines on One-Time Settlement Scheme for SME Accounts, RBI/2005-06/153 RPCD.PLNFS. BC.No.39 / 06.02.31/ 2005-06 dated September 3, 2005

[19] Refer RBI's Framework for Compromise Settlements and Technical Write-offs dated June 08, 2023

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- OTS amount normally decided considering the realisable value, due consideration shall be given to various factors like forced sale value, early realization of money, sale ability of the property, type, effort and cost involved & yield in the account.
- Normally no Compromise Settlement shall be made with wilful defaulters. However, it is recognized that, sometimes business prudence requires compromise settlement in the case of wilful defaulters also, which shall be considered on a case to case basis.
- In case of non-receipt of the committed compromise amount as per the terms of the settlement, the recovery proceedings already initiated before the settlement shall be continued forthwith.
- The Authority who had approved the compromise settlement earlier shall consider the modification in the terms of the settlement. However, in case of settlement/compromise, approved by the Board, Chief Credit Officer (CCrO) shall be the permitting authority for such modifications. Sanctions and modifications shall be reported as follows:
    - Details of post sanction modifications in One Time Settlements sanctioned by Board shall be furnished to the respective Authority on a monthly basis.
    - Details of OTS sanctioned by CEO covering aspects like valuation of securities/ collaterals, sacrifice & post sanction modifications shall be reported to the RMCB/Management Committee of Board.
- In the case of sacrifice of undebited Interest the same shall be calculated at Banks prevailing Base Rate (Simple) or the contracted rate/interest claim in the plaint/decreed rate (simple) whichever is less.
- In case of compromise settlements if the settlement amount is more than Rs. 10 lakh and more than one year is given for payment of the same or the balance thereof, the Net Present Value of OTS amount shall be calculated taking the prevailing 90 days treasury bill rate as the discounting factor for tangible assets.
- In compromise settlements/write off cases the amount of sacrifice will be determined with reference to balance/dues as on the 'settlement date' which shall be indicated in the compromise settlement/write off proposals.
- In case of compromise settlements for the propose of discretionary powers, the amount of settlement shall be equal to the net principle balance or 75% of the Forced sale value of the immovable property securities whichever is less. Any relaxation in this regard shall be subject to approval by the next Higher Authority upto to the level of CEO.
- For settlement/ compromise of unsecured loans (mostly retail in nature), the Bank shall consider portfolio approach for sale of such loans for recovery with approval of the Credit Committee of the Board.
- Wherever OTS amount is funded by other Banks/Financial Institutions/NBFCs/ARC or any other entities/individuals, Suryoday may assign the debt/ securities in their favour. In such cases, the guidelines framed for sale of financial assets will not apply.

- One Time Settlement (OTS) for JLG Borrowers:

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The Bank will offer OTS option to deserving customers to enhance the recovery from delinquent microfinance borrowers. The Bank shall take the following safeguards to ensure the OTS facility gives the desired outcome and is not misused by borrowers/collection team members of the Bank/recovery agencies:

i) Only those borrowers who meet the following conditions will be considered for OTS:
   a. Customers whose business activity has been affected because of reasons beyond their control or those who have suffered medical exigencies.
   b. Borrowers whose loan accounts (borrower level) have been written-off or restructured and no payment have been received for last 6 months after the instalments fell due.
   c. Borrowers who are not paying to any of the lenders (to be verified from Credit Bureau reports) or those which are only with Suryoday and not paying will be considered.
   d. Wilful defaulters and fraudulent customers will not be considered for OTS.

ii) Maximum sacrifice under any OTS proposal shall not exceed 50% of the Principal Outstanding and overdue interest.

iii) Branch Manager/Collection Manager shall visit the prospective OTS borrowers to understand and analyse the debt servicing capability issues and propose the OTS to Area Manager – Business or Area Manager-Quality Assurance.

iv) Area Manager-Business or Area Manager- Quality Assurance, as the case may be, shall do field verification, validate the identity of the borrowers, collect request letters for OTS and assess the ability and willingness to pay and settle the loans.

v) ECC shall have the authority to decide the threshold and delegation authority for OTS cases in IF. Further, the CFO should be provided regular updates on the JLG OTS cases on fortnightly basis. A consolidated report of all the approvals granted shall be presented to the MD & CEO for information and noting.

vi) The authority for granting any relaxation to the provisions of the policy shall rest with the MD&CEO.

vii) Quality Assurance team shall follow up on the approvals provided and get the settlement amount collected and accounts closed in the system.

viii) The update on the OTS done and sacrifice made by the Bank during the quarter will be presented in the next quarter to the Credit Committee of the Board and Audit Committee of the Board for information and noting.
   Cases approved by the MD & CEO / Board Level Committee would be reported in the next quarter to the Board for information and noting.
   The cases for which relaxations are granted from the provisions of the policy shall be separately highlighted with the details, including higher sacrifice and merit for consideration.

   Reporting shall be as per the board mandated format comprising the following:
   (i) trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y)
   (ii) out of above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts
   (iii) amount-wise, sanctioning authority wise, and business segment / asset-class wise grouping of such accounts
   (iv) extent of recovery in technically written-off accounts.

ix) The Borrowers who avail OTS will not be eligible for further assistance from the Bank in future.

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- Staff Accountability shall be conducted for Compromised Settlement (one time settlement) cases as defined in the Staff Accountability Policy.
- Valuation of the Property: For secured assets, latest valuation (not more than 3 months old) shall be conducted before sale or settlement of the Account.
- Proposals for compromise settlements for customers classified as fraud or wilful defaulter shall require approval of the CCB in all cases.
- Fresh Exposure on Compromised Settlement Cases: In respect of NPA borrowers which are subjected to compromise settlements, there shall be a minimum gap of 12 months before the Bank takes fresh exposures to such farm & non-farm borrowers.

  The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force. Where the Bank has commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

  The compromise settlements and technical write-offs shall be without prejudice to any mutually agreed contractual provisions between the Bank and the borrower relating to future contingent realizations or recovery by the Bank subject to such claims not being recognised in any manner on the balance sheet of the Bank at the time of the settlement or subsequently till actual realization of such receivables. Any such claims recognised on the balance sheet of the Bank shall render the arrangement to be treated as restructuring.

➢ Sell down to Asset Restructuring Company/other entities

In some NPA accounts, recovery proceedings reach a stalemate for various reasons due to which resolution of such NPA gets delayed. This is particularly so in consortium/multiple finance accounts, where the borrowers take advantage of the lack of consensus among member banks to stall the recovery proceedings. In such cases, debt aggregation by an ARC/aggregator Bank may be the better way out for an early resolution of the NPA.

It is also an established practice in Banking Industry to sell NPAs on portfolio-basis/segment-wise viz., Retail Credit advances such as: Housing Loans, Vehicle loans etc. Individual accounts under these segments though small in value but very voluminous in nature warranting valuable time of Suryoday for follow-up and recovery.

It is observed recently that there are situations where majority of the lenders have classified the accounts as NPA with a few lenders classifying the said account as Standard Assets. There are also situation where majority of the lenders have classified financial assets as SMA-2 which is reported to Central Repository for Information on Large Credit as per RBI guidelines[20] and is expected to become NPA within a short period. In order to reap higher return from ARCs, RBI is encouraging banks to

[20] RBI Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)
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consider sale of such assets at the initial stage and has offered incentive by spreading the losses over a period of two years.

The basic strategy underlying the approach to management of problem accounts is to focus on initiation of appropriate preventive corrective action at the right time. All stressed accounts shall be closely and continuously monitored.

➢ Write off/Waiving of Legal action

If the borrower has no means to pay and the Bank is convinced that the dues are irrecoverable, Bank shall waive legal action and write off the amount.

Waiver of legal action/unapplied interest/write off can be permitted only when the Credit Committee is satisfied that the borrower has no tangible security or any attachable assets, has no adequate income for repayment and no useful purpose will be served by resorting to legal recourse. However, initiation of Revenue Recovery measures (wherever applicable) shall be a precondition to waiver of legal action.

For proposals backed by Govt. sponsored schemes, waiver of legal action shall be obtained from one level higher than the sanctioning authority.

Write off shall be considered as defined in IRAC policy.

➢ Invocation of SARFAESI

The provisions of the SAFAESI Act, as detailed in Section 4.3, may be invoked as a tool for recovery.

➢ Legal Action & Recovery

Recovery proceedings shall be initiated against the borrower / guarantor wherever exit, restructuring and rehabilitation or settlement / compromise have been exhausted or are not possible. Wherever possible action for enforcement of security under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest ("SARFAESI") Act, 2002[21] shall be taken.

All legal actions / recovery actions shall be approved by the designated approval authorities. In cases of wilful default, (e.g. diversion and siphoning of funds), fraud and malfeasance on the part of the borrower, legal action shall be the first and only option for recovery, as any other option of recovery would not be appropriate.

The following steps shall be initiated in respect of such borrowers.

Guidelines on seizure / repossession of assets hypothecated to Suryoday

All assets hypothecated to Suryoday shall be seized / repossessed subject to the following:

- Assets hypothecated to Suryoday under all NPA borrower accounts shall be seized / repossessed provided such seizure / repossession is legally permitted within the state. And if considered beneficial for the Bank keeping in view the charges to be incurred for seizure / repossession and

[21] Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 http://www.drat.tn.nic.in/Docu/Securitisation-Act.pdf

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suitable maintenance / security of such asset. The Product Policy of respective products shall provide appropriate guidelines in this regard.

- A Notice indicating the proposed action shall be served to the borrower giving 7 working days' time to regularize / close the account and only on failure of the borrower to comply, the action should follow.
- Repossession kit issued for hypothecated assets shall be seized within 30 days after the expiry of the notice period.
- Two valuation is compulsory for the repossessed assets this should be done within 7 working days from the time of repossession. Valuation of the assets seized shall be obtained through Bank's approved valuers and average value will be considered as a base for sale of repossessed assets for recovery of dues.
- Arrangement to dispose-off the assets seized shall be made within 90 days of the taking possession of such assets upon failure of the borrower to clear the dues and getting the assets released. Relaxation as per the business requirement in any of the above process will need approval of CCrO.
- Assistance of professional seizing agents shall be availed for the purpose of seizure and safe keeping of the assets seized. All such agents shall have to be duly approved by the Recovery Department before their services are utilized. Any complaint against the seizing agents shall be looked into by the Recovery Department immediately and corrective action including deletion of such seizing agents from the approved list in extreme cases shall be taken.

In addition to the above following actions shall also be initiated

- Reporting the borrower/directors other than independent/ nominee directors as wilful defaulter to RBI after following prescribed procedure.
- Exercise right of general lien and set off, in respect of all accounts of borrower at any of the branches, before initiating legal proceedings but after giving due notice to the concerned.
- The guarantors may be pressurized to expedite repayment of the dues. Separate meetings with guarantors shall be arranged for this purpose where repercussions of legal actions upon them and need for their exerting pressure upon borrowers for repayment/regularization may be explained at length.
- Initiating criminal action against borrowers wherever it is found that the borrower has been fraudulent in his dealings with Suryoday and there is a case of misrepresentation and/or diversion, cheating, criminal breach of trust, using forged documents, dishonest or fraudulent removal or concealment of property etc.
- In all cases where legal action in civil courts/DRTs is contemplated the recovery process shall be initiated immediately in case limitation period is expiring or after reaching a conclusion that rehabilitation and other avenues of recovery have been exhausted. In case it is observed that the borrower is trying to dispose off the securities or the value of securities is eroding for some other reasons, to protect Suryoday's interest and prevent dilution of securities, suits shall be filed against the borrower/guarantors forthwith. The Bank shall approach the courts for granting

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attachment before judgement[22] whereby the Bank shall be able to realise the amount of the decree.

- Simultaneous with filing of suits, efforts shall be made, through process of law, for forcing the borrower/guarantor to declare all their assets on oath and towards obtaining the injunction/garnishee against disposal of assets/receivables and for realization of available securities and impounding the passports of the borrower/directors/guarantors. Necessary application for this purpose shall be filed with DRT/competent courts. Attempts shall also be made for obtaining interim decrees on the basis of admission of debt at any stage by the borrower.
- Wherever feasible, winding up petition shall be filed against the companies as a measure of recovery of money as well as for exerting pressure upon the defaulting borrowers.
- Banks shall also consider filing of Insolvency Petitions against individual borrower/guarantor.
- The status of each suit filed account shall be reviewed by the Collection and Legal team members at monthly intervals, in consultation with the advocates concerned. For the purpose of close monitoring, Legal managers/ Authorised Representatives shall attend Court/DRT proceedings regularly and also maintain close liaison with the advocates, so that the cases may be disposed-off expeditiously and unnecessary delays avoided.

[22] Refer Order XXXVIII, Arrest And Attachment Before Judgement, The Code Of Civil Procedure, 1908

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5. Annexure 1: Roles & Responsibilities of Recovery Agents

- Recovery Agency shall assist the Bank in recovery of dues either by direct recovery or seizure & disposal of secured assets or facilitating a negotiated settlement between the borrower and the Bank by adopting legally permissible means of recovery.
- Agents shall be provided with an Identity card for proper identification and shall limit his role of recovery of dues from the NPA accounts specifically entrusted to them. Any action beyond limits of law shall be at Recovery Agents' sole risk and responsibility.
- Taking possession, drawing inventory, making security arrangements.
- Identifying bidders to participate in sale, effecting sale.
- Co-ordinate/liaison with Government Agencies, Municipal Authorities, Registration Authorities.
- Ascertain particulars of legal heirs of deceased borrower, guarantor, mortgagor and their addresses etc.
- In accounts where the legal proceedings are initiated, their services shall be utilised for identifying other assets (Non-Equitable Mortgage Properties) of the borrowers/guarantors for getting them attached and bringing for sale, liaison with Recovery Officers of DRT, Officials of Courts etc.
- Representatives proposed to be identified as Agent, shall have undergone necessary training and obtained the prescribed certificate from IIBF as per RBI guidelines.
- Agency shall have all the infrastructure for recording the conversations with the borrowers
- Recoveries shall be accepted by cheques and drafts drawn in favour of the Bank only
- Recovery Agency shall keep all the affairs of entrusted borrowers highly confidential.
- The Agency shall not have any right to sub-delegate or appoint any sub-agent.
- The arrangement of placing Recovery Agents' name on the panel does not amount to any employment and create no obligation of any kind on the Bank.
- The Recovery Agency Firm / Company shall carry out verification of the antecedents including pre-employment Police verification of all their staff engaged in the recovery process. The Agency shall carry-out Re-verification of the antecedents of their employees who are undertaking the task of recovery of dues after every two years.
- The Recovery Agents shall strictly adhere to the Bank's Model Code of Conduct for Collection of dues and Repossession of Secured Assets.

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6. Annexure 2: References to Key RBI Circulars

No.	Circular	Issue Date
(i)	Circular - Guidance Note on Credit Risk Management	September 20, 2001
(ii)	Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances	July 1, 2015
(iii)	Master Circular on Wilful Defaulters	January 7, 2015
(iv)	Circular on Recovery Agents engaged by Banks	April 24, 2008
(v)	Framework for Revitalizing Distressed Assets in the Economy – Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)	February 26, 2014
(vi)	Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)	March 17, 2016
(vii)	Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)	September 24, 2015

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7. Annexure 3: Abbreviation

No.	Abbreviation	Description
1.	AO	Authorized Officer
2.	ARC	Asset Reconstruction Company
3.	CAP	Corrective Action Plan
4.	CC	Cash Credit
5.	CEO	Chief Executive Officer
6.	CIBIL	Credit Information Bureau (India) Limited
7.	CMS	Cash Management Services
8.	CO	Collection Officer
9.	DRT	Debt Recovery Tribunal
10.	EMI	Equated Monthly Instalment
11.	JLG	Joint Liability Group
12.	FI	Financial Institutions
13.	LO	Loan Officer
14.	MSME	Micro Small and Medium Enterprises
15.	NPA	Non-Performing Assets
16.	OD	Overdraft
17.	OTS	One Time Settlement
18.	RBI	Reserve Bank of India
19.	RM	Relationship Manager
20.	RMCB	Risk Management Committee of the Board
21.	SMA	Special Mention Accounts

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