



THE KARNATAKA STATE COOPERATIVE APEX BANK LTD.
No.1, 'Uthunga', Pampa Mahakavi Road, Chamarajpet,
Bengalure-560018, Karnataka State.

Policy on Resolution Framework - 2.0 for COVID-19 Related Stress of Individuals and Small Businesses

1. Scope and Objective:

Bank had framed a Policy on “Resolution Framework for COVID 19 Related Stress for Personal & Corporate Borrowers Based on the Resolution Framework for COVID 19 Related Stress” (“Resolution Framework – 1.0”) as declared by RBI vide Circular dated 06 August 2020 and subsequent notification dated 07 September 2020, RBI vide notification Numbers RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 and RBI/2021-22/46 DOR.STR.REC.20/21.04.048/2021-22 dated 5th May 2021 and 4th June 2021 respectively issued guidelines on “Resolution Framework – 2.0” for COVID-19 related stress for Individuals and small businesses. These have been declared due to the resurgence of COVID-19 pandemic in India in the recent weeks and with the objective of alleviating the potential stress to Individual Borrowers and small businesses. These set of guidelines are broadly in line with the Resolution Framework – 1.0, with suitable modifications.

Our Bank deeply cares for its customers and understands the difficulties customers are facing because of the COVID-19 crisis.

In view of this, Bank has adopted following policy and guidelines in order to pass on the benefit of “**Resolution Framework -2.0: Resolution of COVID-19 related Stress’ of Individuals and Small Businesses**” given by the RBI.

2. Definitions:

For the purposes of this policy, the below terms shall have the meaning as provided hereunder;

- a) **Board:** The Board shall mean the Board of Directors or any authorized committee(s) of the board of the Bank.
- b) **Bank:** The Karnataka State Co-operative Apex Bank Limited, Bengaluru.
- c) **COVID-19:** Coronavirus Disease or COVID-19 is an infectious disease, which was declared as a global pandemic by World Health Organization on 11 March 2020.
- d) **Personal Loans:** Personal loans refers to loans given to individuals and consist of (a) consumer credit (b) education loan, (c) loans given for creation/enhancement of immovable assets (e.g., housing loan, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.). Consumer credit refers to the loans given to individuals, which consists of;
 - (a) Loans for consumer durables (b) auto loans (c) personal loans secured by gold, gold jewellery, immovable property, shares and bonds ..etc (e) personal loans to professionals (f) loans given for other consumptions purposes.

3. Applicability for resolution under this Policy:

The following are the broad categories of borrowers to whom this policy is applicable.

1. The credit facilities/investment exposure to the borrower was classified as “**Standard Assets**” by the Bank as on **March 31, 2021**.
2. Those Borrowers who have not availed any resolution in terms of the ‘Resolution Framework -1.0 subject to the special exemption mentioned at **Clause 10** below.

4. Eligibility for Resolution under this policy:

The following borrowers shall be eligible for resolution plan under the Framework - 2.0.

1. Individuals who have availed of personal loans (as detailed in 2 (d) above).
2. Individuals who have availed of loans and advances for business purposes and to whom the Bank has aggregate exposure of not more than **₹ 50 crores** as on March 31, 2021.
3. Small businesses, including those engaged in retail and wholesale trade, other than those classified as MSME as on March 31, 2021, and to whom the Bank has aggregate exposure of not more than **₹ 50 crores** as on March 31, 2021.

4. Borrowers having financial stress on account of COVID-19.

5. Exposure not eligible under this policy:

The following categories of borrowers are not eligible under this Framework;

1. Exceptions as specified under the Prudential Framework.
2. MSME borrowers whose aggregate exposure to the Bank, collectively, is ₹ 25 crore or less, as on March 1, 2020.
3. Farm credit as mentioned in Master Direction issued by the RBI on priority sector lending. However, loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping, sericulture and loans given to farmer households are eligible under the Framework.
4. Resolution Framework does not cover personal loans extended to the staff/ officers of the Bank.
5. Loans to primary agricultural credit societies, farmers' service societies and large-sized Adivasi multi-purpose societies for on-lending to agriculture.
6. Exposures of the Bank to financial service providers, as defined in the Insolvency and Bankruptcy Code, 2016.
7. Exposures of the Bank to Central, State and local Government bodies and body corporates established by an Act of Parliament or State Legislature.
8. Exposures of housing finance companies where the account has been rescheduled in terms of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under the Resolution Framework has been invoked by other Bank.

6. Identification of Stress due to COVID-19 under this policy:

The Borrowers who are affected by the outbreak of COVID-19 are eligible under this Resolution Framework. For the purpose of identification, some of the indicative signs of financial difficulty may be as under;

- a) Job Loss or variation in cash flows or variation in income for self or family members.
- b) In case the salary/perk/incentive of the borrower has reduced.
- c) Decline in Sale or Net Profit.
- d) Decrease in selling price of the commodity dealing with.
- e) Unrealized/longer period for realization of Book debts.
- f) Decrease in production due to lockdown.
- g) Shut-down of business.
- h) Lockdown (partial/full) imposed in the area during last one year.

- i) Sudden rise in expenditure on account of high medical bills or any other expenditure incurred on account of COVID-19 pandemic on self or family members.
- j) Death of borrower/co-borrower due to COVID.
- k) Delay in completion of course, delay in getting employment/under employment (relates to Education loan).
- l) Delay in completion of construction/possession of house/flat due to COVID-19.
- m) In the absence of any documentary evidence, the income loss due to COVID-19 shall be taken on declaration basis as well.
- n) Any other reason acceptable to the Bank.

7. Invocation of Resolution Plan under this policy:

1. Resolution under this framework shall be provided only to the borrowers having stress on account of COVID-19.
2. The resolution process under this window shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalizing a resolution plan to be implemented.
3. In respect of applications received from the borrowers for invoking resolution process under this window, the assessment of eligibility for resolution as per the guidelines of the framework shall be completed and the decision on the application shall be communicated in writing to the applicant by the Bank within 30 days of receipt of such applications. The date of such communication by the Bank to the borrower agreeing to the resolution plan shall be treated as the date of invocation.
- 4. The last date for invocation of resolution permitted under this window is **September 30, 2021.****
5. The Bank can take decision to invoke the resolution process under this window independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

8. Implementation of Resolution Plan:

The Resolution Plan shall be deemed to be implemented only if all of the following conditions are met;

1. The Resolution Plan should be finalized and implemented within **90 days** from the date of invocation of the resolution process under this Framework.

2. All related documentation, including execution of necessary agreements between Bank and borrower are completed and collaterals provided, if any, are completed by the bank in consonance with the resolution plan being implemented.
3. The change in the terms of conditions on the loans get duly reflected in the books/CBS system of the Bank.
4. Borrower is not in default with the Bank as per the revised terms.

9. Features of the Resolution Plan:

A-Term Loans and Demand Loans:

1. The resolution plans may include rescheduling of payments/EMI, conversion of interest accrued or to be accrued into another credit facility or granting of moratorium, based on an assessment of income streams of the borrower. However, compromise settlement are not permitted as a resolution plan for this purpose.
2. The instalment/EMI shall be re-fixed after capitalizing the interest during the moratorium.
3. The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.
4. Under any Term Loan schemes of the Bank, if the total period of repayment or maximum age of the borrowers ..etc is getting breached due to Covid-19 moratorium already permitted under RBI's Regulatory Package or moratorium now permitted under Resolution Plan, the same will not be treated as breach of scheme guidelines.
5. In case overdue of instalment and/or interest already exist at the time of implementation of the resolution plan, the period of instalment/interest pending should also to be notionally taken as moratorium period in addition to future moratorium subject to overall moratorium of two years.

B- Working Capital Facility (in the form of Cash Credit/Overdraft):

1. The repayment of interest shall be deferred for the expected future period of stress along with un-serviced interest so far, if any, subject to a maximum of two years. The future period of stress shall be assessed based on the borrower's declaration of projection of income.

2. The interest accruing as above, during the deferred period and overdue interest as on the date of implementation shall be converted into a Funded Interest Term Loan (FITL), with the same rate of interest that of the OD/CC facility and shall be repayable within a period of 3 years, including moratorium period permitted, if any. Interest on such FITL shall be paid on monthly rests.
3. In case of un-serviced/overdue of interest already exist at the time of implementation of the resolution plan, the period of interest un-serviced should also be notionally taken as the moratorium period in addition to future moratorium subject to overall moratorium of two years.
4. The resolution plan may also include sanctioning of additional credit facilities to address the financial stress of the borrower on account of Covid-19 or working capital limit shall be re-assessed and revised limits may be granted.

10. Extension of moratorium and residual tenor of loans where Resolution Framework 1.0 implemented:

1. In case of borrowers (individuals) where resolution plan had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plan had availed no moratorium or moratorium of less than two years and / or extension of residual tenor by a period of less than two years, it is now permitted to modify the moratorium and extension of residual tenor up to a period of two years only. The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be maximum of two years.
2. In case of borrowers (small business) where resolution plan had been implemented in terms of the Resolution Framework -1.0, it is now permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins ...etc, without same being treated as restructuring. The sanction in this regard shall be taken by **September 30, 2021**, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.
3. These modifications shall also follow the timelines specified in for invocation and implementation as described under the Policy.

4. For loans where modifications are implemented in line with above, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

11. Asset Classification and Provisioning:

1. If a resolution plan is implemented in accordance with the Resolution Framework, the asset classification of the concerned borrowers' accounts classified as '**Standard**' may be retained as such upon implementation of the plan. Borrowers' accounts which may have slipped into 'Non-Performing Assets' ("NPAs") between the invocation and implementation of the resolution plan can be upgraded as '**Standard**', as on the date of implementation of the plan.
2. Additional credit facilities provided to borrowers in respect of whom the resolution process has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, can be classified as '**Standard**' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities in the interim.
3. If the resolution plan is not implemented within the stipulated timeline, the asset classification of such additional credit facilities will be as per the actual performance of the borrower with respect to the same or the rest of the credit facilities, whichever is worse.
4. The Bank shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the Bank post implementation (residual debt), for this purpose.
5. In case of 'Personal Loans', Bank may reverse half of the above provisions upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.
6. In case of 'other than Personal Loans', the above provisions shall not be written back before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.

7. The provisions required to be maintained under this Framework, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

12. Reversal of provisions:

1. In case of personal loans, half of the provisions can be written back upon the borrower paying at least 20% (twenty percent) of the residual debt without slipping into NPA post implementation of the plan, and the remaining half can be written back upon the borrower paying another 10% (ten percent) of the residual debt without slipping into NPA subsequently.
2. In case of resolution of exposures other than personal loans, the above provisions shall not be written back before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.
3. The provisions required to be maintained under this window, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

13. Other Conditions:

1. After implementation of the resolution plan, the subsequent asset classification will be governed as per the extant IRAC norms or other relevant instructions as applicable to the Bank.

14. Disclosure and Credit Reporting:

1. Bank in its annual financial statements shall make disclosures as per the format prescribed in Format-A.
2. The credit reporting by the Bank in respect of individuals and small businesses borrowers where resolution plan is implemented under this window shall reflect the “restructured due to COVID-19” status of the account.

15. Miscellaneous:

1. **Display on Website:** The Board approved policy on restructuring of stressed assets will be hosted on the Bank’s website for our customer’s information and benefit.

2. **Review of Policy:** The Policy shall be reviewed as and when required by the applicable rules and regulations.
3. While Policy outlines the broad internal guidance that the Bank will follow to take decisions regarding this “Resolution Framework – 2.0”, the Bank retains the discretion to take decisions regarding this Policy depending on case specific issues. The Bank reserves the right to amend the Policy within the framework of RBI guidelines.

***** **END** *****

Format for disclosures to be made in the annual financial statements

Sl. No	Description	Individual Borrowers		Small businesses
		Personal Loans	Business Loans	
(A)	Number of requests received for invoking resolution process under advances to individuals and small businesses			
(B)	Number of accounts where resolution plan has been implemented under this window			
(C)	Exposure to accounts mentioned at (B) before implementation of the plan			
(D)	Of (C), aggregate amount of debt that was converted into other securities			
(E)	Additional funding sanctioned, if any, including between invocation of the plan and implementation			
(F)	Increase in provisions on account of the implementation of the resolution plan			