

Suryoday Small Finance Bank Limited

Policy for Resolution Framework- 2.0: Resolution of Covid-19 related stress of Individual and Small Business

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1. Background

- i. RBI issued Circular No DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2020 on Resolution Framework 2.0 – Resolution of Covid-19 related stress of Individuals and Small Businesses (**Annexure I**) and advised lending institutions to put in place a Board approved policy for restructuring of Individuals and Small Businesses advances under the afore-mentioned instructions at the earliest, and in any case not later than four weeks from the date of the circular.
- ii. It may be recalled that during FY 2020- 21, the Bank had already put in place a Board approved policy for restructuring of eligible personal loans and corporate exposures (which were not covered under restructuring MSEM policy) without a downgrade in the asset classification subject to certain conditions mentioned in circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on “Resolution Framework for COVID-19-related Stress” (“Resolution Framework – 1.0”) (**Annexure II**). Bank restructured accounts of eligible and deserving Individual housing loan borrowers under the policy. As per the RBI Circular and the Bank’s policy the last date of invocation of the borrower account was December 31, 2020.
- iii. The resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures to check the spread of the pandemic may impact the recovery process and create new uncertainties. With the objective of alleviating the potential stress to individual borrowers and small businesses, the following set of measures were announced by RBI. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0 mentioned above, with suitable modifications.
- iv. Part A of this policy pertains to requirements specific to resolution of advances to individuals and small businesses and Part B pertains to working capital support for: (i) individuals who have availed of loans for business purposes, and (ii) small businesses, where resolution plans were implemented previously. Part C lists the disclosure requirements for the Bank with respect to the resolution plans implemented under this window.

A. Resolution of advances to individuals and small businesses

Bank is permitted to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan subject to the conditions specified hereafter:

2. Eligible Borrowers and other terms

- i. Individuals who have availed of personal loans (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on “XBRL Returns – Harmonization of Banking Statistics”), excluding the credit facilities provided by lending institutions to their own personnel/staff.

Personal loans refer 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, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.).

- ii. Individuals who have availed of loans and advances for business purposes and to whom the Bank has aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
- iii. Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the Bank has aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
- iv. Resolution under this facility is provided only to the borrowers having stress on account of Covid-19.
- v. The following borrower accounts / credit facilities are not eligible for consideration under this framework (as listed in sub-clauses (a) to (e) of the Clause 2 of the Annex to the Resolution Framework 1.0) read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020).
 - a) MSME borrowers whose aggregate exposure to lending institutions collectively, is `25 crore or less as on March 1, 2020.
 - b) Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated) or other relevant instructions as applicable to specific category of lending institutions subject to the following exception:
 - Farm credit/JLG loans given to farmer households for allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture, if they do not meet any other conditions for exclusions listed in the Resolution Framework.
 - c) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
 - d) Exposures of lending institutions to financial service providers. Financial service providers shall have the same meaning as in sub-section (17) of Section 3 of the Insolvency and Bankruptcy Act, 2016.
 - Exposures of lending institutions to Central and State Governments; Local Government bodies (eg: Municipal Corporations); and body corporates established by an Act of Parliament or State Legislature.
 - 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 this framework has been invoked by other lending institutions. However, from the date of this circular, any resolution necessitated on account of the economic fallout of Covid-19 pandemic, shall be undertaken only under this framework.
- vi. Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at Clause 6 relating to Convergence of the norms for loans resolved previously below.
- vii. Provided further that the credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021.

- viii. Any resolution plan implemented in breach of the stipulations of this circular shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 (“Prudential Framework”), or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

3. Invocation of Resolution Process:

- i. **Board Approved Policy:** The Bank shall frame Board approved policy at the earliest (but not later than four weeks from the date of this Circular), pertaining to implementation of viable resolution plans for eligible borrowers under this framework, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19.
- ii. **Features of Policy:** The Board approved policy shall, *inter alia*, detail the eligibility of borrowers in respect of whom the Bank shall be willing to consider the resolution, and shall lay down the due diligence considerations to be followed by the Bank to establish the necessity of implementing a resolution plan in respect of the concerned borrower as well as the system for redressing the grievance of borrowers who request for resolution under the window and / or are undergoing resolution under this window.
- iii. **Awareness Creation:** The Board approved policy shall be sufficiently publicised and should be available on the website of the Bank in an easily accessible manner.
- iv. **Invocation of Resolution Plan:** The resolution process under this window shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.
- v. **Time Limit for Assessment and Communication to Borrower:** In respect of applications received by the Bank from customers for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in this policy 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.
- vi. **Independent Decision of the Bank:** The decision to invoke the resolution process under this window shall be taken by the Bank in respect of a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- vii. **Last Date for Invocation:** The last date for invocation of resolution permitted under this window is September 30, 2021.
- viii. **Time Limit for Implementation:** The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions in Paragraph 10 of the Annex to the Resolution Framework – 1.0 are met, which are as follows:
- a) all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution plan being implemented.
- b) the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,

c) borrower is not in default with the lending institution as per the revised terms.

4. Permitted features of resolution plans and implementation

- i. **Features of Resolution Plan:** The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as a resolution plan for this purpose.
- ii. **Maximum moratorium/extension permitted:** 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.
- iii. **Conversion of debt:** The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, and the same shall be governed in terms of Paragraphs 30-32 of the Annex to the Resolution Framework – 1.0.
- iv. **Non applicability of Financial Parameters of Resolution Framework 1.0:** The instructions contained in the circular DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020 relating to Kamath Committee’s recommendation on “Resolution Framework for COVID-19-related Stress – Financial Parameters” shall not be applicable to resolution plans implemented under this window.
- v. **Time Limit and Conditions for Implementation of Resolution Plan:** The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions in Paragraph 10 of the Annex to the Resolution Framework – 1.0 are met. Convergence of the norms for loans resolved previously.

5. Asset classification and provisioning

- i. **Upgrading of Accounts:** If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers’ accounts classified as Standard may be retained as such upon implementation, whereas the borrowers’ accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.
 - In response to Bank’s query, RBI has clarified vide their email communication dated May 20,2021 that “If a resolution plan is implemented in adherence to the provisions of Resolution Framework 2.0 for individuals and small businesses, borrowers’ accounts which may have slipped into NPA between April 1,2021 and implementation of the resolution plan may be upgraded as Standard, as on the date of implementation of the resolution plan.”
- ii. **Subsequent Asset Classification:** The subsequent asset classification for such exposures will be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1,2015 or

other relevant instructions as applicable to specific category of lending institutions (“extant IRAC norms”).

- iii. **Additional Finance for Interim Liquidity:** In respect of borrowers where the resolution process has been invoked, lending institutions are permitted to sanction additional finance even before implementation of the plan to meet the interim liquidity requirements of the borrower.
 - a) This facility of additional finance may be classified as ‘Standard’ till implementation of the plan regardless of the actual performance of the borrower in the interim.
 - b) However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.
- iv. **Provisions to be maintained:** The lending institutions 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 lending institution post implementation (residual debt).
 - a) Residual debt, for this purpose, will also include the portion of non-fund-based facilities that may have devolved into fund-based facilities after the date of implementation.
 - b) Half of the above provisions may be written back 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.
 - c) Provided that in respect 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.
 - d) 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.

6. Convergence of the norms for loans resolved previously

In cases of loans of borrowers where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratoria or moratoria of less than two years and / or extension of residual tenor by a period of less than two years, Bank is permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps in Clause 4(ii) above, and the consequent changes necessary in the terms of the loan for implementing such extension. The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years.

B. Capital support for small businesses where resolution plans were implemented previously

7. Review of working Capital as a onetime measure

- i. **Review of Working Capital:** In respect of borrowers specified at sub-clauses ii and iii of Clause 2 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, Bank is permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring.
- ii. **Time Limit for Decisioning:** The decision about above shall be taken by the Bank 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.
- iii. **COVID 19 Fallout:** The above measures shall be contingent on the Bank satisfying itself that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review about their justifiability on account of the economic fallout from COVID-19.
- iv. **Board Approved Policy:** The Board approved policy put in place by the Bank to implement the above measures should be disclosed in the public domain and placed on their websites in a prominent and easily accessible manner.

C. Disclosures and Credit Reporting

8. Guidelines for Disclosures and Credit Reporting

- i. **Disclosure for Restructuring under Part A:** Bank, at the minimum, make disclosures as per the format prescribed in Format-X (given in Clause 12) in its financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of Part A of this framework should also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework – 1.0.
- ii. **Modifications in moratorium/residual tenor:** The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 6 above, and the aggregate exposure of the Bank to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- iii. **Credit Reporting:** The credit reporting by the Bank in respect of borrowers where the resolution plan is implemented under Part A of this window shall reflect the “restructured due to COVID-19” (Refer circular: DoR.FIN.REC.46/20.16.056/2020-21 dated March 12, 2021) status of the account. The credit history of the borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

9. Identification of borrowers for coverage under the Policy:

- i. Coverage of borrowers under the Resolution Framework will be decided based on the detailed guidelines mentioned above and the linkage of stress caused by COVID-19 pandemic.
- ii. Identification of Stress:
 - a) By Bank: Before a borrower account turns into Non-Performing Asset (NPA), Bank shall identify incipient stress based on various indicators, delay in repayment of EMIs/dues and continuing overdue in special mention account (SMA) i.e., SMA 0, SMA 1 and SMA 2. Based on the account specific condition, the Credit team shall consider the stressed accounts for restructuring. As mentioned in para 5 (ii) below the accounts which may have slipped into NPA category between April 1,2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. Hence, eligible NPA accounts (which were standard as on March 31, 2021) with viable business proposition may be considered for restructuring.
 - b) By borrowing entity: Any borrower may voluntarily approach the Bank and its other lenders and initiate discussion under this resolution framework if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts.

10. Credit Assessment and other terms

- i. Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower. Restructuring would normally involve:
 - modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the number of instalments / rate of interest / rollover of credit facilities / sanction of additional credit facility / enhancement of existing credit limits / compromise settlements.
- ii. The business operations should be prima facie viable, and the borrower should not be fraudulent or a wilful defaulter, i.e., there should not be any diversion of funds, fraud, or malfeasance, etc.
- iii. As mentioned in Clause 6 above, in cases of loans of borrowers where resolution plans had been implemented in terms of the Resolution Framework – 1.0, Bank is permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the overall cap of 2 years under Resolution Framework – 1.0 and this framework combined.
- iv. The above measures shall be contingent on the Bank satisfying themselves that the same is necessitated on account of the economic fallout from Covid-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review about their justifiability on account of the economic fallout from Covid-19.

Personal Guarantee and Declaration:

Commitment from borrowers/promoters to be obtained for extending their personal guarantee along with CA Certified / self-declared net worth statement as provided in the product note approved by Product Approval Committee.

- i. In case the borrower/promoters are reluctant to offer personal guarantee, the matter will be examined and decided appropriately keeping in view whether personal guarantees have

been offered in the past/ proposed to be offered under the resolution plan, to other lenders and /or any other factor which hinders the borrowers/promoters from offering such guarantee.

- ii. Borrowers to undertake (through Agreement or declaration) that the borrower would not undertake any transaction that would alienate assets without the permission of the Bank.

11. Credit Approval and Monitoring:

- i. All cases to be reviewed and recommended by Executive Credit Committee (ECC) for approval by MD&CEO or Credit Committee of the Board as per the Delegation of Powers (DOP) based on restructured debt exposure.
- ii. The restructured accounts shall be monitored closely by the credit monitoring team and the performance of the accounts will be reviewed by ECC on quarterly basis.
- iii. The accounts provided relief under the afore-mentioned circular shall be subject to concurrent audit to ensure the required processes are followed and documentation is in place in accordance with the regulatory guidelines.

12. Modifications in the scheme

On recommendation of ECC, Executive Committee (EXECOM) will have the authority to modify the provisions of the policy subject to the modifications being in conformity with the regulatory guidelines.

Any change or modification announced by the regulator in the above mentioned circular / relevant regulatory guidelines shall be deemed to be included in this policy without any further approval.

13. Format -X and Format B for Disclosure for Restructuring under Part A (Refer Clause 8.i.)

Format – X

Format for disclosures to be made in the Qtrs. ending Sep 30, 2021 and Dec 31, 2021

Sl. No	Description	Individual Borrowers		Small businesses
		Personal Loans	Business Loans	
(A)	Number of requests received for invoking resolution process under Part A			
(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			

Format-B

Format for disclosures to be made half yearly starting September 30, 2021

Format for disclosures to be made half yearly starting September 30,2021 Type of borrower	Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of the previous half-year (A)	Of (A), aggregate debt that slipped into NPA during the half-year	Of (A) amount written off during the half-year	Of (A) amount paid by the borrowers during the half-year	Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of this half-year
Personal Loans					
Corporate persons/Small Business*					
<i>Of which MSMEs</i>					
Others					
Total					

*As defined in Section 3(7) of the Insolvency and Bankruptcy Code, 2016