# Policy on Resolution Framework for COVID-19 Related Stress (Restructuring of Stressed Assets Impacted By COVID-19 Pandemic)

## 1. Scope and Objective:

On August 6, 2020, the Reserve Bank of India ("**RBI**") issued a circular bearing No. DOR.No.BP.BC/3/21.04.048/2020-21 on 'Resolution Framework for COVID-19 related Stress' ("**Resolution Framework**") providing for a resolution window under the existing RBI (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019 ("**Prudential Framework**"), with a view to mitigate the financial stress faced by borrowers on account of the economic fallout of the COVID-19 pandemic.

The Prudential Framework provides for recognizing incipient stress in loan accounts and a principle-based resolution framework for addressing such defaults in a normal scenario. However, any concession offered to a borrower under such a resolution framework leads to a downgrade in the asset classification of the borrower's account, except in case of change in ownership in the prescribed manner.

Keeping in mind the significant risks posed to the financial stability of the borrowers in these unprecedented times, the RBI has introduced the Resolution Framework to enable the Banks to provide a resolution framework to the eligible borrowers for repayment of their loan by way of restructuring the loan or extending the tenure for repayment of the debt.

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 for COVID-19-related Stress'** to **Eligible Borrowers** 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) **Eligible Borrowers:** For the purpose of resolution plan under this Policy, eligible borrowers shall mean:

1. The borrowers whose accounts were not in default for more than **30 (thirty) days** with the Bank as on **March 01, 2020** and were classified as Standard Assets; and
2. The borrowers having stress on account of COVID-19 and in respect of whom the Bank is willing to consider the resolution under this Policy.

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

**f)** **Date of Invocation:** The date of invocation means the date on which both the borrower and the Bank have agreed to proceed with a resolution plan for the Eligible Borrower in terms of this Policy. However, in no case the Date of Invocation be later than **December 31, 2020.**

## 3. Eligibility for resolution under this Policy:

All **'Eligible Borrowers'** except the following categories shall be eligible for the resolution process under the Resolution 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.

4. Loans to primary agricultural credit societies, farmers' service societies and large-sized Adivasi multi-purpose societies for on-lending to agriculture.
5. Exposures of the Bank to financial service providers, as defined in the Insolvency and Bankruptcy Code, 2016.
6. Exposures of the Bank to Central, State and local Government bodies and body corporates established by an Act of Parliament or State Legislature.
7. 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.

## 4. Resolution of Stress in Personal Loans and Timelines for Resolution:

1. The Resolution Framework provides for resolution of stress in personal loan accounts classified as **'Standard'**, but not in default for more than **30 (thirty) days** with the Bank as on **March 1, 2020**. However, the Resolution Framework does not cover personal loans extended to the staff/ officers of the Bank.
2. The Bank have to continue to classify such loan accounts as 'Standard' till the date on which the borrower and the Bank agree to proceed with a resolution plan. Any resolution under the Resolution Framework has to be invoked anytime on or before **December 31, 2020** and has to be implemented within a period of **90 (ninety) days** from the date of invocation.
3. The resolution plans may include rescheduling of payments, conversion of interest accrued/ to be accrued into another credit facility or granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of **2 (two) years**. Correspondingly, the overall tenor of the loan may also get modified commensurately.
4. The resolution plan will be deemed to be implemented only after all the necessary documentation is completed, the revised terms are reflected in the books of the Bank and the borrower is not in default as per the revised terms.

## 5. <u>Resolution of Other Eligible Borrowers (Other than Personal Loans) and Timelines for Resolution:</u>

1. Eligible Loans, other than personal loans, classified as 'Standard', but not in default for more than **30 (thirty)** days with the Bank as on **March 1, 2020**, will be eligible for resolution under the Resolution Framework. The Bank will have to continue to classify such accounts as 'Standard' till the date on which the borrower and the Bank agree to proceed with a resolution plan.
2. Any resolution under the Resolution Framework has to be invoked anytime on or before **December 31, 2020** and has to be implemented within a period of **180 (one hundred eighty)** days from the date of invocation.

## 6. <u>Multiple Lender Exposure:</u>

In case of borrowers having exposures to multiple lenders, the following conditions will have to be complied with in connection with implementation of a resolution plan.

1. The resolution process shall be treated as invoked only if the relevant Lenders representing 75% (seventy five percent) by value of the total outstanding credit facilities (fund based as well as non-fund based), and not less than 60% (sixty percent) by number, agree to invoke the same.
2. An **Inter Creditor Agreement ("ICA")** will have to be signed by all the Lenders, within **30 (thirty) days** from the date of invocation of the resolution process. Lending entities, other than those covered under the Resolution Framework, can also sign the ICA and agreed to be bound by it. The ICA should provide mechanisms for dispute redressal and information sharing amongst lending institutions.
3. If Lenders representing at least 75% (seventy five percent) by value, and not less than 60% (sixty percent) by number, do not sign the ICA within the aforesaid timeline then the invocation will lapse and the resolution process cannot be invoked again in respect of such borrower under the Resolution Framework.

4. Lenders, who sign the ICA within the aforesaid timeline, shall keep provisions from the date of implementation of the resolution plan as per the extant income recognition and asset classification ("IRAC") norms immediately before implementation, or 10% (ten percent) of the total debt held by the ICA signatories post implementation of the plan (residual debt), whichever is higher.
5. Lenders failing to sign the ICA within the aforesaid timeline shall, immediately upon the expiry of the aforesaid timeline, keep provisions of 20% (twenty percent) of the debt on their books as on that date (carrying debt), or the provisions required as per the extant IRAC norms, whichever is higher.
6. In cases where the invocation lapses as aforesaid, the Lenders which had earlier agreed for invocation of the resolution process but did not sign the ICA will have to hold 20% (twenty percent) provisions on their carrying debt.
7. All receipts and repayments by the borrower (having consortium/ multiple banking arrangements), as well as all additional disbursements to such borrower as part of the resolution plan, shall be routed through an escrow account maintained with one of the Lenders. Such escrow account should be operated in the manner set out in the escrow agreement to be entered into between the Lenders and the escrow bank.

## 7. <u>Expert Committee:</u>

a) The RBI had set up an Expert Committee with Shri. K V Kamath as the Chairperson. According to the Expert Committee report, the Bank shall mandatorily consider the following key ratios while finalizing the resolution plans in respect of eligible Borrowers under **Part 5 and Part 6** above.

| Key Ratio | Definition |
|---|---|
| Total Outside Liabilities/Adjusted Tangible Net Worth(TOL/ATNW) | Addition of long-term debt, short debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth, net of the investments and loans in the group and outside entities. |
| Total Debt/EBITDA | Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortization. |
| Current Ratio | Current assets divided by current liabilities. |

| | |
|---|---|
| Debt Service Coverage Ratio(DSCR) | For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges. |
| Average Debt Service Coverage (ADSCR) | Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges. |

b) The sector-specific thresholds (ceiling or floors, as the case may be) for each of the above key ratios that should be considered by the Bank in the resolution assumptions with respect to an eligible borrower are given in **Annex.** In respect of those sectors where the sector-specific thresholds have not been specified, the Bank shall frame own internal assessments regarding TOL/ATNW and Total Debt/EBITDA. However, the current ratio and DSCR in all cases shall be 1.0 and above and ADSCR shall be 1.2 and above.

c) Banks are free to consider other financial parameters as well while finalizing the resolution assumptions in respect of eligible borrowers apart from the above mandatory key ratios and the sector-specific thresholds that have been prescribed.

d) The ratios prescribed in paragraph (b) above are intended as floors or ceilings, as the case may be, but the resolution plans shall take into account the pre-Covid-19 operating and financial performance of the borrower and impact of Covid-19 on its operating and financial performance at the time of finalizing the resolution plan, to assess the cashflows in subsequent years, while stipulating appropriate ratios in each case.

e) Given the differential impact of the pandemic on various sectors/entities, the Bank may, at their discretion, adopt a graded approach depending on the severity of the impact on the borrowers, while preparing or implementing the resolution plan. Such graded approach may also entail classification of the impact on the borrowers into mild, moderate and severe, as recommended by the Committee.

## 8. Features of the Resolution Plan:

1. A resolution plan may involve any action, including sale of the exposure to other entities, change in ownership and restructuring, except compromise settlements which will continue to be governed by the provisions of the Prudential Framework or the relevant instructions, if any, applicable to specific category of Banks where the Prudential Framework is not applicable. The resolution plan may also include sanctioning of additional credit facilities to address the financial stress of the borrower on account of Covid-19 even if there is no renegotiation of the existing debt.
2. Bank may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than **2 (two) years**. The moratorium period, if granted shall come into force immediately upon implementation of the resolution plan.
3. The sector-specific thresholds (ceilings or floors, as the case may be) for each of the key ratios detailed in paragraph { para 7 } above shall be considered by the Bank in the resolution assumptions with respect to an eligible Borrower.

## 9. Other Features:

1. Resolution plans for accounts where the aggregate exposure of the Bank, collectively, is **₹ 100 crore** and above at the time of invocation of the resolution process, shall require an independent credit evaluation by one credit rating agency authorised by the RBI under the Prudential Framework.

## 10. Implementation of resolution ( "Date of Implementation"):

A restructuring of loan would be treated as implemented upon fulfilment of all of the following conditions;

1. All related documentation, including execution of necessary agreements (Resolution Plan) between Bank and Eligible Borrower are completed.
2. The new loan amount and changes in the terms and conditions of the existing loan account get duly reflected in the books of accounts of the Bank.
3. The Eligible Borrower is not in default with the Bank as per the revised terms and conditions.

## 11. Due Diligence Process:

The Bank on receipt of a written request from the Eligible Borrower/s, shall evaluate the proposal for restructuring of the personal loan account(s) including evaluation of necessary documents.

On due evaluation of the request submitted by the Eligible Borrower/s, the Bank shall execute with the Eligible Borrower/s necessary amendment agreement or other necessary documents in order to record the revised terms and implement viable resolution plans.

## 12. 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. In respect of personal loans where a resolution plan is implemented, the Bank shall keep provisions from the date of implementation of the resolution plan as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the Bank post implementation (residual debt), whichever is higher.

5. Any additional provisions maintained by the Bank in terms of the RBI's circular on 'COVID-19 regulatory Package', dated April 17, 2020, to the extent not already reversed, can be utilized for meeting the provisioning requirements under the Resolution Framework.

6. Further, any additional provisions maintained in terms of the Prudential Framework can be reversed at the time of invocation of the resolution plan under the Resolution Framework. However, if the plan is not implemented within **180 (one hundred eighty) days** from its invocation, the provisions as per the Prudential Framework will have to be maintained as if a resolution process was never invoked under the Resolution Framework.

## 13. <u>Reversal of provisions:</u>

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 provisions maintained by the ICA signatories can be reversed in the manner as mentioned above. However, in respect of the non-ICA signatories, half of the provisions can be reversed upon repayment of 20% (twenty percent) of the carrying debt, and the other half can be reversed upon repayment of another 10% (ten percent) of the carrying debt, subject to the required provisions as per the extant IRAC norms being maintained.

## 14. <u>Performance post implementation of plan:</u>

1. In case of personal loans, 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 specific category of Bank.

2. In case of exposures other than personal loans, any default by the borrower with any of the ICA signatories during the monitoring period will trigger a review period of **30 (thirty) days**. For this purpose, 'monitoring period' means the period starting from the date of implementation of the resolution plan till the borrower pays 10% (ten percent) of the residual debt, subject to a minimum of 1 (one) year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with the longest moratorium period.

3. In the event the borrower is in default with any of the ICA signatories at the end of the aforesaid review period, the asset classification of the borrower with all the Bank, including the non-ICA signatories, will be downgraded to NPA from the date of implementation of the resolution plan or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.
4. If the monitoring period is over without the account being classified as NPA, the asset classification norms will revert to the criteria laid out in the extant IRAC norms or other relevant instructions as applicable to the specific category of the Bank.

## 15. Disclosures and Credit Reporting:

1. **Disclosure in the Financial Statement:** The Bank shall make appropriate disclosures about the restructured accounts in terms of this Policy in its annual financial statements under the “Notes to Accounts”.
2. **Credit Reporting by the Bank:** The restructuring of loan granted to the Eligible Borrowers under this Policy will be treated as new restructured loan account and the credit history of the Eligible Borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

## 16. 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. **Effective date:** This Policy shall be effective from the date of approval of this Policy by the Board.
3. **Review of Policy:** The Policy shall be reviewed as and when required by the applicable rules and regulations.
4. While Policy outlines the broad internal guidance that the Bank will follow to take decisions regarding this restructuring of stressed assets/loan, 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.

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**Annex**

**Sector-specific thresholds (ceilings or floors, as applicable) of key ratios for 26 sectors**

| Sectors | TOL / ATNW | Total Debt/ EBITDA | Current Ratio | Average DSCR | DSCR |
|---|---|---|---|---|---|
| **Auto Components** | <= 4.50 | <= 4.50 | >= 1.00 | >= 1.20 | >= 1.00 |
| **Auto Dealership** | <=4.00 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| **Automobile Manufacturing*** | <= 4.00 | <= 4.00 | NA | >= 1.20 | >= 1.00 |
| **Aviation**** | <= 6.00 | <= 5.50 | >= 0.40 | NA | NA |
| **Building Materials - Tiles** | <=4.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| **Cement** | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| **Chemicals** | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| **Construction** | <=4.00 | <=4.75 | >=1.00 | >=1.20 | >=1.00 |
| **Consumer Durables / FMCG** | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| **Corporate Retails Outlets** | <=4.50 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| **Gems & Jewellery** | <=3.50 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| **Hotel, Restaurants, Tourism** | <=4.00 | <=5.00 | >= 1.00 | >=1.20 | >=1.00 |
| **Iron & Steel Manufacturing** | <=3.00 | <=5.30 | >=1.00 | >=1.20 | >=1.00 |
| **Logistics** | <=3.00 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| **Mining** | <=3.00 | <=4.50 | >=1.00 | >=1.20 | >=1.00 |
| **Non Ferrous Metals** | <=3.00 | <=4.50 | >=1.00 | >=1.20 | >=1.00 |
| **Pharmaceuticals Manufacturing** | <=3.50 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| **Plastic Products Manufacturing** | <=3.00 | <=4.00 | >=1.00 | >=1.20 | >=1.00 |
| **Port & Port Services** | <=3.00 | <=5.00 | >=1.00 | >=1.20 | >=1.00 |
| **Power** | | | | | |
| *- Generation* | <=4.00 | <=6.00 | >=1.00 | >=1.20 | >=1.00 |
| *- Transmission* | <=4.00 | <=6.00 | >=1.00 | >=1.20 | >=1.00 |
| *- Distribution* | <=3.00 | <=6.00 | >=1.00 | >=1.20 | >=1.00 |
| **Real Estate##** | | | | | |
| *- Residential* | <=7.00 | <=9.00 | >=1.00 | >=1.20 | >=1.00 |
| *- Commercial* | <=10.00 | <=12.00 | >=1.00 | >=1.20 | >=1.00 |
| **Roads** | NA | NA | NA | >=1.10 | >=1.00 |
| **Shipping** | <=3.00 | <=5.50 | >=1.00 | >=1.20 | >=1.00 |
| **Sugar** | <=3.75 | <=4.50 | >=1.00 | >=1.20 | >=1.00 |
| **Textiles** | <=3.50 | <=5.50 | >=1.00 | >=1.20 | >=1.00 |
| **Trading – Wholesale @** | <=4.00 | <=6.00 | >=1.00 | Instead Interest Coverage Ratio > = 1.70 | |