



Utkarsh Small Finance Bank

Policy Document: Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Individuals and small Businesses

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BACKGROUND

- The Reserve Bank of India vide its circular Ref. 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**") had provided a window to enable lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions.
- In view of the resurgence of Covid-19 pandemic in India, with the objective of alleviating the potential stress to individual borrowers and small businesses, the certain set of measures are being announced by RBI vide its circular Ref. RBI/2021-22/31, DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021. The set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.
- The RBI circular also states that the lending institutions shall frame Board approved policies 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.
- The Board approved policy shall, *inter alia*, detail the eligibility of borrowers in respect of whom the lending institutions shall be willing to consider the resolution, and shall lay down the due diligence considerations to be followed by the lending institutions 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. In order to optimise the processing time, lending institutions may prepare product-level standardized templates as part of their Board approved policies, as above, for resolution under this window.
- The Board approved policy shall be sufficiently publicized and should be available on the website of the lending institutions in an easily accessible manner.



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| PURPOSE | <ul style="list-style-type: none">The purpose of this policy document is to outline the guidelines pertaining to implementation of viable resolution plans for eligible borrowers under Resolution Framework Policy – 2.0, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19. |
| SCOPE | <ul style="list-style-type: none">The Scope of the policy is to ensure the implementation of guidelines of viable resolution plans for eligible borrowers, eligibility of borrowers in respect of whom the Bank shall be willing to consider the resolution, 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 under Resolution Framework Policy – 2.0, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19, making appropriate provisions under resolution as per regulatory guidelines etc. |
| POLICY GUIDELINES | <p><u>Resolution Framework Policy – 2.0: Policy Guidelines:</u></p> <ul style="list-style-type: none">The Policy is divided into 3 Parts as below:<ul style="list-style-type: none">Part A – Eligibility of Borrowers to resolution of advances to individuals and small businesses.Part B – Working Capital Support for:<ul style="list-style-type: none">(i) individuals who have availed of loans for business purposes.(ii) small businesses, where resolution plans were implemented previously.Part C – Disclosure requirements with respect to the resolution plans implemented. <p><u>Part A: Eligibility of Borrowers for resolution of advances to individuals and small businesses.</u></p> <p><u>Eligible Borrowers:</u></p> <p>1. The following borrowers shall be eligible for the window of resolution to be invoked by the Bank:</p> <p>a.) 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”).</p> |



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- 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.)

b.) Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs. 25 crore as on March 31, 2021.

c.) 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 lending institutions have aggregate exposure of not more than Rs. 25 crore as on March 31, 2021.

2. The borrower accounts / credit facilities shall not belong to the categories 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 31, 2021.
- 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, except for loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture are excluded from the scope of 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 providers².
- e. 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.

3. 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 24 below.

4. The credit facilities / investment exposure to the borrower was classified as Standard by the Bank as on March 31, 2021.

5. The credit facilities provided by the Bank to its own personnel/staff shall not be eligible



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for resolution.

Invocation of resolution process:

6. The decision to invoke the resolution process under this policy shall be taken by the Bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

7. The Bank shall communicate the decision on the application in writing to the applicant maximum within 30 days of receipt of such applications.

8. The resolution process under the policy shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.

9. The last date for invocation of resolution permitted under this window is September 30, 2021.

Permitted features of resolution plans and implementation:

10. The resolution plans implemented under this policy 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.

11. 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.

12. 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.

13. The instructions contained in the circular Ref. DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020, on "Resolution Framework for COVID-19-related Stress – Financial Parameters" shall not be applicable to resolution plans implemented under this window.



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14. A) The resolution plan should be finalized 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 below:

i). All related documentation, including execution of necessary agreements between USFBL and the borrower and collaterals provided, if any, are completed by USFBL in consonance with the resolution plan being implemented.

ii). The changes in the terms of conditions of the loans should get duly reflected in the books of USFBL.

iii). Borrower is not in default with USFBL as per the revised terms.

14. B) The Bank, in case of the borrower having multiple loan accounts, will extend resolution only to such loan account(s) of the borrower for which the borrower has submitted the request application for the resolution to the Bank.

Assessment of Income, Conformity of stress due to Covid-19:

15. The broad parameters to be considered to establish stress due to Covid-19 for the borrower is as below:

- **For Salaried borrowers:** either Reduction in salary OR loss in employment
- **For Self-employed borrowers (individual / small businesses):** Reduction in sales / turnover / profit Or shut down of business/impact on cash flows Or income Or temporary shut-down of business due to state Govt / District Administration order etc.

A suitable documentary evidence to establish occurrence of any of the above events is required to be obtained from the borrower to establish Covid-19 related stress for all products except for JLG, Swachhata Loans, Two Wheeler Loans and MBIL products.

[However, in case of loans to self-employed borrowers (individual / small businesses) with outstanding amount of above Rs. 5 lakh as on the date of submitting the resolution application to the bank by the borrower, documentary evidence either in form of Financial Documents / Bank statement or GST return shall be mandatory to establish stress due to Covid-19].



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16. Due Diligence Template for taking decision on Resolution Application-

Due Diligence Template for Small Business and Loans to Individuals for Business Purpose (Go No Go Criteria for Resolution)

| SN. | Particulars | Observation |
|-----|---|--|
| 1 | Whether account was a 'standard asset' as on March 31, 2021, if yes, capture DPD days as on March 31 2021. | Yes/No DPD Days as on 31/03/2021: |
| 2 | Whether total exposure, including non-fund-based facilities, of all banks and NBFCs exceeds ₹25 crore, as on March 31, 2021. If yes, request to be rejected. Applicable only in case of Loans to Individuals for Business Purpose and Loans to Small Business. | Yes/No |
| 3 | Whether account is a 'standard asset' as on date of Credit Recommendation, if yes, capture DPD days as on date of submission of the Credit Recommendation. | Yes/No DPD Days as on ----- |



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Due Diligence Template for Personal Loan/ Housing Loans – Go No Go Criteria

| SN. | Particulars | Observation |
|-----|--|--|
| 1 | Whether account was a 'standard asset' as on March 31, 2021, if yes, capture DPD days as of March 31, 2021. | Yes/No DPD Days as on 31/03/2021: |
| 2 | Whether account is a 'standard asset' as on date of Credit Recommendation, if yes, capture DPD days as on date of submission of the Credit Recommendation. | Yes/No DPD Days as on ----- |
| 3 | Whether the loan pertains to the Bank Staff. Credit facilities provided to Bank's staff will not be eligible for resolution. | Yes/No |

Other Parameters – Small businesses & Loans to individuals for business purpose / Housing Loans (Non Salaried)

| | |
|--|---|
| Whether business was/is shut down. If yes, Reason for shut down | Yes/No (i) State Govt order ----- (ii) Others ----- (please specify) Pls also attach a copy of relevant order along with the due diligence template |
| Period during which Business was shut down. | |



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|--|--|--|
| | Sales/TO / Profit during Pre-COVID Period | |
| | Sales/TO / Profit during Post-COVID Period | |
| | Medical Expenses Incurred for self/family members | Yes/No Amount of Medical Expenses |
| | Any family members including self-fell sick due to Covid-19 | Yes/No Relationship of the family members who fell sick with the Borrower - |
| | Capture collection team feedback | Recommended for Resolution /Not Recommended for Resolution |
| | Other Parameters – <u>Personal Loan/ Housing Loans (Salaried)</u> | |
| | Whether job lost during Covid. | Yes/No |
| | Period during which Borrower was unemployed. | |
| | Average Salary during Pre-COVID Period | |
| | Average Salary during Post COVID Period | |
| | Medical Expenses Incurred for self/family members | Yes/No Amount of Medical Expenses |



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Any family members including self-fell sick due to Covid-19

Yes/No

Relationship of the family members who fell sick with the Borrower -

Capture collection team feedback

Recommended for Resolution/Not Recommended for Resolution.

Details of Income /Sales

| Salary Income Details | Income | |
|--|-----------|--------------|
| | Pre Covid | During Covid |
| Net salary/ allowances | | |
| Other income such as rent, interest etc. | | |
| Total Income | | |

| Business Income Details | Turnover/Sales/Profit | |
|--|-----------------------|--------------|
| | Pre Covid | During Covid |
| Sales/Turnover / Profit (Amount in Lakh) | | |

Projected Cash Flow (as declared by Borrower in Request cum application letter)

| Salary Income Details | Justification for the Projection | |
|--|----------------------------------|--|
| Net salary/ allowances Per Month | | |
| Other income such as rent, interest etc. per month | | |
| Total Income | | |



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|--|---|---|---|
| | Business Income Details | Turnover/Sales | Net Profit (NP) |
| | Projected Monthly Sales/turnover (Amount in Lakh) | Sales in FY 2020-21 (Provisional / Actual) - Projected Sales in FY 2021-22 - | NP in FY 2020-21 (Provisional / Actual) Projected NP in FY 2021-22 - |
| | Justification for the Projection | | |
| | <u>Due Diligence Template for Small Business and Loans to JLG, Swachhata Loans, Two Wheeler Loans and MBIL category (Go No Go Criteria for Resolution)</u> | | |
| | SN. | Particulars | Observation |
| | 1 | Whether account was a 'standard asset' as on March 31, 2021, if yes, capture DPD days as of March 31 2021. | Yes/No DPD Days as on 31/03/2021: |
| | 2 | Whether total exposure, including non-fund-based facilities, of all banks and NBFCs exceeds ₹25 crore as on March 31, 2021. If yes, request to be rejected. Applicable in case of Loans to Individuals for Business Purpose and Loans to Small Business. | Yes/No |
| | 3 | Whether account is a 'standard asset' as on date of Credit Recommendation, if yes, capture DPD days as on date of submission of the Credit Recommendation. | Yes/No DPD Days as on ----- |



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Other Parameters Template for JLG, Swachhata Loans, Two Wheeler Loans and MBIL Products

| SN. | Particulars | Observation |
|-----|---|-------------|
| 1. | Whether business was shut down/lost during April 1, 2021 till DD/MM 2021. | Yes/No |
| a) | If Yes, then period during which Business was shut down/lost. | |
| 2. | Monthly Household Income Before April 1, 2021 | |
| 3. | Monthly Household Income After April 1, 2021 | |
| 4. | Projection of Household Income from October 1, 2021 onwards | |

Asset classification and provisioning:

17. The asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation of resolution plan in adherence to the norms under resolution policy, 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.

18. 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").

19. In respect of borrowers where the resolution process has been invoked, the Bank may sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance may be classified as 'Standard' till implementation of the plan regardless of the actual



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performance of the borrower in the interim.

20. 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.

21. 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 lending institution post implementation (residual debt). 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. Such additional provisioning requirement will be specific to the accounts of the borrower wherein resolution has been provided under this policy framework and not to all accounts of the borrower.

22. 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.

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.

23. The provisions required to be maintained under this resolution, 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.

24. In cases of loans of borrowers specified in Clause 1 (mentioned in Part A) above in the policy (mentioned in Part A) 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, lending institutions are 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 11 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.*



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| | <p>25. The resolution plan should be finalized 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 (as mentioned in clause 14.A above).</p> <p>26. The instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.</p> <p><u>B. Working capital support for small businesses where resolution plans were implemented previously.</u></p> <p>27. In respect of borrowers specified at sub-clauses (b) and (c) of Clause 1 above (mentioned in Part A) where resolution plans had been implemented in terms of the Resolution Framework – 1.0, The Bank shall, as a one-time measure, 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. The decision with regard to 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.</p> <p>28. In view of the clause 27 above, the Overdraft / DLOD accounts under Retail / WSL lending would be covered in the resolution policy.</p> <p>29. 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 with regard to their justifiability on account of the economic fallout from COVID-19.</p> |
| APPLICABILITY | <p>1) The policy would be applicable to loans given to individuals – under personal loans products (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”), like – Personal Loans, JLG loans (except loans given for direct agriculture purpose), Swachhata Loans, HL, Auto Loans, Two Wheeler Loans etc.</p> <p>2) The policy would also be applicable to loans given to individuals for business purpose and to 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 like - MBIL, Unsecured business loans, Secured BL, LAP, CC/OD, CV/CE and Non MSME term loans, CC/OD loans granted under Non NBFC segment of WSL Lending.</p> |



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| REGULATORY CLAUSE REFERENCES | <ul style="list-style-type: none">• RBI vide circular Ref. RBI/2021-22/31, DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021 on "Resolution Framework Policy- 2.0: Resolution of COVID-19 related stress of Individuals and small Businesses".• RBI vide circular Ref. DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress".• RBI vide circular Ref. DoR.FIN.REC.46/20.16.056/2020-21 dated March 12, 2021 on Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures. |
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PROPRIETARY