

RECOVERY, COMPROMISE, SETTLEMENT, NPA PROVISIONING & WRITE OFF POLICY

BEST CAPITAL SERVICES LIMITED

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This Recovery, Compromise, Settlement, NPA Provisioning & Write Off Policy reviewed and approved in the BOARD meeting held on 02.04.2025.

1. Introduction:

BEST CAPITAL SERVICES LIMITED (Hereafter referred as "BCSL") is a NBFC registered with Reserve Bank of India as, "Non-Deposit taking Systemically Important NBFC". Its principal objective is to extend loans to members of the society for the purpose of giving them an opportunity to generate income by utilizing the loan proceeds.

BCSL also provides Car Loan, Heavy vehicle Loans, personal Loans, Loans against property and SME Loans to the borrowers which is secured by way of third party guarantee and also by Hypothecation of Stocks / Stores / Vehicles or by any other available means.

These loans are main earning assets of BCSL, therefore maintaining good quality loan assets is utmost important for BCSL. Despite best effort done by BCSL on loan underwriting there are circumstances when loan become delinquent. Therefore, putting in place a comprehensive recovery and NPA management policy is important to ensure prudent operational practices within BCSL in follow up of RBI guidelines. This recovery and NPA management policy will provide clear guidelines to operations team to monitor, contain, and recover the advances in most effective ways like RECOVERY, COMPROMISE, SETTLEMENT & WRITE OFF POLICY I.e. NPA management policy.

2. Objectives:

- 2.1. To reduce BCSL's NPA level in absolute terms by preventing slippage of accounts and accelerating recoveries in the existing NPAs.
- 2.2. To ensure all BCSL employees follows the code of conduct set up by the Reserve bank of India (RBI) and the Self-Regulatory Organizations (SROs) while executing the recovery policy in the field.
- 2.3. To take a pro-active approach in finding solutions for the borrowers who are in stress but their intent is good, the solutions may include restructuring of loans and compromised settlements. Compromise and write off solutions would be allowed only in defined situations, though BCSL's endeavor would remain recovery of 100% principal and interest dues when possible.
- 2.4. To ensure accuracy in reporting of accounts once it is delinquent.
- 2.5. To provide directions to contain slippage to NPA category.

3. Key Definitions and Guidelines :

As per the RBI directions the following norms for the asset classification and provisioning shall be followed by NBFC BCSL.

3.a. Standard, Overdue and NPA Accounts:

- I. Standard asset means the asset in respect of which, no default in repayment of principal or

payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

- II. Overdue: Any amount due to the under any credit facility is 'overdue', if it is not paid on the due date fixed by BCSL.
- III. Non-performing asset means an asset for which, interest/ principal payment has remained overdue for more than 90 days.

3.b. Special Mention Account (SMA):

Special Mention Account (SMA) is an account which is showing signs of incipient stress resulting in borrower defaulting in timely servicing of their debt obligations though the account has not been classified as NPA as per extant RBI guidelines. Early recognition of such accounts will enable BCSL to timely initiate the remedial measures to prevent their potential slippages into NPA. The accounts are to be classified as under:

SMA sub-categories	Basis of classification (other than revolving facility)
	Principal or interest payment or any other amount wholly or partially overdue for:
SMA-0	1-30 Days
SMA-1	31-60 Days
SMA-2	61-90 Days

It is clarified that borrower's account shall be flagged as overdue as a part of their day end process for the due date, irrespective of the time of running such process. Similarly, classification of borrower's account as SMA/NPA shall be done as a part of day end process for the relevant date and SMA/NPA classification date shall be the calendar date for which day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day end of the calendar date.

3.c. Upgradation of an account classified as NPA :

Loan accounts classified as NPA may be upgraded to standard assets only if borrowers paid the entire arrears of principal and interest.

Once the account is classified as NPA, the entire interest accrued and credited to the income account in the past periods must be reversed to the extent it remains unrealized. However, BCSL may account interest on NPA as per INDAS 109 on the realized portion after making ECL provisioning.

3.d. Provisioning Norms:

As regards provisioning on portfolio, BCSL in accordance with IND-AS has adopted Expected Credit Loss (ECL) Estimation Policy . The ECL policy specifies the parameters viz. the impairment stages, based on which all the loans are allocated depending upon the credit risk since initial recognition. BCSL calculates the ECLs based on the probability weighted scenarios and historical data to measure the expected cash shortfalls, ECL policy of BCSL can be referred for further details.

BCSL is adhering to RBI notification BI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20

dated 13th March, 2020 relating to implementation of IND AS.

The said notification requires that BCSL shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) including borrower/beneficiary wise classification, provisioning for standard as well as restructured assets, NPA ageing, etc. A comparison between provisions required under IRACP and impairment allowances made under Ind AS 109 shall be disclosed by BCSL in the notes to their financial statements.

Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), BCSL shall appropriate the difference from their net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision, RBI.

4. LOSS ASSETS

A Loss Asset is one where loss has been identified by BCSL or internal or external Auditors or the RBI Inspection, but the amount has not been written off. In other words, said asset is considered as unrealizable that its continuance as a bankable asset is not warranted, though there may be some salvage or recovery value. There should be a provision of 100% for loss assets.

5. OTHER GUIDELINES:

- 5.1 All the loans and advances shall be classified as per the norms prescribed by Reserve Bank of India for NBFC's on assets classification. The classification made by BCSL shall be verified by Statutory Auditors.
- 5.2 Concerned Officers of BCSL should make proper and correct asset classification as per IRAC norms.

6. Action to be taken in NPA Accounts

Once account has been identified as NPA:

The borrower and the guarantor be vigorously followed up for recovery/regularization of the account in center meetings or otherwise. In case no desired response is received, recovery notice to be served on borrower within 15 days followed by a legal notice through an advocate on BCSL's panel to the borrower and the guarantor within 30 days from the date of identification of the account as NPA with prior approval of the competent authority.

In exceptional cases if there are genuine difficulties being faced by certain borrowers, their accounts may be rescheduled/restructured preferably prior to such loans becoming NPAs with the approval of competent authority. The competent authority shall be at least a level higher in hierarchy to the authority from which such loan was approved. Further any official who was part of sanction of such loan shall not be a party to approve the restructuring/settlement. However all the proposal for compromise/ technical write off shall be approved by the Managing Director and/or Board of Directors before giving effect.

It should be ensured that the statements showing position of NPA's should be updated immediately after the day end process. NPA statements should be thoroughly scrutinized by the operations supervisors and the risk management department and necessary direction/guidance may be provided to the branch/recovery staff. Based on the analysis of NPA accounts and staff workload targets for recovery should be fixed. Target should be fixed in consultation with the Branch Managers and the BROs. Operations supervisors and Head Office team should monitor the branches performance against the given targets and provide the need based guidance to the branch staff.

The position of recovery in NPA accounts, including restructured and compromised settlements accounts, should be reviewed on a monthly basis by the Risk vertical and the position of recovery be placed before the Management on a monthly basis.

Recoveries affected in NPA assets be first be appropriated towards interest then principal.

Asset Classification (in terms of RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24 October 19, 2023 (Updated as on November 10, 2023).

The asset classification norms as given below shall apply to 'applicable' NBFCs (i.e. except NBFCs-ML and above and microfinance loans of NBFC-MFIs).

Applicable NBFC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

14.1.1 "Standard asset" shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more than normal risk attached to the business.

14.1.2 "Sub-standard asset" shall mean

- (i) an asset which has been classified as non-performing asset for a period not exceeding 18 months;
- (ii) an asset, where the terms of the agreement regarding interest and/or principal have been renegotiated or rescheduled or restructured after

commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms.

Provided that the classification of infrastructure loan as a sub-standard asset shall be in accordance with the provisions of [paragraph 17](#) of these Directions;

14.1.3 “Doubtful asset” shall mean

- (i) a term loan, or
- (ii) a lease asset, or
- (iii) a hire purchase asset, or
- (iv) any other asset,

which remains a sub-standard asset for a period exceeding 18 months.

14.1.4 “Loss asset” shall mean

- (i) an asset which has been identified as loss asset by the NBFC or its internal or external auditor or by the Reserve Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and
- (ii) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

14.2 The extant NPA classification norm stands changed to the overdue period of more than 90 days for applicable NBFCs. A glide path is provided to applicable NBFCs to adhere to the 90 days NPA norm as under —

NPA Norms	Timeline
>150 days overdue	By March 31, 2024
>120 days overdue	By March 31, 2025
> 90 days	By March 31, 2026

Note: The glide path will not be applicable to NBFCs which are already required to follow the 90-day NPA norm.

14.3 “Non-Performing Asset” (NPA) for applicable NBFCs shall mean:

- (i) an asset, in respect of which, interest has remained overdue for a period of more than 180 days.

- (ii) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of more than 180 days or on which interest amount remained overdue for a period of more than 180 days.
- (iii) a demand or call loan, which remained overdue for a period of more than 180 days from the date of demand or call or on which interest amount remained overdue for a period of more than 180 days.
- (iv) a bill which remains overdue for a period of more than 180 days.
- (v) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short-term loans/advances, which facility remained overdue for a period of more than 180 days.
- (vi) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than 180 days.
- (vii) the lease rental and hire purchase instalment, which has become overdue for a period of more than 180 days.
- (viii) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset.

Provided that in the case of lease and hire purchase transactions, an applicable NBFC shall classify each such account on the basis of its record of recovery.

Note: The period of more than 180 days for NPA classification as mentioned above shall be adjusted as per glide path outlined in paragraph 14.2.

14.4 ¹⁰ The following shall apply to applicable NBFCs:

14.4.1 An amount is to be treated as overdue if it is not paid on the due date fixed by the NBFCs. The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the

sanction terms/ loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. In case of existing loans, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/ review.

14.4.2 NBFCs shall recognize incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the categories specified below.

SMA Sub-categories	Basis for classification- Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 180 days

Vide [circulares DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021](#) and [DOR.STR.REC.85/ 21.04.048/2021-22 dated February 15, 2022](#)

Note: The period of SMA-2 shall be adjusted as per glide path outlined in paragraph 14.2.

14.4.3 The above instructions on SMA classification of borrower accounts are applicable to all loans, including retail loans, irrespective of size of exposure of the lending institution.

14.4.4 The borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date. Illustrations for the same are provided in [paragraph 137](#) of the Directions.

14.4.5 Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the

borrower. In case of borrowers having more than one credit facility, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

14.4.6 Consumer Education on SMA/NPA - With a view to increasing awareness among the borrowers, NBFCs should place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process. NBFCs shall also consider displaying such consumer education literature in their branches by means of posters and/or other appropriate media. Further, it shall also be ensured that their front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction/disbursal/renewal of loans.

10. Provisioning Requirements

The provisioning requirements as given below shall apply to every NBFC (except microfinance loans of NBFC-MFIs).

NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realization of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:

10.1 Loans, advances and other credit facilities including bills purchased and discounted

The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for.
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Doubtful Assets	(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;	
	(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstanding) shall be made on the following basis:	
	Period for which the asset has been considered as doubtful	% of provision
	Up to one year	20
	One to three years	30
	More than three years	50
Sub-standard assets	A general provision of 10% of total outstanding shall be made.	
Standard Assets	An over all provision of 0.25% shall be made.	

7. COMPROMISE / ONE TIME SETTLEMENTS

- 7.1 The basic guidelines governing compromise/one time settlements of NPAs/ Write off Accounts are listed below.
- 7.1.1 A compromise should be negotiated settlement, which would ensure recovery of the dues to the maximum extent possible at minimum expense and within shortest possible time.
- 7.1.2 While taking NPAs a proper distinction will have to be made between willful defaulters and defaulters due to circumstances beyond their control. While in case of the former, a tough stand has to be taken, in latter cases a moderated view is to be taken.
- 7.1.3 Due weightage to be given to present activities of the borrower / guarantor, their present means etc.
- 7.1.4 While arriving at a negotiated settlement, the advantage available to BCSL for prompt recycling of funds should be weighted in comparison to the likely recovery befollowing legal or other protracted course of action i.e. opportunity cost analysis be made.

- 7.1.5 The internal reporting system should ensure prompt reporting of all compromise proposals approved. The details of compromise / technical write off made during the quarter shall be reported to the Audit Committee / Board.
- 7.1.6 A compromise/settlement be made only if the account has been classified as loss assets. However, if there are any genuine reasons, compromise/settlement can also be made in case of NPA accounts.
- 7.1.7 While compromising in any account only interest amount be sacrificed and no relief be granted in principal amount. However, in deserving cases relief in principal amount may also be considered with the permission of appropriate authority i.e. MD or Board.
- 7.1.8 Before entering into any compromise /settlement details of the assets of the borrower and guarantor be collected and the relief be granted if BCSL deems fit.

The Module Approach

- 7.2.1 Compromise / relief proposals will be negotiated in keeping with the basic objectives spelt out above. The module approach is developed, keeping in mind the following keyparameters.
- 7.2.2 Realizable value & marketability of securities charged to BCSL if the advance loan is secured.
- 7.2.3 Aggregate means of borrowers /guarantors.
- 7.2.4 Age of NPA.
- 7.2.5 Legal position of BCSL pertaining to the Security.
- 7.2.6 Points / scores for various parameters under the modular approach as also the system of awarding points / score shall be as follows.

Sr.No.	Particulars	Points
1	Value of security	
a)	Exceeds the dues (as per the books/suit/decree)	
	i. Easily marketable	10
	ii Not easily marketable	08
	iii very difficult to marketable	07
b)	Exceed the 50% and up to 100% of the dues (as per the books/suit/decree)	
	i. Easily marketable	07
	ii Not easily marketable	05
	iii very difficult to marketable	04
c)	50% or less of the dues (as per the books/suit/decree)	
	i. Easily marketable	04
	ii Not easily marketable	02
	iii very difficult to marketable	01
d)	No security	00

2	Aggregate means of borrowers / guarantor	
	i More than dues (as per the books/suit/decreed)	04
	ii Exceed the 50% and up to 100% of the dues	03
	iii Exceeds 25% and p to 50%	02
	iv Below 25%	00
3	Age of NPA	
	i Up to 1 years	05
	ii More than 1 years & up to 1.5 years	04
	iii More than 1.5 years & up to 3 years	02
	iv More than 3 years	00
4	Legal position	
	i No defect/deficiencies in documents and mortgage in order	04
	ii Documents are defective and mortgage not in Enforceable	00
a)	Suit filed	
	i Suit proceedings are continuing less than 2 Years	04
	ii Suit proceedings are continuing above 2 years & less than 4 years.	02
	iii Suit proceedings are continuing above 4 years	00
b)	Decreed accounts	
	Decree execution is outstanding for	
	i Less than 2 years	04
	ii Between 2 to 4 years	02
	iii More than 4 years	00

“Fair market Value” given by valuer should be taken for the purpose of scoring and not distress value.

While calculating as module it should be borne in mind that marketability is a function of legal tangles affecting security. Hence the following may be considered while awarding points under module.

- a. Various laws meant for protection of Agriculturists / Tribal people govern security in the form of Agricultural Land. In that case marketability would be a factor of: (i) getting permission from Collector (ii) availability of purchasers from tribal communities (iii) restrictions on sale to non-agriculturist.
- b. There may be cases, where (i) security is heavily tenanted and vacant possession is next to impossible (ii) security is a subject matter of litigation between the borrower and paramount title holder (iii) security is subject to planning, environment, forest law restrictions and (iv) security may be subject to expropriation proceedings due to violation of user conditions etc.
- c. Valuers may not factor in the effect of above legal issues, while giving valuation. In such an event, opinion from a paneled advocate or Law officer on these legal issues should be obtained and if found that it is very difficult to disentangle the security from legal issues, then, aggregate score under the module may be reduced by further 4 points. Where

aggregate score exceeds 17, under the module. In cases where score is in the range of 17 to 14, then gradual reduction by 3, 2, or 1 point only is permissible. No reduction is permissible for the scores less than 14.

7.2.7

- a. For the purpose of judging and estimating, whether security is easily marketable, not easily marketable and very difficult to market, following yardsticks among other things may be kept in mind.

Parameters	Yardstick
Easily marketable	Like residential commercial Premises located in Metro/urban or prime locality
Not easily marketable	Tenanted premises or industrial Land / Building
Very difficult to market	Agricultural land

7.2.8 Minimum settlement amount to be recovered

Points Scored	Methodology for calculation of settlement amount
17 & above	Outstanding in running ledger + int. @10% (simple)
12 to 16	Outstanding in running ledger + int. @ 8% (simple)
8 to 11	Outstanding in running ledger
4 to 7	50% to 75% of outstanding in running ledger
2 to 3	25% to 50% of outstanding in running ledger
0 to 1	As much as possible

- 7.2.9 In case of unsecured advances / loan parameter of Realizable value of security and marketability would be irrelevant. Hence, with respect to unsecured advances points / score for the parameter realizable value of security and marketability may be taken as NIL.

Settlement with Deviation from Module:

There may be some rare cases, where recovery of amount arrived at as per module may not be possible. Similarly, some borrowers may need more than 12 months' time for repayment. Few others may not be in a position to pay interest at all for installment payment or come forward to pay interest at a lower rate than applicable as per the policy. For all such deviations, cogent reasons to be recorded and such proposals be put up for clearance to the next higher authority than the delegate in whose power the proposal otherwise fall.

The compromise and settlement helps in speedy recovery:

With a view to accelerating the recovery process by way of compromise/settlement, delegated powers for write off of principal / waiver of interest / absorption of legal expenses of NPAs the approving authority shall be the Managing Director.

7.5 No relief either in principal or in interest should be considered in the loans and advances or any debt due from:

- i. the directors of BCSL.
- ii. any firm or company in which any of the directors of BCSL is interested as partner/director or guarantor.
- iii. any individual, if any of its directors is his partner or guarantor.

7.6 PAYMENT OF SETTLEMENT AMOUNT:

As far as possible, settlement amounts should be recovered in a lump-sum. Where the borrowers desire to pay the settlement amounts in installments, a maximum time period of 3 months from the date of approval be allowed. In specific cases where borrowers have genuine concern they may be granted additional time with the permission of competent authority to pay the settlement amount. Such cases should be rare and if the time permitted for the payment of compromised amount is more than 3 months, then such accounts will be classified as restructured account¹.

Payment of settlement amount in installments will attract interest at Base Rate (simple). Wherever installment payments are sought, there should be a minimum of 25% down payment of the settlement amount. The sanctioning authority will have authority to waive the interest for delayed payment if he deems fit.

7.7 SETTLEMENT PROPOSAL FROM GUARANTOR:

There are cases, where guarantors in NPA accounts come forward with settlement proposals so that they can seek release of their guarantees. Such proposals from guarantors should be treated on par with proposals from borrowers and module approach under Recovery Policy is applicable to such proposals.

7.8 RECOVERY THROUGH SETTLEMENT IN FRAUD CASES:

Compromise / settlement can be negotiated and sanctioned in NPA accounts reported as fraud cases by treating those accounts as normal accounts, subject to following conditions:

¹ This is in order to comply with prudential treatment suggested in RBI's "Framework for Compromise Settlements and Technical Write-offs – June 8, 2023"

- a) The settlement / compromise shall be negotiated only after taking legal action and after initiating criminal proceedings and other applicable legal formalities and after obtaining clearance from HO.
- b) Investigating agency prosecuting the case should be informed in writing by Registered Post / Courier Services about the proposed settlement and if objections are not received within 30 days, settlement can be implemented.
- c) Post settlement, criminal case should not be withdrawn by Company. All the assistance required or called for by the investigating Agency or court to take the case to its logical conclusion should be promptly provided by BCSL.
- d) After the settlement, files relating to the account should not be destroyed or sent to old records, but should be kept safely and properly till the conclusion of the criminal proceedings.

7.9 STAFF ACCOUNTABILITY:

Staff Accountability would be examined in case of loss caused to BCSL due to fraud, operational lapses, non-observance of standard procedures and practices. Report of such examination should be submitted to the management within one of month of reporting of such incident.

8. NORMS IN RESPECT OF WRITING OFF OF BALANCES IN THE BORROWAL ACCOUNTS

- 8.1** The accounts, balances of which are to be written off must have been classified as NPA and account is past due for more than 425 days. In case of death of the borrower, if insurance company has rejected the insurance claim or even if borrower is not insured under life insurance policy because of reason/s whatsoever.
- 8.2** Balances in the account are written off only after obtaining report from the Business Head/Branch Manager about remote possibility of recovery in the account. Such reports are scrutinized at Head Office level thoroughly before recommending for write off.
- 8.3** Managing Director shall have authority to write off accounts with principal & interest outstanding up to Rs.5.00 lakhs. In respect of the accounts with outstanding above Rs.5.00 lakhs, the proposals will be placed before the Board.

The exercise of writing off of the balance is carried out in consultation with the Accounts & Operations Department at Head Office and the aggregate amount to be written off be finalized with the approval of the Managing Director. Efforts for recovery be continued even after the balance in the account is written off. In case of a suit filed account where the balance has been written off, suit proceedings/execution proceedings be continued. The court cost and other incidental charges for such recovery should be debited to Branch's Profit & Loss Account.

9. TECHNICAL WRITE OFF

BCSL is resorting to technical write off of NPA in case of "Loss assets" where substantial provisions have been made and chances of recovery is low.

- 9.1** Such write off is essentially a prudent accounting measure to reduce the level of Gross NPA as such accounts are either fully provided for or substantial provision is already available.
- 9.2** Accounts which are NPA, will be proposed for write off by the management of BCSL to the Board, if they meet the following criteria
 - Accounts are past due for more than 425 days
 - In the event of a borrower's death, if the borrower is not covered under insurance for any reason or where insurance cover is taken and the insurance claim is declined by the insurance company then the loan accounts of such customer will be proposed for write off.
 - If accounts are under BC relationship, then the past due amount set off with performance security/first loss default guaranty (FLDG) can be proposed for write off, provided the loan account has completed its tenure, this will be subject to the consent of BC partners.
- 9.3** When unusual circumstances arise due to external factors and the quality of a significant number

of loan accounts declines then BCSL may examine these accounts in detail and may propose such accounts for write off as a special case. These special cases will be examined on following lines:

- Assessment of the external factor and its impact on borrowers' income and repayment capacity
- Assessment of recovery rate in the impacted account
- If the monthly recovery (Principal +Interest) drops below 6% of the loan outstanding, then account may be considered for write off provided all other factors justify the write off
- The accounts shall only be proposed for write off, if the overdue in the accounts is 180 days or more

- 9.4** The technical write-off will be restricted to the extent of outstanding balance in the running ledger and provision available. The shortfall in provision on account of write-off is to be made good while finalizing BCSL's account. Interest held in dummy ledger will not be waived. Company will continue to maintain dummy ledgers in respect of NPAs, prudentially written off.
- 9.5** Recovery efforts in such accounts should continue to be vigorously pursued by branches. Suits filed should be expedited and taken to their logical conclusion by constant follow up with our advocates. Where decrees are obtained, execution proceedings should be launched without delay.
- 9.6** The fact of technical write-off should be kept in strict confidence and not disclosed to the borrowers under any circumstances.
- 9.7** Branch should keep a close watch on the borrowers' activities, their means, assets not charged to BCSL, so as to mount pressure on them for recoveries.
- 9.8** Delegated powers for Technical Write Off will be with the Board of Directors.
- 9.9** Progress of recovery in written-off account will be reported to the Board of Directors

10. NORMS IN RESPECT OF FILING OF SUITS

- 10.1** Considering the long-drawn process in the litigation and difficulties in executing the decrees action of filing of suit be taken as a last resort. Following norms be observed before filing of a suit.
- 10.2** A suit shall be filed only after making all the efforts such as personal contact, demand notice from the branch or through advocate, if there are no alternatives left then only company shall consider suit filing for recovery.
- 10.3** Before filing of the suit it should be ensured that the loan documents are complete in all respects and that the suit is well within the limitation period. The position of documents be got examined from BCSL's approved advocate.
- 10.4** Before filing of the suit final notice through Company's advocate shall be issued.

- 10.5** All the borrower's assets such as machinery, vehicles etc. in the custody of BCSL shall be disposed of and the sale proceeds be appropriated towards the outstanding in the account and the suit be filed for recovery of residual amount.
- 10.6** Suit filed through an Advocate on BCSL's panel only.
- 10.7** Before filing of the suit information regarding movable/immovable assets of the borrower and the guarantor shall be ascertained and steps shall be taken for attachment of these properties before the judgment.
- 10.8** In areas where "Lok Adalats" are arranged, branches should approach such Lok Adalats for speedy disposal of the cases. However, in case the suit is to be compromised in the Lok Adalat, the compromise terms be got approved from the Head Office.

11. Waiver of Legal Action

There may be accounts where borrowers and guarantors have died or are not traceable and their security / net worth is nil. In such cases legal action will only add to cost and does not result in any recovery. With more and more stress on retail loans, there may arise some cases, where cost of legal action will be more than the loan granted. In all such cases discretion should be available for waiver of legal action.

- 11.1** There may be accounts where outstanding amount (running ledger) is less than Rs.0.25 lakhs, in such cases if we decide to initiate legal action, this will be expensive. In all such cases, discretion should be available for waiver of legal action.
- 11.2** Powers for waiver of legal action for above accounts rest with the Managing Director.

12. COLLECTION OF DUES

The debt collection of BCSL is built around dignity and respect to customers where there are genuine problems. Company will not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment, persuasion and finding solutions. BCSL believes in following fair practices with regard to collection of dues and repossession of security and thereby fostering customer confidence and long – term relationship.

The repayment schedule for any loan sanctioned by BCSL will be fixed taking into account paying capacity and cash flow pattern of the borrower. BCSL will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or any other mode of repayment will be appropriated against interest and principal due from the customers. The method of collection of EMI (say post dated cheque, direct debit, ECS, etc.) would be fixed taking in to consideration the convenience of the borrower. BCSL would expect the customers to adhere to the repayment schedule agreed to and approach BCSL for assistance and guidance in case of genuine difficulty in meeting repayment obligations.

12.1 General Guidelines:

- 12.1.1.** All the members of the staff or any person authorised to represent BCSL in collection would follow the guidelines set out below:

- 12.1.2. The customer would be contacted ordinarily at the Branch / during Center meetings / place of his / her choice and in the absence of any specified place, if two or more EMI installments are at default, at the place of his / her residence and if unavailable at his / her place of business /occupation.
- 12.1.3. Identity and authority of persons authorised to represent Company for follow up and recovery of dues would be made known to the borrowers at the first instance. BCSL staff or any person authorised to represent BCSL in collection of dues or / and security repossession will identify himself / herself and display the authority letter issued by BCSL upon request.
- 12.1.4. BCSL would respect privacy of its borrowers.
- 12.1.5. BCSL is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and Company will adopt civil manners for interaction with borrowers.
- 12.1.6. Normally BCSL's representatives will contact the borrower between 0700 hrs and 1700 hrs, unless the special circumstance of her/his business or occupation requires BCSL to contact at a different time.
- 12.1.7. Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible.
- 12.1.8. BCSL will document the efforts made for the recovery of dues and gist of interactions with the borrowers.
- 12.1.9. All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
- 12.1.10. Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls /visits to collect dues.

13. Giving Notice to borrowers:

While telephonic reminders or visits by BCSL's representatives to the borrowers' place or residence will be used as loan follow up measures, BCSL will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. First, such notice will be sent immediately upon default by the borrower or when telephonic reminders or personal visits fail to yield results. The first notice while giving details of the amount in default will give 15 days' time period for the borrower to clear the dues and regularize the account. In case the borrower fails to respond within the given period of time, a second notice will be issued explaining the consequences of non-payment and the borrower would be given a further period of 15 days to clear the dues. The consequence of non-payment would include recall of entire loan amount forthwith. In the event of the failure of the borrower to respond within the time period, a legal notice will be issued after which BCSL will be free to initiate such recovery measures as it deems fit.

14. Valuation and Sale of Property

Valuation and sale of property repossessed by BCSL will be carried out as per law and in a fair and transparent manner. The valuation given by the approved valuer will be conveyed to the borrower

before proceeding with sale of property.

Even while finalizing sale of the property the offer(s) received by BCSL, will be informed to the borrower and s/he will be given an opportunity to bring in a higher price bid. BCSL will have right to recover from the borrower the balance due, if any and after sale of property excess amount, if any, obtained on sale of property, will be returned to the borrower after meeting all the related expenses.

15. Recovery through Lok Adalat:

Lok Adalat is a legally constituted authority, for resolution of disputes through conciliation. It functions under the aegis of Central, State and District legal services Authority headed by judges from Supreme Court, High Court and District court respectively. They have powers to settle both pending suit filed cases as well as pre litigation cases. They grant awards, which are treated as decree and can be straight away executed in a court of law.

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