RISK MANAGEMENT GROUP

Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses

[Addendum to: DBIL Policy on Resolution Framework For COVID-19 Related Stress]

Scope: India

Issuer: Himanshu Vaidya – Chief Risk Officer (CRO), DBIL

Global ID: DBS_10_P_0004_IN

1. Background

1.1. The Reserve Bank of India (RBI) vide its circular on Resolution Framework for COVID-19-related Stress dated August 6, 2020 ("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. Accordingly, DBS Bank India Ltd. (DBIL) had framed a Board approved policy to provide resolution to such customers vide policy dated 10 November 2020.

1.2. In view of the resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures to check the spread of the pandemic that may impact the recovery process and create new uncertainties and with the objective of alleviating the potential stress to individual borrowers and small businesses, a set of measures were announced by RBI vide its circular on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses dated May 5, 2021, as amended by circular dated June 4, 2021. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

1.3. This policy is based on the latest circular from RBI dated May 5, 2021 and will be an addendum to the DBIL Policy on Resolution Framework For COVID 19 related Stress.

1.4. The Bank shall ensure that the resolution under this policy is extended only to borrowers having stress on account of COVID-19. Further, it is necessary to assess the viability of the Resolution Plan, subject to the prudential boundaries laid out in this policy. Towards this end, this policy provides the manner in which such evaluation may be done and the objective criteria that may be applied while considering the Resolution Plan in each case.

1.5. All references to IBG shall be deemed to include institutional (Non-MSME) customers in PSL segment as well.

2. Eligibility Criteria

2.1. The following borrowers shall be eligible for the window of resolution:

2.1.1. Individuals who have availed of personal loans[1], viz.:
(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.)

2.1.2. Individuals who have availed of loans and advances for business purposes and to whom lending institutions have aggregate exposure of not more than INR 500 million as on March 31, 2021.

[1] As defined in RBI Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics

2.1.3. 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 lending institutions have aggregate exposure of not more than INR 500 million as on March 31, 2021.

2.2. Credit facilities / investment exposure to the borrower was classified as Standard as on March 31, 2021

2.3. Borrowers must submit a written application requesting for restructuring under the plan and evidence that they are facing stress on account of COVID 19. Application made via registered e-mail or digital mode will be acceptable.

2.4. CBG Customer should be able to demonstrate the loss in income basis self declaration. The Loan Resolution Plan Process Flow document shall be followed for such cases.

2.5. DBIL may enter into co-origination partnership arrangements with another lender or acquire exposures originated by another lender/ issuer by way of Direct Assignment, or investments in Pass Through Certificates (PTC) issued by SPVs and other securitized receivables, or in any other manner. The lending partner/originator/issuer may decide to extend resolution to borrowers having stress on account of COVID-19 under the stated RBI guidelines, as may be amended from time to time. In the event such loans are restructured in terms of the RBI notification by the lending partner/ originator/ issuer, DBIL shall also consider providing Resolution Plan to such borrowers in the same manner based on the assessment by lending partner/ originator/ issuer. The repayment schedule on receivables under such exposures (including investments in the form of PTCs, etc.) will stand modified to the extent of such restructuring, with effect from the first payment date falling immediately after the date on which the restructuring is given effect to

2.6. Borrowers not fulfilling eligibility criteria mentioned above may be considered for resolution under RBI's Prudential Framework issued on 7-Jun-2019.

2.7. 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. Exposures Not Eligible

Following categories of borrowers / credit facilities shall not be eligible for a Resolution Plan under this policy.

3.1. Credit facilities provided by DBIL to its own personnel/staff shall not be eligible for resolution under this framework

3.2. MSME borrowers whose aggregate exposure to lending institutions collectively, is INR 500 M or less as on 31-Mar-2021.

3.3. Farm credit as listed in Paragraph 6.1 of RBI's circular on Master Direction - Priority Sector Lending – Targets and Classification updated on 5-Dec-2019

3.4. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture

3.5. Exposures to Financial Service Providers[2]

3.6. Exposures to Central and State Governments, Local Govt. Bodies and Body Corporates established by an Act of Parliament or State Legislature

3.7. Exposure to borrowers who have already availed of any resolution in terms of the Resolution Framework – 1.0, with the following exceptions:

- 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, the Bank may use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor. 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.

4. Invocation of Resolution Process – Business Entities

4.1. Post receipt of written request from eligible borrowers requesting for resolution, respective Relationship Manager (RM) in consultation with Head-IBG CAE along with Credit Risk Manager (CRM) shall assess the impact of COVID-19 on borrower's business by analysing the indicative parameters mentioned below:

- Impact on Capacity utilisation
- Impact on Turnover/ Billing
- Elongation of Working Capital cycle
- Reduction of the Order book position
- Impact on cash flows

4.2. Post assessment and ascertaining the impact of COVID-19 on the business of the borrower, RM and CRM may decide to go ahead with Resolution Process under this policy or reject borrower's application for resolution under this policy.

4.3. The resolution process under this window shall be treated as invoked when DBIL and the borrower agree to proceed with the efforts towards finalizing a resolution plan to be implemented post assessing the eligibility of the borrower.

4.4. The decision to invoke the resolution process under this window may be taken by DBIL independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

5. Timelines

[2]As per sub-section (17) of Section 3 of the Insolvency and Bankruptcy Act, 2016 "Financial service provider" means a person engaged in the business of providing financial services in terms of authorization issued or registration granted by a financial sector regulator."

5.1. The decision on the application shall be communicated in writing to the applicant by DBIL within 30 days of receipt of such applications.

5.2. The Bank shall follow below mentioned timelines as per this policy for resolution of stress on account of COVID-19.

5.2.1. Resolution under this framework shall be invoked on or before 30-September-2021

5.2.2. For both IBG and CBG customers, the Resolution Plan under this facility shall be implemented within 90 days from the date of invocation.

5.3. If any of the above timelines are breached at any point, the Resolution Process under this policy ceases to apply immediately in respect of the borrower concerned. Any Resolution Plan implemented in breach of the above stipulated timelines shall be fully governed by the Prudential Framework of 7-Jun-2019 and NPL Policy. Bank shall follow above mentioned timelines as per this policy for resolution of stress on account of COVID-19.

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6. Implementation Conditions

For successful implementation of Resolution Plan, the Bank shall ensure compliance to the following conditions:

6.1. In case of IBG borrowers, IBG/ CRM team should review the Adjusted Credit Risk Rating (ACRR) of the borrower and if the Resolution Plan warrants downgrading of account, the same should be done along with approval of plan.

6.2. All related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities, should be completed within 180 days from date of invocation for IBG and within 90 days for CBG borrowers.

6.3. The new capital structure and/or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

6.4. All legal documents / agreement if approved by the Bank's legal counsel and Consortium/ Joint lenders forum should be considered by Credit Control Unit (CCU) for implementation in the system and no further approval from legal team and/or empanelled legal firm is required for this purpose.

6.5. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:

a) all related documentation, including execution of necessary agreements between the bank and borrower and collaterals provided, if any, are completed by the bank 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 DBIL as per the revised terms.

7. Permitted Relief Measures Specific to IBG Borrowers

7.1. 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.

7.2. 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.

7.3. 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 sub-clauses under clause 14 of this policy.

8. Relief Measures Specific to CBG Borrowers

8.1. In respect of all loans, for eligible customers, the Bank will grant an extension of the loan tenor and extend the benefit of reduced installment amount to the customer.

8.2. The overall tenor increase may not go beyond a 2 year period on account of the restructure plan

8.3. The restructuring may involve one or a combination of the following:

8.3.1. Interest and principal component for the installments may be reduced in proportionate measure and the tenor extended for the additional period required to ensure that all outstanding amount is collected from the customers.

8.3.2. Interest only payment, i.e. deferment of principal payment, for a temporary period

8.3.3. Moratorium can be offered as a resolution plan[3]

8.3.4. Step-up instalment plan or reduced monthly principal & interest payment plan over a temporary period.

8.4. The repayment schedule of such loans will be revised appropriately.

8.5. Compromise settlements are not permitted as a resolution plan.

8.6. The Bank will not charge any penalty on account of re-scheduling of loans under this policy.

[3] Moratorium on EMI or Principal or Interest may be offered as part of Resolution Plan up to a period of 2 years, subject to clause 8.2, i.e. overall increase in tenor not going beyond 2 years, as a result of the moratorium.

9. Delegation of Authority

9.1. IBG customers:
Restructuring of facilities as part of the Resolution Plan may be approved by the relevant DOA holders in accordance with the "DBIL Risk Based Credit Delegation of Authority (DOA) Standard for Corporate, Bank and Sovereign Counterparties"

9.2. CBG customers:
Restructuring of repayment terms as per clause 8 may be approved by the designated officers within the consumer credit management units in accordance with the "DBIL Credit Risk Delegation of Authority (DOA) Standard for Consumer Banking Group".

10. Asset Classification and Provisioning

10.1. In case of the Bank sanctioning additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower in respect of whom the Resolution Plan has been invoked, the account may be classified as 'standard asset' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities in the interim.

IBG RM should take necessary approval from credit in respect of additional Finance. Any additional disbursement should be made to escrow account open under this policy by lenders.

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 the additional finance or the rest of the credit facilities, whichever is worse.

10.2. If a Resolution Plan is implemented in adherence to the provisions of this policy, 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 plan.

Approval from SAM India or Head-CBG Collections should be taken before upgrading the account to "Standard"

10.3. 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. ("extant IRAC norms").

10.4. DBIL 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 DBIL 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.

10.5. The additional provisions maintained, if any, by DBIL in terms of the RBI circular DOR.No.BP.BC.63/21.04.048/2019-20 dated 17-Apr-2020 in respect of such borrowers, to the extent not already reversed, may be utilised for meeting the provision requirements in all cases under this policy.

10.6. Any additional provisions maintained in terms of Paragraph 17 of the Prudential Framework, wherever applicable, may be reversed at the time of invocation of the Resolution Plan under this facility. However, if the plan is not implemented within 90 days from invocation, provisions as per the Prudential Framework shall be required to be maintained, as if a Resolution Process was never invoked under this window.

11. Reversal of Provisions

11.1. Provisions maintained may be reversed as mentioned below.

11.1.1. Half of the 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

11.1.2. Remaining provisions may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.

11.2. 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.

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

12. Conversion of Debt and Valuation

12.1. The Resolution Plan may provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, provided the amortization schedule and the coupon carried by such debt securities are similar to the terms of the debt held on the books of the lending institutions, post implementation of the Resolution Plan. The holding of such instruments by the Bank shall be subject to the extant instructions on investments as applicable.

12.2. The valuation of equity instruments issued, if any, shall be governed by the provisions of Paragraphs 19(c) and 19(d) of the Annex to the Prudential Framework of 7-Jun-2019 whereas debt securities shall be valued as per the instructions compiled at Paragraph 3.7.1 of the RBI's Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated 1-Jul-2015 (as amended from time to time), or other relevant instructions.

12.3. In case the Banks converts any portion of the debt into any other security, the same shall collectively be valued at INR1.

13. Convergence of the Norms for Loans Resolved Previously

13.1. In cases of loans of borrowers specified in Clause 3.7 above 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, DBIL shall 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 Clauses 7.2 and 8.2 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.

13.2. This modification shall also follow the timelines specified in Clauses 5.1 and 5.2 above. For loans where modifications are implemented in line with Clause 12.1 above, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

14. Working Capital Support for Small Businesses where Resolution Plans were Implemented Previously

14.1. In respect of borrowers specified at sub-clauses 2.1.2 and 2.1.3 of Clause 2.1 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, DBIL may, 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 DBIL 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.

14.2. The above measures shall be contingent on DBIL satisfying itself that the same is necessitated on account of the economic fallout from COVID-19.

15. Credit Reporting and Disclosures

15.1. DBIL shall, at the minimum, make disclosures as per the format prescribed in Format-X in their financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of advances to individuals and small businesses under this framework should also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework – 1.0.

15.2. The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 12.1 above, and the aggregate exposure of DBIL to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.

15.3. The credit reporting by DBIL in respect of borrowers where the resolution plan is implemented in terms of clauses 2 to 12 of this policy, shall reflect the “restructured due to COVID19” 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.

16. Other Related Matters

16.1. DBIL shall follow DOA for approval of Resolution Plan, pooling/dilution of security and additional funding envisaged under the Resolution Plan under this policy.

16.2. The Bank may prepare a separate process note for operationalizing this policy, including details on the mechanism of extending the tenor in system and recovery of principal and additional interest. The process note and operationalisation could be different for IBG and CBG borrowers.

17. Governance

17.1. **Ownership and Approving Authority**
This Policy is owned by RMG and approved by the Board of DBIL. CRO may approve any changes that are non-substantive in nature. Further changes or clarifications, as may be notified by RBI or guidance from IBA, shall be added to this policy, with approval from CRO. DBIL Board approval will not be needed for such changes.

17.2. **Deviations**
Deviations from this Policy, if any, should be on an exceptional basis and should be documented, endorsed by the CRO.

17.3. **Review**
This Policy shall be appended to and reviewed along with DBIL Policy on Resolution Framework For COVID-19 Related Stress.

Appendix 1 Formats

Format – X

Format for disclosures to be made in the quarters ending September 30, 2021 and December 31, 2021

SL. No	Description	Individual Borrowers		Small Borrowers
		Personal Loan	Business Loan	
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			

Appendix 2 Version History

Version	Date of Issue	Summary of Key Changes
1.0	June 2021	Policy issued