

# **REVIEW OF NPA'S - STANDARD OPERATING PROCEDURE (SOP) AND SCHEME FOR ONE TIME SETTLEMENT (OTS) OF DUES OF THE COMPANY FOR 2024-25.**

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## **STANDARD OPERATING PROCEDURE**

### **1. Introduction:**

This Bad Debt and Compromise Settlement Policy is established by Dar Credit & Capital Ltd to provide a comprehensive framework for the guidelines and procedures for the identification, classification, write off of bad debt and the negotiation of settlements with borrowers facing financial challenges. The primary objective of this policy is to ensure fair, consistent, and transparent approach in dealing with delinquent accounts.

### **2. Purpose:**

Periodical review of NPAs is a useful tool to expedite the recovery mechanism and synchronizing different modes /efforts /processes of recovery. Based on the inputs received during these periodical reviews, the operating functionaries may initiate appropriate actions for recovery and proceed towards recovery of dues to the Company. It is therefore imperative to have in place a Standard Operational Guidelines.

### **3. Definitions:**

- **Bad Debt:** A loan that is determined to be unrecoverable due to the borrower's inability to repay the outstanding amount.
- **Compromise Settlement:** A negotiated agreement between the Company and the borrower for a reduced repayment amount to settle the outstanding debt.
- **Outstanding Interest:** Accumulated interest that remains unpaid by the borrower.
- **Overdue Interest:** Interest that is past its due date for payment.
- **Write off:** The process of removing a bad debt from the books of accounts.

#### **4. Early Intervention and Assessment:**

3.1 The company is committed to early intervention and proactive communication with borrowers who exhibit signs of financial distress.

3.2 Upon identification of a delinquent account, the Company shall conduct a thorough assessment of the borrower's financial situation, including income, assets, liabilities, and repayment history.

#### **COMPROMISE POLICY**

##### **4. Compromise Settlement Process:**

4.1 The Company recognizes that certain borrowers may genuinely struggle to meet their financial obligations. In such cases, the Company may consider offering a settlement.

4.2 Settlement offers will be evaluated on a case – by – case basis, considering the borrower's financial hardship and the extent of the outstanding debt.

4.3 The maximum rebate offered to the borrower may be 10% - 50 % of the total outstanding interest or overdue interest

4.4 No reduction in the principal amount be encouraged for compromise. Concession in interest as mentioned in item no 4.3 can be extended by the Committee depending on the merits of the case. It is subject to approval by all other members.

##### **5. Composition of Committee for review of NPA's**

The Composition of Committee for Review of NPAs and the Periodicity of Reviews.

###### **5.1. Accounts with outstanding upto 10 Lacs**

- The NPAs with outstanding upto 10 Lacs have to be reviewed by a Committee comprising of Chairman of the Company, any Director (Independent Directors are to be excluded) and CEO of the Company.
- Quorum has to be 2 with presence of Chairman is mandatory.
- Such accounts need to be reviewed monthly.
- CFO should be Member Secretary & Convenor. He will convene the meeting. Record the minutes and action points and should follow up.

###### **5.2. Accounts with outstanding beyond 10 Lacs**

- The above Committee shall review it fortnightly.
- The CFO will have the same responsibilities as above.

## **6. Minutes of the Meeting**

**6.1.** Action points /Directions given by the Members of the Review Committee will be put up to the Members of the Concerned Committee for approval

**6.2.** After approval of the minutes, it shall be forwarded to the Branch concerned and Head of those divisions for implementation. Point of actions as emerged in the last meeting will be reviewed to ensure that they are complied with.

## **7. Monitoring of Action Points**

**7.1.** Branches and Divisional Heads will send compliance reports in respect of action points emerged in the review meetings.

**7.2.** This SOP shall be reviewed after 2 years or in case any change is warranted whichever is earlier.

## **8. Approval and Documentation:**

All settlement offers shall be subject to approval by designated authorities within the Company.

**8.1** A formal settlement agreement offer shall be communicated to the borrower, clearly stating the revised terms, conditions, and reduced repayment amount.

## **9. Communication and Transparency:**

**9.1** The Company will communicate the bad debt written off and settlement offer to the borrower, providing a comprehensive breakdown of the terms and conditions.

## **10. Compliance and Regulatory Considerations:**

**10.1** The Company will adhere to all applicable laws, regulations and guidelines while formulating and executing settlements agreements.

**10.2** Records of all settlement agreements, correspondence, and approvals will be maintained for auditing and regulatory purposes.

**10.3** All employees involved in the debt recovery and write off process must adhere to the guidelines outlined in this policy.

## **11. Confidentiality and Data Production:**

**11.1** All borrower information and settlement negotiations will be treated with utmost confidentiality, in accordance with applicable data protection laws.

## **SCHEME FOR ONE TIME SETTLEMENT (OTS) OF DUES OF THE COMPANY FOR 2024-25**

### **12. Need**

The NPA Portfolio of the Company mainly comprises of small value loan accounts ,which had slipped into NPA Category due to various reasons such as general economic slowdown ,natural calamities, pandemic ,salary related issues ,unforeseen contingencies ,deceased borrowers etc. Since the income generation capacity of these borrowers continues to be low, it becomes extremely difficult for these category of borrowers to get rid of their indebtedness by liquidating the entire dues. On account of this, these accounts continue to remain in our books /portfolio as stressed assets despite constant monitoring and follow up by the Company's officials.

In order to help these borrowers and their legal heirs of the deceased borrowers come out of their indebtedness and in order to boost the recovery process, we propose to launch this One Time Settlement Policy for our borrowers.

**The Scheme /Policy will be valid till 31/03/2025 with the concessions and will be reviewed again**

### **Concessions**

NPA under Personal and SME Segment. Amount of haircut will be given as under:

Category (Unsecured Sub Category)	Maximum Waiver of Secured portions of outstanding	Maximum Waiver of unsecured portion
Standard Accounts	Nil	15%
D1 & D2 Accounts	25%	40%
D3 & Loss Accounts	30%	50%

Haircut as suggested is ok, subject to similar approval by other members.

### **13. Composition of Committee to approve the One- Time Settlement**

**13.1** A Committee comprising of Chairman of the Company, any Director (other than Independent Directors) and CEO of the Company shall be the final authority to approve the One Time Settlement.

**13.2** Quorum has to be 2 with presence of Chairman of the Company is mandatory.

**13.3** All such OTS approved by the Committee shall be put up to the Board for its noting by way of a brief consolidated reporting to the Board at its next meeting without fail.

### **14. Interest Waiver or Alternative Interest Rate for NPA Settlement**

Waiver of interest after the account became NPA till the date of settlement may be capped at 50% of contracted interest. Alternatively simple interest at 4% may be charged from date of the account turning to NPA to date of settlement.

### **BAD DEBT WRITE OFF POLICY**

#### **15. Criteria for Writing off Bad Debts**

A debt may be considered for write-off if it meets the following criteria:

**15.1** All reasonable efforts have been made to recover the debt.

**15.2** The debt has been outstanding for a specific period for more than 3 years and there is no realistic expectation of recovery.

**15.3** Legal remedies, if applicable, have been exhausted without success.

**15.4** Before writing off, the account must be reviewed twice under NPA Review mechanism approved by the Board.

**15.5** Account to be written off must be a 'LOSS ASSET ' and fully provided for in the books of the Company

## **16. Approval Process**

**16.1** Approval accorded must be by any two Directors (excluding Independent Directors) for outstanding upto one lakh and to be reported to Chairman.

**16.2** Approval for writing off beyond one lakh can be accorded by Chairman and any other Director (excluding Independent Directors).

## **17. Documentation**

**17.1** For a debt to be considered for write-off, there must be clear documentation of all attempts at recovery, including correspondence, communications, legal notices, and any relevant agreements.

**17.2** All relevant information, including the rationale for considering a debt as uncollectible, must be documented and retained for audit purposes.

## **18. Accounting Treatment**

**18.1** Once a debt is approved for write-off, it should be removed from the books of accounts as a bad debt expense.

**18.2** The necessary adjustments must be made in the financial statements to reflect the reduction in the accounts receivable balance.

## **19. Reporting**

Bad debts written off, along with the reasons and approval details, must be reported regularly to the director of the Company.

## **21. Review and Audit**

The policy and its implementation will be subject to periodic review and audit to ensure compliance with regulations and the Company's internal procedures.

## **22. Amendments**

Amendment to the policy can be done with the approval of the Board only since the original, policy is a Board approved policy.

## **23. Quarterly Reporting**

23.1 A consolidated statement of amount written off and number of accounts during the quarter with cumulative position at the end of quarter to be put up to Board every quarter for information.

23.2 An off the balance sheet figure to be reported for this figure with every quarterly results.

## **24. Conclusion:**

This Bad Debt and Settlement Policy serves as a guiding framework for the Company's approach towards managing bad debts and engaging in settlement negotiations. It reflects the Company's commitment to fair and responsible lending practices while considering the financial challenges faced by borrowers. The Company will exercise prudence and diligence in implementing this policy and ensure compliance with regulatory standard at all times.