



**STAR HOUSING FINANCE LIMITED
RECOVERY AND STRESS ASSETS MANAGEMENT POLICY**

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Review Date	25.09.2023

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RECOVERY AND STRESSED ASSETS MANAGEMENT POLICY OF THE STAR HOUSING FINANCE LTD (SHFL)

The debt collection policy (recovery policy) of the Company is built around dignity and respect to customers. The Company will not follow policies that are unduly coercive in recovery of dues from borrowers. The policy is built on courtesy, fair treatment and persuasion. The Company believes in following fair practices with regard to recovery of dues from borrowers and taking possession of security (properties / assets charged to the Company as primary or collateral security) (known as security repossession) and thereby fostering customer confidence and long-term relationship.

The repayment schedule for any loan sanctioned by the Company will be fixed taking into account the repaying capacity and cash flow pattern of the borrower. The Company will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or payments through any other mode of repayment will be appropriated against interest and principal due from the customers. The Company would expect the customers to adhere to the repayment schedule agreed to and approach the Company for assistance and guidance in case of genuine difficulty in meeting repayment obligations.

The Company's Security Repossession Policy (taking possession of the mortgaged properties under SARFAESI Act or acquiring the property as non banking asset through enforcement of decree) aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the property. The policy recognizes fairness and transparency in repossession, valuation and realization of security. All the practices adopted by the Company for follow up and recovery of dues and repossession of security will be in consonance with the law.

General Guidelines:

All the members of the staff or any person authorized to represent our Company in collection and / or security repossession would follow the general guidelines set out below:

1. The customer would be contacted ordinarily at the place of his / her choice and in the absence of any specified place, at the place of his / her residence and if unavailable at his / her residence, at the place of business / occupation after giving prior notice or obtaining consent of the customer.

2. Identity and authority of persons authorized to represent the Company for follow up and recovery of dues would be made known to the borrowers at the first instance. The Company staff or any person authorized to represent the Company in collection of dues or / and security repossession will identify himself / herself and display the authority letter issued by the Company upon request.
3. The Company would respect privacy of its borrowers.
4. The Company is committed to ensure that all written and verbal communication with its borrowers will be in simple business or vernacular language as understood by the customer and the Company will adopt civil manners for interaction with borrowers.
5. Normally the Company's representatives will contact the borrower between 0700 hrs and 1900 hrs, unless circumstances warrant visiting the borrower at odd hours and occasions. Such circumstances would include continuous irregularity in the accounts.
6. Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible.
7. The Company will document the efforts made for the recovery of dues and the copies of communication, if any, sent to the customers will be kept on record.
8. All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
9. Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls / visits to collect dues.

Objectives & Principles

Following are the general guiding principles for the Recovery policy:

- ▶ SHFL's recovery procedure will be based on legal and acceptable practices
- ▶ SHFL will treat its defaulters with respect and dignity while being focused on recovery
- ▶ SHFL will follow only ethical practices and will not resort to unduly coercive tactics in the process of recovery of dues.
- ▶ SHFL will not initiate any legal or recovery measures including repossession of the security without giving due notice to the borrower in writing. SHFL will follow all such procedures as required under law for recovery/repossession of the security.
- ▶ Repossession of security will be only at recovery of dues and not to deprive the borrower of the security. Repossession, valuation and realization of security will be always done in a fair and transparent manner.

A. BASIC TENETS OF THE STRESSED ASSET MANAGEMENT POLICY

The quality and performances of loans/advances have a direct bearing on the profitability of the company. Despite an efficient credit appraisal, disbursement and monitoring mechanism, problems can still arise due to various factors and give scope for Non-Performing Assets (NPA). These factors may be internal or external.

SHFL's Stressed Assets Management Policy seeks to lay down the Company's policy on management and recovery of non-performing assets (NPAs), and proactive initiatives to prevent further addition of NPAs.

Key objectives of the Stressed Assets Management policy are:

- i The company would follow and monitor SMA classification on the basis of over due period.
- ii The Policy is aimed at strengthening the management, recovery and avoidance of account slipping into NPAs by taking all proactive measures by closely monitoring SMA accounts.
- iii The Policy basically concerns itself with the management of SMAs /NPAs and reduction of written off accounts in the Company.
- iv The Policy lays stress on a system of early identification and reporting of all existing and potential problem loans as a first step towards management of NPAs and written off accounts.
- v The Policy proposes a Loan Review mechanism to be triggered on detection of early warning signals, to ensure an effective and expeditious response for corrections. For the purpose, the policy stipulates time norms for analysis of problem loans and initiation of corrective action.
- vi The Policy lays down a broad approach, including critical parameters to be taken into account, for recovery of loans through rehabilitation, compromise settlements, etc.
- vii The Policy also lays down an approach for cleansing of our NPA portfolio through judicious write-offs as a measure of last resort after exhausting all means of recovery.
- viii The Policy aims at improving internal efficiency of the recovery machinery and thus enhance the profitability of the Company.

The various dimensions of stressed assets, NPA and written off accounts management and recovery are addressed in the policy as stated in the following paragraphs.

B. PREVENTIVE MEASURES TO SAVE ACCOUNTS FROM BECOMING NPA AND MEASURES TO UPGRADE ASSET CODE

- i) Constant review and follow-up of all Standard Assets and quick remedial steps, wherever warranted, to prevent accounts from becoming NPA and operational guidelines will be issued by the Company from time to time.
- ii) Timely Review of accounts not later than three months from the due date.
- iii) Keeping close touch with the borrowers and persuading them to repay Company's dues in time;
- iv) Regular inspection of assets and activity of the borrowers;
- v) Ensuring timely recovery of interest and instalments; and
- vi) Identification of potential NPAs on an ongoing basis and management thereof for efficient credit management is the essence of NPA management.

IDENTIFICATION OF NON PERFORMING ASSETS:

The primary guiding factors for recognising a non-performing loan are the Income recognition and Asset Classification (IRAC) norms prescribed by RBI/NHB.

NORMS: As per the extant guidelines of RBI/NHB, a Non-performing Asset (NPA) shall mean:-

- a. an asset, in respect of which, any amount including principal, interest or other charges has remained overdue for a period of more than ninety days.
 - b. a term loan inclusive of unpaid interest and other charges when the instalment is overdue for a period of more than ninety days or more or on which interest amount remained overdue for a period of more than ninety days.
 - c. 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 ninety days.
 - d. an asset, where the terms of the agreement regarding interest and/ or principal have been re-negotiated or rescheduled after release of any instalment of loan or an inter-corporate deposit which has been rolled over,
- vi)
- e. The date of NPA should be the date loan becoming overdue for 90 days and above and would be classified into NPA from that date. The loan would remain NPA until all the overdue amount including interest and penal charges have been fully paid.
 - f. It is difficult to envisage a situation when only one facility to a borrower becomes a problem credit and not others. Therefore, all the facilities granted by the Company to a borrower will have to be treated as NPA and not the particular facility or part thereof which has become irregular.

D. INCOME RECOGNITION

- The policy of income recognition has to be objective and based on the record of recovery. Income from non performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the Company should not charge and take to income account interest on any NPA unless it is realised.
- If any advance becomes NPA as at the close of any quarter, interest accrued and credited to income account in the quarter if the same is not realised, should be reversed to the loan account.

E. APPROPRIATION OF RECOVERY IN NPAs

As per RBI guidelines in absence of a clear agreement between the Company and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), Company should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

As per the recent guidelines, any recovery effected in NPAs is to be appropriated first towards accrued unapplied interest and penal charges and thereafter any surplus will be appropriated towards principal dues.

F. UPGRADATION OF LOAN ACCOUNTS CLASSIFIED AS NPAs

If arrears of interest including penal charges and principal are fully paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts.

G. STRESSED ASSETS REVIEW (SAR)

An integrated approach is implemented for review and management of Stressed Assets (SMAs, NPAs, and written off accounts) which had superseded all existing instructions. The salient features of the SAR are as under:

- i. Review of Stressed Assets (SMAs and Sub-standard Assets) with focus on regularizing of loans with close follow up in time bound schedule.
- ii. Review of Doubtful/ Loss Assets and W/OFF ACCOUNTS with focus on speedy recovery action.
- iii. As per Company's extant guidelines (IND-AS), the following two categories of accounts have been designated as SMAs:
 - a) Stage -I: Accounts where interest / instalment has not been serviced for 30 days and no significant increase in credit risk has been observed. (SMA-0)

- b) Stage-II: Accounts which are showing early warning signals such as frequent return of cheques, job losses, crop failure, losses in the business, etc. and significant increase in credit risk has been observed and/or interest/instalments has been overdue for a period between 31 to 60 days (SMA-1) and 61 to 90 days (SMA-2).
- vi. Special Mention Accounts would not require separate provisioning, as these are not NPAs but as per the IND-AS the expected credit losses in these accounts have to be provided for. Such categorisation is done to put in place an 'Early Alert' system for internal monitoring purpose, for proactive intervention before the account becomes NPA (Stage-III). Recovery Cell should include the total number and outstanding of such accounts as at the end of each month, along with individual details of such accounts/ specific action planned and account-wise prognosis, in the monthly Performance Review Report under the signature of the Head, Recovery Cell. The Credit Manager concerned for the account would keep day-to-day track of the position of such accounts.

The objective of the above approach is to ensure that an SMA does not slip to sub-standard or a sub-standard account to Doubtful / Loss category due to lack of timely follow up and recovery efforts.

G-1. Coverage:

Stressed Asset Report (SAR) would cover loan assets, which have the potential for quick turnaround i.e. SMAs (Stage-II).

G-2. Cut off:

All SMA-2 accounts with cut off limit of Rs. 2.00 lacs and above will be submitted for Review as per Authority structure given here below at **G-3(i)** on the formats enclosed

G-3. STRESSED ASSETS REVIEW REPORT (SAR REPORT):

Soon after an account is identified as SMA-2 or an account turns sub-standard, the Recovery Cell should take immediate steps to analyse the problems based on facts and circumstances by means of a review at the Recovery Cell. Such Review reports are to be submitted to reviewing authority as detailed herein after. The important parameters of the Recovery Cell level review would be the following:

- Diagnose reasons for the account being identified as SMA / deterioration in asset quality.

- Revalidate the assumptions made at the time of sanction, particularly in regard to the willingness and repaying capacity of the borrower.
- Verify completeness and correctness of documentation including revival position, creation/registration of charges, insurance cover etc. and rectify deficiencies, if any.
- Discuss the problems with the borrowers / guarantors and find out whether they have a future plan for regularization of the account.
- Identify and study the existing primary and secondary sources of cash flow and determine whether the repaying capacity of the borrower is adequate enough to meet its pressing liabilities.
- Determine whether the problems faced by the borrower are of a temporary nature or whether any proactive action from the Company is required to sustain its repaying capacity.
- Assess whether the borrower has genuine intent to regularize the account.
- Assess the ability of the borrower / guarantor to regularize the account.

i) Authority Structure for review

Accounts having Outstanding	To be reviewed by	Periodicity
Rs. 2 lacs but below Rs.5 lacs	Regional Head	Monthly
Above Rs.5 lacs but below Rs.10 lacs	Recovery Head	Monthly
Above Rs.10 lacs but below Rs. 25 lacs	Credit Head	Monthly
Rs.25 lacs and above	Managing Director	Monthly

ii) REVIEW MECHANISM

- A. Recovery Cell should report all the SMA-2 above Rs. 2 lacs but below Rs.5 lacs in tabular form, on monthly interval to the Regional Head.
- B. For accounts with outstanding of above Rs.5 lacs but below Rs.10 lacs, Recovery Cell will submit the review report on the given format to the Recovery Head **on monthly** interval.
- C. For accounts with outstanding of above Rs.10 lacs but below Rs.25 lacs, Recovery Cell will submit the review report on the given format to the Credit Head **on monthly** interval.

- D. For accounts with outstanding of Rs.25 lacs & above, the review reports will be submitted to the Managing Director on **monthly** intervals.

All such reports should reach the Reviewing Authorities latest by 10th of the ensuing month to which the Report pertains in the prescribed format-Annexure-

H. REVIEW OF NPA / W/OFF ACCOUNTS

(I) Coverage:

NPA / W/OFF ACCOUNTS are not generally considered amenable to any rehabilitation efforts and hence, these assets are being clubbed so that the focus of the review will shift entirely to various means of recovery i.e. legal action, compromises, sale of assets to Securitisation Companies (SCs) / Reconstruction Companies (RCs), enforcement of security rights under SARFAESI Act 2002, assignment of debt, assignment of decree etc. Written Off Accounts are also included for structured review, as recovery efforts in these accounts may not have been fully exhausted. Further, there may be accounts, which have deteriorated to **Sub-Standard/Doubtful/ Loss Asset** category due to passage of time and not due to deterioration of security and are still viable. In such cases also, restructuring should be examined as the first option.

(II) Cut-off Point:

All **NPA /W/OFF ACCOUNTS** with cut off limit of Rs. 1.00 lac and above will be submitted for Review as per Authority structure given here below at **point (I)** on formats enclosed herewith

I. AUTHORITY STRUCTURE FOR REVIEW OF NPAs/ W/OFF ACCOUNTS :

The authority structure for review of NPAs / W/Off assets is as under:

Accounts having Outstanding	To be reviewed by	Periodicity
Rs.1 lac but below Rs.5 lacs	Regional Head	Monthly
Above Rs.5 lac but below Rs.10 lacs	Recovery Head	Monthly
Above Rs.10 lacs but below Rs. 25 lacs	Credit Head	Monthly
Rs.25 lacs and above	Managing Director	Monthly

J. GUIDELINES FOR COMPROMISE SETTLEMENT

These guidelines will cover all the accounts of **NPA, W/OFF ACCOUNTS**

A compromise should be a negotiated settlement under which the Company should ensure recovery of its dues to the maximum possible extent at minimum expense.

- i) Proper distinction should be made between willful default and default due to circumstances beyond control of the borrowing entity.
- ii) The latest status of the activity and the financial position/Repaying capacity of the borrowing entity, which seeks a compromise, should be taken into reckoning at the very first stage of the negotiation.
- iii) A fair assessment should be made as regards realisable value of assets owned by borrower/ guarantor supported by latest valuation reports, particularly in the case of NPA accounts with large outstanding. Latest valuation report on the security (primary & collateral) from the Company's approved valuer should be obtained.
- iv) It should be ensured that all possible steps to recover the dues have been taken, and there being no further prospect of recovery, especially when no security is available, compromise is considered the best option in the larger interest of the Company.
- v) It should also be ensured that whether or not staff accountability aspect is involved, it has been got examined and further proceedings in this regard, if necessary, has been initiated.
- vi) It should be our endeavor to obtain initial deposit of 5% of the offer from the borrower, as far as possible, as an evidence of his intention to pursue the compromise settlement with the Company. However, it should not be a pre condition while negotiating for compromise.
- vii) It should be the endeavor of the Company to get the entire amount of compromise paid up in a lump sum. Where recovery is not possible in lump-sum suitable relaxation in such cases can be given for down payment depending upon merit of the case upto a maximum period of 12 months subject to payment of interest at an agreed rate on the residual amount of compromise. Relaxation in the period may be considered according to the repayment capacity of the borrower.
- viii) In case where the amount is agreed to be recovered in instalments, 15% to 25% of the amount (inclusive of 5% initial payment) would be payable upfront.
- ix) As the payment of compromise amount may be paid in instalments, the net present value of the settlement amount should be calculated and this amount should not be less than the net present value of the realisable value of securities.

- x) The following basic parameters for arriving at the amount of principal and interest should be followed:-
 - a. The principal would be the amount outstanding as on the date on which the account was identified/classified as NPA.
 - b. Un-applied interest on the principal as defined above should be calculated on 'Simple' basis at Base Rate of the company prevailing as on the date of working out the compromise settlement or contracted rate which ever is lower.
 - c. In respect of interest already charged, the aforesaid definition at (b) should be adopted.
 - d. Recoveries if any after the relevant date be deducted from the dues to work out the total notional dues.
 - e. Other charges incurred and debited or to be debited to the account should also be added to the notional dues.
- xi) The sources from which the borrower and/or guarantors will raise funds to pay the compromise amount should be identified and recorded, particularly in those cases where the payment is proposed to be made in installments.
- xii) Based on the facts of each case, following concessions may be considered:
 - a. Waiver, either in full or part, of penal interest, if charged;
 - b. Waiver of or reduction in the rate of interest, from the date the account became NPA;
 - c. Partial or complete waiver of interest charged/accrued after the borrower lost the job or ceased functioning of the business;
 - d. Remission of a part of the principal dues in addition to partial or full remission of interest.
- xiii) All compromise Proposals should clearly spell out the basis of arriving at the negotiated amount of settlement.
- xiv) Compromise settlements will be arrived at with the borrower/other obligants, subject to the stipulation that in the event of failure to honour any of the terms of the compromise settlement, the Company will be entitled to exercise against the borrower/other obligants all the rights and remedies available prior to the compromise settlement. In case of suit filed accounts, consent decree will be obtained from the Court. After receipt of full compromise amount as per terms of settlement, satisfaction of charge be filed with court.
- xv) All compromise proposals approved by any functionary should be promptly reported to the next higher authority for noting.
- xvi) The proposal for compromise should be first processed by a Screening Committee comprising Credit Head and Recovery Head of the Company, designated for the purpose before being submitted for approval.

- xvii) Write off and all Compromise settlement cases after subsequent stages of reviews at appropriate level shall be finally disposed off after review and approval of Committee comprising Recovery, Credit and Legal head and presided over by the MD. The cases of write off and Compromise settlement along with the level of sacrifice and justification thereto should be reported to ACB for review and recommendation to Board. Such cases should also be subjected to necessary disclosure in the Notes to Annual Accounts.
- xviii) The sanctioning authority should ensure that there is no deviation from the general principles of compromise. The deviation in repayment period, charging of interest on balance to be paid in instalment if any can be considered by the next higher authority.
- xix) The simplified format for compromise proposals which is to be completely filled in by the Recovery Cell and to be ensured by the Credit Manager that it is complete and correctly filled in, and submitted for screening and approval.
- xx) Normally compromise in standard accounts should not be considered.
- xxi) Compromise in the cases of fraud, malfeasance and willful default can also be considered, subject to continuation of criminal case against the borrower. However, such compromise should be approved by the Managing Director on a case-to-case basis and based on the merits of each case only after obtaining no objection certificate from the investigating agencies.
- xxii) In case compromise settlement reached with the borrowers, those settlements should contain a specific clause that such settlement will not have any bearing what so ever on the ongoing criminal cases/proceedings pending in the courts against the borrowers.
- xxiii) In spite of the above basic policy requirement, there will be cases where it is not possible to recover the full amount and the borrower is coming forward to offer settlement. While negotiating the offer, it must be made clear that recovery of the loan taken by the borrower and the criminal action for the fraud committed by him are two separate and distinct matters. It should be clarified at the outset that if the settlement proposal as given by the borrower is accepted, such settlement will relate only to the recovery proceedings and shall not in any way affect the criminal action taken by the Company, which shall continue.
- a. It is the practice of Company to record the terms and conditions of the settlement in a consent order to be obtained from the Court. In such consent orders, a specific clause should be incorporated stating that the settlement agreed between the parties shall not in any way affect or be construed as settlement of ongoing criminal cases/ proceedings pending in the Court against the borrowers.

- b. The officers/ employees who are required to appear as witnesses in the criminal proceedings should be advised that although the Company has accepted the settlement proposal given by the borrower, there is no settlement in regard to the criminal proceedings initiated against the borrower. Such officer or employee should be advised to make this position clear when he is examined as a witness in the criminal proceedings.

K. POWER STRUCTURE FOR COMPROMISES AND WRITE OFF ARE AS UNDER

Authority	Sacrifice (including notional interest) amount up to (Rs.)	Present outstanding amount up to (Rs.)	Actual Write off amount up to (Rs.)
Head Recovery Cell	Rs.25000.00	Rs. 2 lacs	Rs.10000.00
Credit Head	Rs.50000.00	Rs.5.00 Lacs	Rs.50000.00
Managing Director	Rs.100000.00	Rs.25.00 Lacs	Rs.100000.00
Executive Committee of the Board	Rs.500000.00	Rs.100.00 Lacs	Rs.500000.00

L. GUIDELINES FOR WRITE - OFFS

The salient features of the Company's policy for write-off are as under:

Subject to substantial provision being available, writing off loan assets may be considered in the following cases:

- Where suits have been filed before the court.
- Where action u/s 13(4) of SARFAESI Act 2002 has been initiated.
- Where permission for initiation of legal action has been accorded and legal action is in the process of initiation.
- Where legal action is waived by the competent authority.
- Where examination of staff accountability has been completed.
- However, the small value accounts classified either as Doubtful or Loss and having outstanding up to Rs.2 lacs with adequate provision (minimum 50%), can be considered for write off.
- It has now been decided that all the accounts written off, irrespective of the outstanding amount or security available or initiation/non-initiation of legal action, be parked in W/OFF ACCOUNTS henceforth and a record be maintained in a separate register with full particulars.

- xii. For calculation of the loss in a write-off proposal, same basis as in compromise proposals given above be followed.
- xiii. The Proposals for write off will be screened by the Screening Committee before taking a final view in the matter. It should be ensured that the Authority approving write off proposals did not sanction the Advance in question in his/her individual capacity.

It is reiterated that the above relaxation in the write off policy should not in any way dilute the follow up of recovery process. The structured mechanism for follow up of accounts parked in W/OFF ACCOUNTS should be meticulously followed.

M. THE GENERAL GUIDELINES TO BE ADOPTED FOR COMPROMISE:

- a) If the account is 2/3 years old in MIRROR ACCOUNTS, no security is available, or borrower has expired possibility to be explored to recover the maximum possible amount in the larger interest of the Company.
- b) If security is 50% or more but less than 100%, possibility to be explored to recover up to the value of the security plus Base Rate interest (simple), if possible on outstanding.
- c) If security is 100% or more than the outstanding in written off account, full amount of MIRROR ACCOUNTS outstanding to be recovered with interest at Base Rate, if possible on outstanding.
- d) As far as possible repayment should be insisted in lump sum. If the repayment is to be made in instalments, it should be fixed in such a manner that the full amount is paid well before the end of the current financial year.
- e) After recovery of full amount of compromise approved, the residual balance in MIRROR ACCOUNTS be made NIL immediately by passing contra vouchers.
- f) The compromises can also be accepted giving relaxations in sacrificing interest as well as principle, on the merits of each case viz. age of the account, repaying capacity of the borrower, available security and the recovery prospects etc., in the larger interest of the Company. However, our efforts should be to get the maximum offer.

Claims on insurance on account of default should be settled and received before recommending for write offs or compromise settlement.

N. RECOVERY THROUGH LEGAL PROCESS

- a. Litigation for recovery of loans in default should normally be resorted to after satisfying that prospects of recovery through litigation are strong and the action will be worthwhile.

- b. It should be ensured that delays normally associated with the court action are avoided/kept to the minimum and that the recovery action is completed in the least possible time and at the least cost to the Company.
- c. The status of suit filed cases should be constantly monitored.
- d. The Law Officers of the Company or Branch Head will visit the courts at regular basis and review progress thereof in consultation with the Recovery Cell and concerned Advocates. The Law Officers/Branch Head will be required to submit their reports to the Recovery Head of the Company.
- e. The execution of decree is to be filed at the earliest and regular monitoring be made to execute the decrees pending with the Company by Recovery Cell.
- f. The provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 will be resorted to with circumspection as per Company's operative guidelines placed at annexure in this regard.
- g. The status of each suit filed account at branches will be reviewed by the Regional Head at quarterly intervals, in consultation with the advocates concerned. Quarterly reports on all such accounts will be submitted to the Head office. For the purpose of close monitoring, branch Heads or their representative will attend Court/DRT proceedings regularly and also maintain close liaison with the advocates, so that the cases may be disposed off expeditiously and unnecessary delays is avoided.

O. RECOVERY THROUGH LOK ADALATS

GUIDELINES FOR SETTLEMENT OF CASES THROUGH LOK ADALATS:

In order to make the system of Lok Adalat popular among the people, a number of permanent Lok Adalats have been set up all over India. The forum of Lok Adalat is speedy and cost effective method for the recovery of the Company's dues in the cases, which are under litigation (i.e. sub judice) as also the cases at the stage of pre-litigation (i.e. before approaching to the court of law). In view of the advantages in using the forum of Lok Adalat in compromise settlement of Company's NPAs and written off accounts the Recovery Cell are advised to derive benefit out of the above arrangements and to reduce the stock of NPAs and W/OFF ACCOUNTS. There are two stages by which settlement of cases through Lok Adalats can be done, one is pre-litigation stage and the second is post litigation stage.

Guidelines for settlement of dues through the forum of Lok Adalat both at the pre-litigation as well as post litigation stage are given hereunder.

1. CEILING OF AMOUNTS FOR COVERAGE UNDER LOK ADALATS

The scheme may include all NPA and Written off accounts, both suit filed accounts and non-suit filed accounts. The monetary ceiling for reference of cases to Lok Adalats organized by Civil Courts is Rs.20.00 lacs.

A. SETTLEMENT OF CLAIM THROUGH LOK ADALAT AT PRE-LITIGATION STAGE

These guidelines should be meticulously followed while making a reference to the Lok Adalat, where the chances of settlement with the borrower(s)/ guarantor(s)/ mortgagor(s) are envisaged. The procedural guidelines as under: -

- i) The matter may be referred to Lok Adalat in the prescribed application form. The application requires the names/addresses of the parties, facts of the case in brief and the amount claimed etc. No court fee is payable on this application.
- ii) On receipt of the application, the Lok Adalat will issue a notice in the prescribed format to the other parties i.e. borrower(s)/guarantor(s)/mortgagor(s) to present before it specifying therein the date, time and venue etc.
- iii) On appearance of the parties, if they are agreeable to a compromise then the same will be recorded in the form of an 'Award' containing the terms of compromise/settlement. The award will be duly signed by the parties from both the sides and authenticated by the Lok Adalat.
- iv) The above-mentioned prescribed forms are the model formats which will be duly filled in with suitable modifications/amendments, if any required, keeping in view of the facts and circumstances of a particular case.
- v) If there is a guarantor(s)/mortgagor(s) in the loan account then his/their participation should also be ensured and he/they should also be a signatory to compromise/Award.
- vi) Every Lok Adalat shall, while determining any reference before it under the Legal Services Authorities Act, 1987, with utmost expedition to arrive at the compromise or settlement between the parties and shall be guided by the principle of natural justice, equity, fair play and other legal principles.
- vii) Where no Award is made by the Lok Adalat on the ground that no compromise settlement could be arrived at between the parties, the Company is free to seek remedy available under the law.

viii) Every Award, if passed by the Lok Adalat, shall be deemed to be an Execution Decree of a Civil Court and shall be final and binding on all the parties to the Decree and no appeal shall lie to any Court against such an Award.

ix) In case it is agreed between the parties that the outstanding amount will be paid in instalments, then a suitable default clause to accelerate the payment incorporated in the Award as under: -

"All Decrees awarded by the Lok Adalats will have a default clause in terms of which if three consecutive installments are not paid, the entire debt become due for the payment and the Company shall proceed without further reference to the borrower"

B. SETTLEMENT OF CASES AT POST- LITIGATION STAGE:-

The guidelines are intended to enable branches to make effective use of the forum of Lok Adalats to settle Banking disputes involving cases upto Rs. 10.00 lacs.

As per Section 20 of the Legal Services Authorities Act 1987, Lok Adalat will take cognizance of cases where the parties thereof agree or one of the parties moves an application to the court to refer the matter to Lok Adalat. Accordingly, the Recovery Cell are advised to look into the matter and either the consent/agreement of the Company and the borrower or an appropriate application be put up to the Lok Adalats. It should be ensured that senior officer(s) of the Company with appropriate authority to negotiate on behalf of the Company should be present at Lok Adalats.

2. CUT OFF DATE

No cut off date is applicable since Lok Adalat is an on -going process.

3. SETTLEMENT FORMULA

The settlement formula would be as per the Company's existing instructions after keeping in view certain essential parameters, as under: -

i) A decree should be sought from the Lok Adalat for the principal amount and interest claimed in the suit, and after full payment of decree amount, a discharge certificate should be issued by the Company. The authority empowered to order initiation of legal action will also have the power to approve the reference to Lok Adalats.

ii) The power structure for scaling down the dues in respect of Company's recovery cases for loan under **all segments** referred to Lok Adalats is as follows:-

Managing Director	25% of suit amount subject to a maximum scaling down of dues by Rs.1.00 lac.
CEO	25% of suit amount subject to a maximum scaling down of dues by Rs. 25000.00.
Head Recovery Cell	25% of suit amount subject to a maximum scaling down of dues by Rs.10000.00.

iii) As regard recovery of the book dues as on the date the account became NPA and interest and other costs charged to the borrower's account thereafter, the Company's existing guidelines for compromise will be applicable, taking into account the value of security, the repaying capacity of the borrower, cost of recovery etc. If the State Government does not allow refund of the fee paid to the court in cases settled through Lok Adalats, the court fee paid by the Company will have to be shared equally by the Company and the defendants. Realization of other costs like lawyers fees etc. may be left to the discretion of the Lok Adalats.

iv) As regards repayment period, if the defendants make down payment ranging between 10 to 20% of the suit filed amount the payment of the residual amount may be agreed to on monthly installments basis. However, the time frame of such repayments should not exceed a total period of 12 months from the date of 1st settlement in order to make an immediate impact on reduction of NPAs and written off accounts.

v) All decrees awarded by Lok Adalats will have a default clause in terms of which if three consecutive installments are not paid, the entire debt become due for repayment and the Company shall proceed without further reference to the borrower.

vi) The Lok Adalat settles cases on the spot. As the objective of the whole exercise is to settle arrear cases expeditiously, officers representing the Company should respond proactively within the parameters of the instructions of the Company, to the suggestions of the presiding officers of the Lok Adalat while the Head Recovery should normally exercise the powers delegated to them by personally committing before the Lok Adalats, for reasons of administrative convenience, wherever warranted, the Managing Director authorize another suitable competent official preferably Manager (Recovery/Credit) under a specific written authority to commit before the Lok Adalat the scaling down of dues by 25% of the suit amount subject to a maximum loss of Rs.100000/-. The official shall act within the powers delegated by the Managing Director. Written direction is to be given by the Managing Director as to the maximum reduction that the Company's representative may commit to the Lok Adalat.

P. REVIEW OF DECREED CASES

The cases where decrees have been awarded by Civil Court/Lok Adalat be reviewed on quarterly basis. The execution of decree be filed wherever securities are available or where borrowers / guarantors have sufficient means.

The decrees which are pending for a long period and fulfill the criteria number 3 and any one out of other two criteria mentioned hereunder may be dropped.

1. Where security is not available
2. Borrower/guarantor is not traceable/expired and whereabouts are not known.
3. Execution petition filed and is older than 2 years.

The Recovery Cell of the Company will put-up the proposal with full details of the decree recommending for dropping before the committee. The approval of the dropping will be given on merit of the each case by the committee comprising the following:-

1.	Managing Director	– Chairman
2.	Recovery Head	– Member
3.	Law officer of the Company	– Member

Q. THE SECURITISATION AND RECONSTRUCTION OF FINANCIAL ASSETS AND ENFORCEMENT OF SECURITY INTEREST ACT-2002

To regulate securitisation and reconstruction of financial assets and enforcement of security interest and for matters connected therewith or incidental thereto the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was enforced w.e.f. 21.06.2002 and enacted w.e.f. 17 December 2002. It extends to the whole of India.

The Act shall not apply among others, specifically to:-

- i. any security interest for securing the payment of any financial assets not exceeding One lakh rupees ;
- ii. any security interest created in agricultural land ;
- iii. any case in which the amount due is less than Rs. one lacs.
- iv. any case in which the amount due is less than twenty percent, of the principal amount and interest thereon.

The operative guidelines to proceed under SARFAESI Act are placed at Annexure to the policy. Further, the Company may engage any Recovery Agent after due diligence to assist the Authorised Officer in carrying out the proceedings under SARFAESI Act. However, it should be within the specific guidelines of the Reserve Bank of India and policy of the company in this regard. The Roles and the Responsibility of the Recovery Agent are placed at Annexure 1.

R. SARFAESI (SRESI) VALUATION COMMITTEE

The sale of the property taken into possession under SARFAESI Act be sold through public auction after fixing the reserve price approved by SRESI Valuation Committee comprising the following members:-

- a) Managing Director
- b) Head- Credit
- c) Recovery Head
- d) Manager (Recovery) (Member Secretary)

(Quorum all members)

However for quick disposal of cases and faster recovery of Company's dues, the powers for fixation of Reserve Price of property (ies) taken in possession up to Rs.10 lacs (present value) is delegated to the Managing Director. The Authorised Officer may make suitable recommendation to the SRESI Committee for the reserve price to be fixed.

S. NPA MANAGEMENT THROUGH OTHER MEASURES

- (i) Bidding by the Company in Court/SARFAESI auctions of properties mortgaged to the Company may be considered on a highly selective basis.
- (ii) Debt asset swaps may also be considered on a highly selective basis .
- (iii) In cases where execution of decree is expected to take unduly long time, legal assignment of decrees to third parties may be considered selectively

(iv)STAFF ACCOUNTABILITY ASPECT

The objective approach to examination of Staff Accountability (SA) will apply to all loans made by the Company. The exercise should be undertaken when an asset has slipped from Standard to Sub standard and remains in that category for 6 months continuously from the date of such classification (i.e. it is not upgraded within 6 months). However, staff accountability will be examined immediately if asset quality has deteriorated from Standard to Doubtful or below straightway or such deterioration is on account of malafide or gross negligence.

AA. GENERAL:

Identification of Non-Wilful Individual Default of the Company

The Company shall view sympathetically all genuine cases of non-wilful defaults due to sickness in the family, seasonal variation in the family income, sudden

cash needs, late payment of salary, slowdown in business etc. Regional Managers shall be delegated powers to allow time up to 30 days to regularize such Accounts.



The decision for re-phasing of the loan account will be taken centrally by the Credit Committee

In exceptional cases and deserving cases, the total term of the loan shall be extended by the Head Credit on the recommendation of Head Recovery.

Identification of Willful Defaulters of the Company

As per the scheme framed by RBI with effect from 01.04.1999, banks/FIs are required to submit the list of suit filed accounts of willful defaulters of Rs.25 lacs and above as at end of every quarter to CIBIL and/or any other credit information company of which it is a member and the quarterly list of willful defaulters of Rs.25 lacs and above where suit has not been filed to RBI.

However, the Company shall classify willful defaulters irrespective of the amount outstanding, for internal purposes.

For the purpose of determining future course of action in an account, the guiding principle will be the intention of the borrowers concerned. On this score, all NPA borrowers may be grouped in the following broad categories:

- ▶ Deliberate non-payment of the dues despite adequate cash flow and good net worth;
- ▶ Siphoning off of funds to the detriment of the defaulting unit;
- ▶ Assets financed either not been purchased or been sold and proceeds have mis-utilised;
- ▶ Misrepresentation/falsification of records;
- ▶ Disposal/removal of securities without Company's knowledge;
- ▶ Fraudulent transactions by the borrower.

In accordance with RBI guidelines a "willful default" would be deemed to have occurred if any of the following events is noted:

- ▶ The Borrower has defaulted in meeting its payment/repayment obligations to the lender even when he/she has the capacity to honour the said obligations
- ▶ The borrower has defaulted in meeting its payment/repayment obligations to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.

- The borrower has defaulted in meeting its payment/repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds



available with the borrower in the form of other assets.

As and when any borrowal account with an outstanding balance of Rs.25 lacs and more is classified as NPA or on occurrence of any of the events noted above in an existing NPA account, Branch Head shall examine whether same is a case of willful default in terms of RBI guidelines and in case of willful default, take prompt steps to get the borrower classified as a willful defaulter, as per the procedure laid down hereunder.

1. The proposal for classification of willful defaulters shall be forwarded by branch to Credit Department at Head Office substantiating the reasons and also supported by documentary proof.
2. The Head Office should examine and obtain legal opinion as to whether there is prima facie case warranting criminal prosecution under penal law and forward their recommendation to Credit Department
3. The matter shall be examined from the legal angle and placed to the Credit Committee who shall be responsible for the identification of Willful Defaulters
4. If in the opinion of the Credit Committee, the case is fit for prosecution, sanction shall be accorded for initiating criminal proceedings
5. It should be ensured that penal provisions are used effectively and determinedly but after careful consideration and due caution.
6. The decision taken on classification of willful defaulters should be well documented and supported by requisite evidence. The decision should clearly spell out the reasons for which the borrower has been declared as willful defaulter vis-à-vis RBI guidelines.
7. Reporting of willful defaulters to authorities like RBI/ CIBIL etc., shall be done as per the RBI/CIBIL etc., guidelines in this regard.
8. The Company shall proceed legally after assessing the chances of recovery.

The system of dissemination of credit information pertaining to willful defaulters was put in place for cautioning banks and FIs, so as to ensure that further finance is not made available to them.

Hence, the above scheme is a very important tool which can be effectively used against the willful defaulters of the Company, to bring pressure on them to settle their dues.

Policy Review & Approval process

This Policy is for one year from the date of approval. Company will follow RBI/NHB guidelines when there is no provision in the policy as regard to a particular.

The Policy would be reviewed and updated at least on an annual basis by the Head-Credit with a signoff from the Head-Risk and Compliance and the MD &



CEO. The reviewed and updated policy would be submitted to Risk Management Committee of the Board ("RMCB") for recommendation and approval of the Board. The minutes of meeting of the committee and the Board would be documented.

Xxxxxxxxxx

ANNEXURE

OPERATIVE GUIDELINES FOR ENFORCEMENT OF SECURITY INTEREST UNDER THE SECURITISATION AND RECONSTRUCTION OF FINANCIAL ASSETS AND ENFORCEMENT OF SECURITY INTEREST ACT-2002

PLEASE CHECK

Whether the account is **NPA**.

Whether the debt is **within the period of limitation**.

Whether any **security is available** (mortgage, hypothecation, charge, assignment).

Whether Loan advanced is **more than Rs. 1.00 Lakh**.

Whether **outstanding amount is 20% or more of** principal amount and interest thereon.

Whether Security interest **has not been created in agricultural land**.

IF YES

Ascertain the nature of security

Can take action if the security available **other than Pledge** of movables or **lien** on any goods, money, or security or **not exempted** under Section 31 of the Act.

PLEASE CHECK BEFORE TAKING ACTION

TAKE ACTION

(NOTE: ACTION UNDER THE ACT CAN BE TAKEN BY AN AUTHORISED OFFICER DULY APPOINTED BY THE BOARD OF THE COMPANY NOT LESS THAN THE RANK OF GENERAL MANAGER OR EQUIVALENT.)

Issue the notice of **60 days** (Demand Notice)

To the borrower **(IN THE PRESCRIBED FORMAT)**

To the guarantor **(IN THE PRESCRIBED FORMAT)**

NOTE: SERVICE OF NOTICE SHALL BE MADE BY REGISTERED POST WITH DUE ACKNOWLEDGEMENT, SPEED POST OR BY COURIER OR BY ANY OTHER MEANS

IF THE SERVICE CANNOT BE MADE AS AFORESAID, THE SERVICE SHALL BE EFFECTED BY AFFIXING A COPY OF DEMAND NOTICE ON THE OUTER DOOR OR SOME OTHER CONSPICUOUS PART OF THE HOUSE OR BUILDING IN WHICH BORROWER RESIDES OR CARRIES ON BUSINESS AND ALSO PUBLISHING THE SAME IN TWO LEADING NEWSPAPERS, ONE BEING IN

LOCAL LANGUAGE (VERNACULAR LANGUAGE i.e. HINDI IN RAJASTHAN)

TAKE FOLLOWING STEPS DURING 60 DAYS

Efforts for negotiation with borrower/ guarantor,

Efforts to locate prospective buyers or agencies to manage the assets, etc.

Develop contact with the local authorities/Chief Metropolitan or the DM/SDM/SP/SHO for their assistance at the time of possession and procure names, contact numbers and addresses of the concerned officials.

Arrange for security, inventory & valuation in advance if possession is required to be taken

After service of notice if the borrower raises any objection or places facts for consideration of the Company, such objection must be considered with due application of mind and same may be replied in form of reasoned order to be communicated to the borrower/objector within one week of receipt of such objections/representation by A.O.

Reply to the objections as far as possible should be sent before the expiry of 60 days, i.e. the period prescribed in the notice given under Section 13(2) of the Act so that the action to be taken by the Company under Section 13 (4) of the Act, after the expiry of 60 days time is not delayed.

After the expiry of above 60 days

Review the post notice scenario with a view to identify cases where further action in terms of Act is to be taken.

IF THE BORROWER DOES NOT RESPOND, fix a prospective date for taking over possession demanding possession of the property from borrower on or before such date.

IF HE DOES NOT HAND OVER THE POSSESSION, Carry out pre-possession visit to assess the need of security staff and make a general study of the requirements.

Meet Police authorities and discuss tentative proposal to take over the assets.

One panel Advocate and a Photographer, if considered necessary, to accompany AO to the site at the time of taking possession.

IF THE BORROWER DOES NOT HAND OVER THE POSSESSION an application may be filed before Distt. Magistrate for taking possession with police assistance.

IF THE SECURED ASSET IS IMMOVABLE

TAKE POSSESSION

BY DELIVERING

A possession notice to the borrower **(in the prescribed format)** and

AFFIX

The possession notice on the outer door or at such conspicuous place of the property and

PUBLISH

The notice in two leading newspapers, one in local language within seven days from the date of possession.

The notice so published should be the same which has been affixed but the notice which to be published in vernacular newspaper should be in vernacular language.

ENSURE

The description and boundaries of the property / amount of demand notice and present outstanding (up to the date of possession) has been mentioned in the possession notice

A.O. SHALL KEEP THE PROPERTY

In **own custody** or

In the **custody of the person authorized by him**

TAKE STEPS

For preservations and **protection** of secured assets and **insure** them till they are sold or otherwise disposed off.

MAKE VALUATION

By obtaining valuation from an approved valuer and

FIX

In consultation with SRESI COMMITTEE the reserve price of the assets

A.O. MAY SELL THE ASSETS BY

- (a) Obtaining quotations from parties dealing in the secured assets or otherwise interested in buying such assets or
- (b) Inviting tenders from the Public
- (c) Holding Public Auctions or
- (d) By Private treaty.

ISSUE

A notice to the borrower of **30 days** for sale.

PUBLISH

In addition, in case of public tender/auction the notice in two leading newspapers, one in local language .

AFFIX

The notice on a conspicuous part of the immovable property.

ENSURE

That the above notice include the following: -

- Description of the immovable secured assets to be sold, including the details of the encumbrances known to the Company;
- The secured debt for recovery of which the property is to be sold.
- Reserve price below which the property may not be sold;
- Time and place of public auction or the time after which sale by any other mode shall be completed.
- Depositing earnest money as may be stipulated by the Authorised officer of the Company,

Any other thing which the Authorised officer considers material for a purchaser to know in order to judge the nature and value of the property

PLEASE NOTE

ANY SALE OF IMMOVABLE PROPERTY can take place only after expiry of 30 days from the date on which public notice of sale is published in the newspaper or the notice of intended sale is issued to the borrower in case of sale by obtaining quotations from the interested parties or sale by private treaty. Therefore fix the date of auction minimum 35 days after the publication of the sale notice or notice to the borrower/guarantor.

THE SALE SHOULD be made in favour of the purchaser who has offered the highest price in his bid or tender or quotation or offer to the Authorised officer.

IF THE SALE PROCEEDS are more than the reserve price, the sale may be confirmed by the Authorised officer without reference to any higher authority.

ON SALE OF EVERY IMMOVABLE PROPERTY, the purchaser should immediately pay **a deposit of 25% of the sale price** and, in default of such deposit, the property should be sold again following the same modality.

THE BALANCE AMOUNT of purchase price should be paid to the Authorised officer **on or before the 15th day of confirmation of sale** or within such extended period as may be agreed upon in writing between the parties.

IN CASE OF DEFAULT, **the deposit amount will be forfeited** and the property shall be resold and the defaulting purchaser shall forfeit all claims to the property or to any part of the sum for which it may be subsequently sold.

PLEASE CHECK

Whether the terms of payment have been complied with.

IF YES

ISSUE

Certificate of sale **(in the prescribed format)**

PLEASE CHECK

Whether the property sold is subject to encumbrances

IF YES

TAKE THE FOLLOWING ACTION

If thinks fit, allow the purchaser to deposit the money required to discharge the encumbrances together with interest due thereon etc., if any.

On such deposit of money for discharge of the encumbrances the A.O. may issue notices to the persons interested in or entitled to the money deposited with him and to take steps to make the payment accordingly.

The A. O. shall deliver the property to the purchaser free from encumbrances known to the secured creditors on deposit of money as above.

The Certificate of Sale should specifically mention whether the purchaser has purchased the immovable secured assets free from any encumbrances known to the secured creditor or not.

SHORTFALL IN RECOVERY

If shortfall occurring even after realization through sale of secured assets, can be realized by filing suit before Civil Court. Provisions relating to limitation shall be applicable.

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Annexure 1: Roles & Responsibilities of Recovery Agents

- Recovery Agency shall assist the SHFL in recovery of dues either by direct recovery or seizure & disposal of secured assets or facilitating a negotiated settlement between the borrower and the Company by adopting legally permissible means of recovery.
- Agents would be provided with an Identity card for proper identification and shall limit his role of recovery of dues from the NPA accounts specifically entrusted to them. Any action beyond limits of law shall be at Recovery Agents' sole risk and responsibility.
- Taking possession, drawing inventory, making security arrangements.
- Identifying bidders to participate in sale, effecting sale.
- Co-ordinate/liaison with Government Agencies, Municipal Authorities, Registration Authorities.
- Ascertain particulars of legal heirs of deceased borrower, guarantor, mortgagor and their addresses etc.
- In accounts where the legal proceedings are taken, their services can be utilised for identifying other assets (Non-EM Properties) of the borrowers/guarantors for getting them attached and bringing for sale, liaison with Recovery Officers of DRT, Officials of Courts etc.
- Representatives proposed to be identified as Agent, should have undergone necessary training and obtained the said certificate from IIBF as per RBI guidelines.
- Agency shall have all the infrastructure for recording the conversations with the borrowers
- Recoveries are to be accepted by cheques and drafts drawn in favour of the SHFL only
- Recovery Agency shall keep all the affairs of entrusted borrowers highly confidential.
- The Agency shall not have any right to sub-delegate or appoint any sub-agent.
- The arrangement of placing Recovery Agents' name on the panel does not amount to any employment and create no obligation of any kind on the SHFL.
- The Recovery Agency Firm / Company should carry out verification of the antecedents including pre-employment Police verification of all their staff engaged in the recovery process. The Agency should carry-out Re-

- verification of the antecedents of their employees who are undertaking the task of recovery of dues after every two years.
- The Recovery Agents shall strictly adhere to the Company's Model Code of Conduct for Collection of dues and Repossession of Secured Assets.