



## GUIDELINES ON THE RECLASSIFICATION OF OLD NON-PERFORMING LOANS, 2022

This guideline is formulated in line with Section 8 (a) of the RMA Act 2010, Section 3 (a), Section 210 of the FSA 2011 and **Part V** of the **Press release from the Prime Minister's Office** on Comprehensive National Response to the Challenges of the COVID-19 Pandemic dated 26<sup>th</sup> June 2020 on NPL resolution.

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## Part A: Background and Objective

As of 31<sup>st</sup> March 2020, the total loans of the financial institutions stood at Nu.158.927 billion. The non-performing loans (NPLs) i.e. loans with re-payments overdue by more than 90 days was 18% at Nu.28.883 billion against which Nu.14.843 billion have been kept as reserves in the form of loan provisioning by the Financial Institutions. Due to the impact of high NPLs and loan provisions, the financial institutions will not be in a position to lend which will lead to credit crunch if not addressed in a timely manner.

This guideline is issued as a counter-cyclical policy response to Covid-19 Pandemic as an interim measure with the objective to provide a one-time facility for reclassification of NPLs as other assets to provide temporary relief to both borrowers and financial institutions during the COVID-19 Pandemic.

## Part B: Title, Extent and Commencement

1. These guidelines shall be known as **GUIDELINES ON RECLASSIFICATION OF NON-PERFORMING LOAN 2022** and shall supersede the **GUIDELINES ON THE TRANSFER OF NON-PERFORMING LOAN ASSET 2020**
2. These guidelines shall come into effect from 01<sup>st</sup> May 2022
3. These guidelines shall be applicable to Non-Performing Loans as of 31<sup>st</sup> March 2020 for the Financial Institutions only
4. If any issue arises in the interpretation of the provisions of these guidelines, the matter shall be referred to the Authority, and the decision of the Authority shall be final and binding on the stakeholders concerned.

## Part C: Sunset Clause

5. There shall be no reclassification of NPLs as “assets pending foreclosure” after June 2022 and these Guidelines shall cease to exist once all the accounts reclassified as assets pending foreclosure are closed.

## Part D: Eligibility

6. Following categories of NPLs shall be eligible for reclassification:
  - a) Absconded
  - b) Untraceable
  - c) Deceased
  - d) Imprisoned
  - e) Loans under enforcement

The definition of the aforementioned category of NPLs shall be defined in the **Rules and Regulations on Foreclosure and write-off of NPLs 2022** issued by the Authority. Further, these NPLs should have been in the aforementioned

category for at least one year as on 31<sup>st</sup> March 2020 in order to qualify for reclassification.

- f) NPL accounts where the **loan collateral/mortgage have been seized** by the financial institutions and were not able to be disposed of in public auction for more than one year as on 31<sup>st</sup> March 2020.
- g) NPLs which have been in **loss category for more than two years (except on-going litigations cases, loans under the investigation by the law enforcement agencies)**. Loans under this category shall be segregated into viable and non-viable loans. The non-viable accounts will further be segregated into willful and non-willful defaulters and only the non-willful defaulters will be eligible for reclassification. The definition of viable, non-viable, willful and non-willful will be as per Rules and Regulations on Loan Restructuring by the Financial Service Providers 2022.

## **PART E: Governance Structure**

- 7. **Pursuant to Section 6 (d)** of the RMA Act 2010 and to ensure equity and transparency, the reclassification process shall be implemented through three tiered interventions in the following manner:
  - 7.1 The inter-financial institutions committee (IFIC) constituted with the legal and credit representatives of all financial institutions and RMA shall be responsible for identifying/vetting the list of eligible NPL accounts for onward submission to the CEO Level Committee.
  - 7.2 The CEO level committee constituted with the CEOs of all financial institutions chaired by the Deputy Governor II, shall review and endorse the submission of the IFIC, with subsequent approval of their respective Board of Directors, for onward submission to the High-Level Committee.
  - 7.3. The High-Level Committee with the representatives from the Royal Government of Bhutan, Supreme Court, National Land Commission Secretariat, Department of Law and Order and the RMA chaired by the Finance Minister shall make the final decision on the submissions made by the CEO Level Committee including reclassification and freeze of interest on NPLs.

## **Part F: Accounting Treatment**

- 8. Upon approval of the **High-Level Committee**, the financial institutions shall reclassify **the identified NPL accounts** from the asset under “**loans and advances**” to “**asset pending foreclosure**” in the financial institution’s balance sheet. The “asset pending foreclosure” shall be classified as “other assets”.
- 9. The specific provision and interest-in-suspense kept against these NPL accounts shall not be routed through profit and loss account.
- 10. **Specific provisions and interest-in-suspense** kept against these NPL accounts shall be reflected as a liability account in the balance sheet as “reserve for loan loss”.

11. 20% risk weight shall be assigned to **asset pending foreclosure** for the computation of RWCAR.
12. Financial institutions are not required to keep provisioning against the asset pending foreclosure.
13. The **accrual of interest on these NPL accounts shall be frozen** once it is reclassified.

#### Part G: Foreclosure/Liquidation

14. Dedicated unit or official shall be created/assigned within the financial institutions to resolve these NPL accounts depending on the size of the NPLs reclassified.
15. The NPLs reclassified as asset pending foreclosure shall be for a maximum period of three years from the date of reclassification.
16. Financial institutions shall develop a clear strategy to resolve these NPLs during the three-year period from date of reclassification in-line with Rules and Regulations for Loan Restructuring and Rules and Regulations on Foreclosure and write-off of NPLs, High-level committee decisions and any directives issued by the Authority.
17. To ensure that the reclassified NPL accounts are not carried forward to the end of 3 years without any progress, the Financial Institutions shall reduce these NPLs on a staggered basis to ensure that the reclassified NPLs are resolved by the end of three years.
18. The NPLs reclassified as the asset pending foreclosure shall be resolved through write-off, foreclosure and out-of-court settlement on a staggered basis as follows:

Sl.no	Time frame from the date of reclassification	% of loan outstanding to be resolved from date of reclassification
1	Year 1 end	30%
2	Year 2 end	30%
3	Year 3 end	40%

#### PART H: Financial Reporting and Disclosure

19. To ensure accountability and transparency, FIs shall submit a separate report on asset pending foreclosure as per the prescribed template (*Refer Annexure 1*) on a monthly basis to the Authority.
20. The Authority shall monitor the follow up actions by financial institutions on a half-yearly basis.
21. Financial institutions shall disclose the details on the **assets pending foreclosure** including the total number of accounts, amount as part of the notes to its financial statements.

## PART I: Miscellaneous

22. The financial institutions shall submit separate data as assets pending foreclosure to CIB. However, these accounts reflected in the Credit Information Report need not be used for the assessment of the borrower's creditworthiness to make lending decisions.
23. With respect to any matter not specifically provided for in these guidelines, the Authority reserves the right to promulgate supplementary or additional provisions or issue such instructions or clarifications as deemed appropriate for smooth and effective implementation of the scheme.

## PART J: General Provisions

24. **Rules of Construction:** Unless the context clearly otherwise requires, wherever used in the Guidelines, the singular includes the plural.
25. **Interpretation:** The Authority shall have the power to interpret any provision under this guideline and its interpretation shall be final and binding upon all parties.
26. **Supersession:** Any provisions that are in-conflict with the provisions of this guideline shall be superseded by this guideline to the extent they are inconsistent with the provisions of this guideline.
27. **Amendment:** The additions, changes, or repeal of any provision of this guideline shall be made by the Board based on the recommendation of the Management.
28. **Penalty for violation of this guideline:** The Authority shall impose appropriate penalties on the FIs if any provision of this guideline.

**Annexure:**

**Annexure 1: Reporting template for Accounts reclassified under NPL Resolution Framework**

Serial No.	Borrower Name	CID/TPN /Licence No.	Type of loans	Account Number	Sector	Sanctioned Amount	Date of Sanction	Maturity Date	Amount Outstanding	Action taken on the Directives of NPL resolution			
										Closed	Foreclosed	Write off	Rehabilitated
1													
2													
3													
4													

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