

# ASSAM FINANCIAL CORPORATION

## (1) ACCOUNTING POLICIES

The Accounting policies of the Corporation are based on the guidelines/notifications issued by the Small Industries Development Corporation (SIDBI), which is the Apex body governing the State Financial Corporations (SFCs) and considering the following:

- Income Tax Act, 1962 : Accounting policy followed by SFC takes into consideration the relevant provisions of the Income Tax Act, e.g., Section 145, Section 43D.
- Accounting Standards/ Guidance notes issued by the Institute of Chartered Accountants of India (ICAI) : The ICAI issues accounting standards/ guidance notes/ opinions, which together constitutes Generally Accepted Accounting Principles (GAAP). GAAP become applicable to the SFCs to the extent these are not contrary to anything contained in the SFC Act/ General Regulations
- Industry Practices : The accounting policies and practices
- Relevant International Accounting Standards

### Key governing principles :

The key governing principles that have been considered in developing accounting policies are;

- True and fair : The prime consideration in the selection of accounting policies is that the financial statements prepared on the basis of such policies should present a true and fair view of the state of affairs as at the Balance Sheet date and of the profit or loss for the period ended on that date.
- Prudence/ Conservatism : In view of the business environment in which SFCs operate, the accounting policies/ practices for the SFCs need to be based on the principles of prudence/ conservatism. Accordingly, all anticipated losses should be provided for but the anticipated gains should not be recognized unless realized.
- Materiality: Accounting policies are designed keeping in view the concept of materiality in value terms. Financial statements should disclose all “material” items i.e., items the knowledge of which might influence the decisions of the user of the financial statements.
- Consistency: It is assumed that the accounting policies are followed consistently. Any change in the accounting policy that has a material effect in the current period or which is reasonably expected to have a

Material effect in later period should be disclosed with ascertainable financial implication.

- Disclosure: All significant accounting policies adopted in the preparation and presentation of the financial statements should be disclosed.

## RECOVERY OF DUES – PRACTICES AND ACCOUNTING TREATMENT

The accounting policies/ treatment in respect of various recovery proceedings taken up by Assam Financial Corporation (AFC) covers the following:

- Re-scheduling of loan
- One Time Settlement Scheme (OTSS)
- Recovery proceedings u/s 29 of the SFC Act, 1951
- Recovery proceedings u/s 31 of the SFC Act, 1951
- Action u/s 32G of the SFC Act, 1951

The above guidelines on accounting policies of recovery proceedings are based on the following :

- The recovery proceedings are undertaken by AFC in case of the Non Performing Assets (NPAs) since these relate to borrowers who have defaulted in paying their dues on time – thereby AFC faces considerable risk in recovery of the part/ whole amount given as loans and advances in such cases.
- No interest pertaining to NPAs shall be accrued in the books of account of AFC and the interest on such assets shall be accrued only in the memorandum accounts.
- No unrealized interest shall be accounted in the year in which recovery proceedings are under progress, as the income from these assets should be recognized on realized basis only.

## ANNUAL ACCOUNTS

The Balance Sheet and Profit & Loss Account can either be in vertical or horizontal form. However, for the purpose of uniformity, the vertical method of presentation has been approved by the Board.

The accounting year followed for preparation of the Balance Sheet and the Profit & Loss Account should be the financial year ( i.e. April 1 to March 31).

This is also in view of the fact that as per Section 3 of the Income Tax Act, 1961, as amended by the Direct Tax Laws (Amended ) Act, 1987, all companies (SFC is a company under the Income Tax Act) are required to furnish a Statement of Affairs as at 31<sup>st</sup> March of each year to the assessing authorities.

### Previous year's figures

Previous year's figures should be given for the purpose of comparison of current year's figures with that of previous year's.

The previous year's figures should be regrouped as per the groupings of the current year wherever essential to facilitate comparison of the annual accounts.

### Adherence to Accounting policies

The Balance Sheet and the Profit & Loss Account should be drawn in accordance with the recommended accounting policies.

### Balance Sheet

Balance sheet is a statement of financial position as at a given date, which exhibits its assets, liabilities, capital reserves and other account balances at their respective values.

### Order of presentation

The assets and liabilities should be presented on the basis of liquidity. The assets should be stated in the order of most liquid to least liquid and liabilities in the order of least liquid to most liquid. (The International Accounting Standards (IAS) 30 on "Disclosures in the Financial Statements of Banks & Similar Financial Institutions" provides that the assets and liabilities should be stated in the order of their relative liquidity).

### Profit and Loss Account

Profit and Loss Account is a statement of all incomes earned and expenditure incurred during the accounting year.

The Profit and Loss Account ;

- Shall disclose the result of the working during the period covered by the account.
- Shall disclose every material feature, including credits or receipts and debits or expenses in respect of non-recurring transactions or transactions of an exceptional nature.

The Profit and Loss Account should set out various items relating to the income and expenditure arranged under the most convenient heads

### Items requiring separate disclosure

Income or expenditure from extraordinary activities

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Corporation and, therefore, are not expected to recur frequently or regularly.

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of the each extraordinary item should be disclosed separately in the statement of profit and loss in a manner that its impact on the current profit or loss can be perceived (Accounting Standard – 5, “Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies”). Any losses arising due to natural calamities such as floods, earthquakes, theft, fire, etc., are examples of extraordinary activities.

#### Prior period adjustments

Prior period items are incomes or expenses accounted for in current period as a result of errors (mathematical, wrong application of accounting policies, misinterpretation of facts or oversight) or omissions in the preparation of financial statements of prior periods.

The nature and amount of prior period items should be disclosed separately in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived (Accounting Standard – 5).

#### Profit and Loss Appropriation Account

Profit and Loss Appropriation Account represents the amount available for creation of reserves and distribution to shareholders after all the expenses and other statutory requirements have been met.

After making provision for dividend, transfer to statutory reserves, etc. the Balance profit should be transferred to general reserves. In case the net balance is a loss, it should be shown under asset side of the Balance Sheet.

The form of main Balance Sheet, Profit and Loss Account and Profit and Loss Appropriation Account are provided as Annexure.

#### Schedules forming part of Balance Sheet and Profit and Loss Account

The main Balance Sheet and Profit and Loss Account should be supported by grouping of various account heads. These groupings are referred to as schedules.

The reference of the relevant schedule should be provided against the relevant head/ group in the Balance Sheet and the Profit and Loss Account.

The schedules should contain heads of assets, liabilities, incomes and expenditures on the basis of common characteristics, representing the main grouping.

Thus only main heads should be presented on the face of annual accounts and the constituents shall be presented in the schedules.

The form of schedules to the Balance Sheet and Profit and Loss Account are provided as Annexure.

#### Notes on Accounts :

The notes on accounts form part of the Balance Sheet and Profit and Loss Account and are annexed to these financial statements. The reference of the relevant schedule of the notes to accounts should be provided in the Balance Sheet.

Generally the notes to accounts contain disclosures/ additional information which support the financial position contained in the Balance Sheet and Profit and Loss Account. These notes enhance transparency in the information presented in the Balance Sheet and the Profit and Loss Account.

Notes on accounts cover the following :

- Significant accounting policies
- Change in Accounting Policy
- Disclosures required by SIDBI guidelines
- Prudential disclosures.

#### Significant Accounting Policies

As per the Accounting Standard -1 (AS – 1), on “Disclosure of Accounting Policies”, all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

#### Change in Accounting Policy

Any change in an accounting policy, which has a material impact on the financial position of the AFC should be disclosed. The impact and adjustments resulting from such change, if material, should be shown in the financial statements of the period in which such change is made.

Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current periods, then such change should be appropriately disclosed in the period in which the change should be appropriately disclosed in the period in which the change is adopted (as per AS – 1).

The following should be disclosed in the Profit and Loss Account and the Balance Sheet (of the Corporation) :

- Any deviation from an accounting policy
- Reasons for such deviations
- Financial impact, if any, arising due to such deviation.

### Disclosures required by SIDBI guidelines

RBI issues guidelines to All India Term Lending and Refinancing Institutions as regards the disclosures to be made in their published annual reports as a part of Notes to Accounts. Based on these RBI guidelines, SIDBI issues guidelines for all SFCs, to the extent applicable to them.

The relevant applicable disclosures required by SIDBI guidelines are as below:

- Classification of investments
- Valuation of Investments
- Disclosure on Capital, shareholding pattern, Asset quality & credit concentration, Credit exposure, Liquidity and maturity pattern of assets & liabilities and Operating results
- NPA classification of loans and advances and provisioning thereof
- No utilization of Special Reserve created under Section 36(1)(viii) of the Income Tax Act, 1961 for the purposes of NPA provisioning.

### Prudential disclosures

Certain disclosures are required to be made as a matter of prudence to provide more information/ clarification to the various stakeholders e.g. disclosure relating to interest waivers/ rebates allowed/ interest unrealized in respect of NPAs/ sale of assets u/s 29 of the SFC Act, etc.

In addition to the above, disclosures are made in the notes to accounts by the auditors as a result of their audit exercise to clarify/ qualify and of their observations.

### CONTINGENCIES/EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Contingencies or Events occurring after the Balance Sheet date may have a material impact on the financial position as depicted by the Balance Sheet at the close of the financial year.

The Institute of Chartered Accountants of India has in its Accounting Standard – 4 on “Contingencies and Events occurring after the Balance Sheet date” defined the aforesaid as under :

- A contingency is a condition or situation the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.
- Events occurring after the Balance Sheet date are those significant events both favourable and unfavourable that occur between the Balance Sheet date and the date on which the financial statements are approved by the Board of directors.

### Contingencies

The amount of a contingent loss should be provided by way of charge in the statement of Profit and Loss if :

- It is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the Balance Sheet date, and

- A reasonable estimate of the amount of the resulting loss can be made. The

existence of a contingent loss should be disclosed in the financial statements if either of the conditions stated above are not met, unless the possibility of the loss is remote.

Contingent gains should not be recognized in the financial statements.

Events occurring after the Balance Sheet date

Assets and liabilities should be adjusted for events occurring after the Balance Sheet date that provide additional evidence to assist the estimation of amounts relating to the conditions existing at the Balance Sheet date or that indicate that the fundamental accounting assumption of going concern (i.e. the continuance of existence of the enterprise) is not appropriate, e.g. dividends stated to be in respect of the period covered by the financial statements which are proposed or declared by the enterprise after the Balance Sheet date but before approval of the financial statements.

In such case, disclosures should be made in the report of the Board of Directors of the Corporation of those events occurring after the Balance Sheet date that represents material changes and commitments affecting the financial position of the enterprise

## Disclosure

The disclosure in respect of contingencies should include the following :

- Nature of contingency
- Uncertainties which may affect the future outcome
- An estimate of the financial effect or a statement that such an estimate cannot be made.

If disclosure of events occurring after the Balance Sheet date in the report of the Board of Directors is required, the following information should be provided :

- Nature of event
- An estimate of the financial effect, or a statement that such an estimate cannot be made.

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**LENDING POLICY OF ASSAM FINANCIAL CORPORATION**  
**FOR THE FINANCIAL YEAR 2012-13.**

Assam Financial Corporation (AFC), a joint State Financial Corporation of Assam, Meghalaya, Manipur and Tripura was established in the year 1954 under the SFC' s Act, 1951 with the main objective of industrial development in the region by extending credit to micro, small and medium enterprises in service and manufacturing sector. AFC was jointly promoted by IDBI and the Government of Assam including other financial institutions/banks and public.

Assam Financial Corporation offers liberal Credit to MSME sectors, and other specified sectors for acquiring fixed assets like building, plant & machinery, equipments etc. and working capital term loans under various scheme of the Corporation. The maximum quantum of loan is Rs.1000.00 lacs per project and the minimum limit is Rs 5.00 lacs. The minimum limit for SC/ST entrepreneurs is Rs 2.00 lacs and there is no minimum limit for additional loan proposal. The Corporation also extends credit in joint financing made with SIDBI/Commercial banks for large size projects requiring higher investment.

The Corporation is doing micro finance lending to MFIs ( NBFC, sec 25 company, cooperative credit & thrift society) as implementing agency of Chief Minister' s Micro Finance Schemes of Assam and SIDBI has allowed Micro financing by AFC but only through reputed MFIs/NGOs vide their letter No. 6428/DFID/SFCs/AFC dated 05/02/2010.

Considering the present scenario in Assam, the Hon' ble Chief Minister of Assam has announced a scheme under the name & style of " VENTURE CAPITAL SCHEME" in the budget speech 2009-10. The Govt. of Assam has assigned the task of implementing the above scheme to " ASSAM FINANCIAL CORPORATION" with a hope to cater needs of the local entrepreneurs of the state of Assam.



### 01. Objectives of the Lending Policy:

The Lending Policy aims to facilitate for delivery of the credit to the prospective customers for healthy growth of the MSME sector in the State.

The broad policy objectives are enumerated below:

- To assist the viable enterprises in MSME Sector in the operational jurisdiction of Assam Financial Corporation to increase economic growth and employment generation.
- To help the existing enterprises operating in manufacturing and service sector to acquire new technologies and skills so as to compete effectively in the market place.
- To encourage existing units to grow vertically and graduate, in the course of time, from micro to small scale and higher grades onwards.
- To assist project applying innovative technology to increase income or provide necessary goods and services to rural and semi-urban areas within the operational jurisdiction of the Corporation at a concessional rate of interest.
- Lending to NBFC/Sec.25 Companies/Co-operative Thrift & Credit Society involved in microfinance activities in the State of Assam.

### 02. Strategy for achieving Policy Objectives:

- ❖ Strive to put in place appropriate arrangement for timely sanction and disbursement of loan.
- ❖ Providing need based consultancy services to the customers.
- ❖ Quick appraisal and rating of the projects applying Credit Appraisal and Rating Tools (CART).
- ❖ Simplify Rules, Regulations and Procedures for hassle free and quick approval of sanction.
- ❖ Cluster based financing policy.
- ❖ Introduction of few new customer friendly schemes

### 03. Lending Norms:

The core business of the Corporation is providing credit facilities in the

form of Long Term Credit Facilities to the prospective entrepreneurs. The following norms are followed in consideration of credit facilities by the Corporation.

**i) Type of Project :**

- All the projects (Green field, Expansion project, Modernization Projects, Equipment Finance Projects, Technology up-gradation, Diversification Projects) satisfying the definition of MSME are eligible for loans irrespective of the project cost excluding the projects banned by Govt. of Assam and Govt. of India time to time .

**ii) Activities for which Credit can be considered:**

The State Financial Corporations (Amendment) Act 2000 prescribed broadly the types of activities which are eligible for financial assistance from the Corporation. The act also provides for SIDBI to include newer areas of activities for financial assistance from time to time. The list of activities which are eligible for financial assistance from the Corporation are broadly categorized as below;

- a) Industrial units involved in manufacture, preservation or processing of goods in micro, small and medium scale sector;
- b) Tourism related activities like Hotels, Restaurants, Tourist Resorts, Amusement parks etc.;
- c) Infrastructure Equipments;
- d) Construction activities like commercial complexes including community centre and conferences halls etc.;
- e) Setting up and development of an Industrial Area or Industrial Estates\*\*;
- f) Medical, health, hospitals and other allied services;
- g) Information technology telecommunication/electronic software and hardware services;
- h) Floriculture, Tissue culture, fish culture, poultry farming, breeding and hatcheries.
- i) Mini/Micro hydro power projects upto 5 MW\*\*;

- j) Transport Loan for Tankers (for carrying petroleum products), Omni Bus and Trucks(having at least 3 years of experience in this sector), Tourist Transport vehicle sponsored by Assam Tourism Development Corporation.
- k) Working Capital Term Loans to new units availing term loan from the Corporation or existing units which has availed only term loan from the Corporation having good track record and no default to the Corporation.
- l) Other eligible activities under SFCs Act, 1951 and activities permitted by SIDBI from time to time.

\*\*Subject to funding from government under infrastructure development scheme.

iii) **Repayment Period:**

Ranges up to 7 years and moratorium period ranges up to 2 years.

iv) **Limit of Assistance**

- A. Proprietorship & Partnership concern: Maximum limit for any project is Rs. 400.00 lacs.
- B. PVT. Ltd. Company and Regd. Co-operative Societies: Maximum limit is Rs 1000.00 lacs.
- C. Minimum limit of assistance per project is Rs 5.00 lacs. In case of the projects promoted by SC/ST entrepreneurs the minimum limit is relaxed to Rs 2.00 lacs. In case of additional loan proposals and also for ATDC sponsored proposals the ceiling of minimum limit will not be applicable.

v) **Debt Equity Ratio Norms:**

- ❖ DER norms for all projects will be 2:1 with loan amount above Rs.10.00 Lacs and all loans upto Rs.10.00 Lacs, the DER shall be 3:1.
- ❖ In case of existing borrowing Concern of the Corporation with good track record (Minimum 3 years) including our past clients with satisfactory repayment record, the DER may be relaxed to

3:1, where the loan amount will be upto Rs.100.00 Lacs.

Debt Equity Ratio for various schemes will be as below.

S.L No	Schemes	Maximum DER
1	Medical Professional*	3:1
2	Equipment Finance*	4:1
3	Venture Capital Scheme	4:1

vi. Projects Promoted by entrepreneurs who availed Benefits under the settlement scheme of the Corporation:

No financial assistance will be entertained to those entrepreneurs who availed benefits under the settlement scheme of the corporation or other banks/FIs within a period of 3(three) years from the date of final settlement. The Corporation may entertain viable proposals from such borrowers only after expiry of three years from the date of final settlement under OTS.

#### 04. Thrust Area For 2012-2013:

The “Thrust Area” represents high priority areas chosen for lending by the Corporation subject to fulfillment of viability norms as per standard procedure. Some specific areas are identified to be given special focus during the current financial year. The Corporation will take-up special publicity, awareness and training drives to give more thrust to these areas of activities.

- Additional finance for Expansion/ Modernization/ Diversification of existing units coming under Standard Category.
- Credit assistance for setting up of new projects by promoters who have cleared loans of the Corporation/Banks/Financial Institutions.
- Hotels at strategic locations and places of tourist importance.
- Hospitals, Nursing Homes, Medical Diagnostic Centres including X-Ray, Scanning and Laboratory Services.
- Industries based on by-products of Refineries.
- Industries based on Assam Gas Cracker Project.

- Microfinance activities.
- Industrial Cluster.
- Expansion /Modernization/ Renovation of existing Tea Factories of Assam, Bought Leaf Tea Factories, Tea Factories set up by Small Tea Growers, Agricultural Equipments required by small tea growers
- Jute products
- Food processing industries.
- Plastic Processing Industries.
- Export oriented industries.
- Electronic and IT base industries including services sector.
- Sericulture related industries.
- Bamboo based industries.
- Other handicrafts industry.
- Industries set up in the EPIP, Agro Food Park.
- Floriculture

List of some main products/activities in “ Trust Area” Sector are furnished hereunder:

a. IT Sector:

- ✓ IT Enabled Services
- ✓ Software Development and Training
- ✓ Computer and computer services
- ✓ Business process outsourcing(BPO)

b. Hotel & Tourism Sector:

- ✓ Hotels at strategic location and places of tourist of importance.
- ✓ Restaurant
- ✓ Amusement park/ Recreation facility/ Food Courts
- ✓ River Cruises
- ✓ Adventure Tourism

c. Agro- Horti & Food Processing Sector

- ✓ Export oriented industry on fruits and vegetables
- ✓ Spice & aromatic products based unit
- ✓ Floriculture, medicinal and herbal plants
- ✓ Par Boiled Rice Mill
- ✓ Joha rice, Basmati Rice processing and Rice mills for the project promoted by promoter having existing rice milling activity with satisfactory performance.

#### d. Promotion of Bamboo Industries

- ✓ Bamboo boards, flooring, furniture
- ✓ Bamboo corrugated sheets
- ✓ Construction material

In addition, the Corporation would also encourage the following activities during the year 2012-13.

- Marketing/commercial complexes including community centres and conference halls.
- Construction equipments like JCB, road mixing plants etc.
- Construction of Ware House.
- Construction of Cold Storage.
- Up gradation/renovation of Hotels, tourist resort.
- Taking over loans of industrial units financed by other Financial Institutions/Banks provided their loan accounts are regular and are in standard category.

#### 05. Restricted Category For 2012 2013:

All other activities not mentioned above shall be under “ Restricted Category” of the Corporation. Financial assistance under this category will be made purely on merit basis, security assessment, good track record etc. to be decided by appropriate sanctioning authority.

#### 06. Applicability of Lending Policy:

The lending policy is applicable to the *first generation entrepreneurs and for new projects*. The lending policy is also applicable to the existing promoters going in for expansion/modernization and/or diversification of their activities into

other lines of activities and approaching the Corporation for the first time. The loan proposal of existing customers of the Corporation who are going for backward /forward integration and expansion/modernization are considered on merit basis.

#### 07. Security Norms:

- ❖ The loan shall be secured by creating first charge over the land, building, Plant & Machinery, Hypothecation of stock. The security margin taking into consideration land, building, Plant and Machineries, Misc. fixed assets etc. shall be minimum 30% (50% in cases where lending is made to high depreciated machineries and equipments like electronics etc and Transport loans).
- ❖ For projects in Industrial Estates/Growth Centre etc. additional collateral security in the form of land and building shall be obtained. The security margin shall be minimum 30% taking into consideration the value of co-lateral land, building and value of plant & machineries and misc. fixed assets of the project.

Liquid Security in the form of FDR/NSC/LIC (Surrendered value) of minimum 5% of the loan shall be obtained. *However this may be waived in case of those units with very sound Credit Worthiness which had repaid their dues to the Corporation on time or any units having no earlier transactions with the Corporation but have a very sound Credit Worthiness / good track record.*

#### 08. Rate of Interest:

The rate of interest of loans will be determined by credit risk rating of the project. The present prime lending rates of interest\*\*(PLR) for various sectors are as below.

- a. SME sector, Hotel, Nursing Homes : 13%
- b. Commercial Complexes and all other not included in (a) : 14%
- C.Working Capital Term Loan :1% above the Term Loan rate.

\*\*The Board of Directors of the Corporation will have the authority to fix rate of interest in special cases 1% above or below the rate determined by CART or any other appraisal techniques. The Managing Director will have authority to fix rate in special cases 0.5% above or below the rate determined by the CART or any other appraisal techniques. The PLR for various sectors is subject to change from time to time

The rate of interest shall be determined as per following norms based on CART rating of the proposal:

<u>CART Rating</u>	<u>Effective Rate of Interest</u>
CAA (Highest Safety)	PLR – 1%
CAA (Very High Safety)	PLR – 0.5%
CAA- (High Safety)	PLR
CA (Adequate Safety)	PLR + 0.5%
CA- (Moderate Safety)	PLR + 1%

09. **Exposure Norms:**

The Corporation proposes to continue exposure limit of its advances as below for the FY-2012-2013.

1. Unit-wise exposure limit : 15% of the total annual Sanction Target.
2. Sector-wise exposure limit : 40% of the total Annual Sanction Target.

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### (3) **LOAN RECOVERY POLICY**

#### 01. **Introduction :**

- 1.1 The Recovery policy of the AFC is built around dignity and respect to customers. The AFC 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 AFC believes in following fair practices with regard to recovery of dues from borrowers and taking possession of properties/assets charge to the AFC as primary or collateral security and thereby fostering customer confidence and long term relationship.
- 1.2 The repayment schedule for any loan sanctioned by the AFC will be fixed taking into account the repaying capacity and cash flow pattern of the borrower. The AFC will explain to the customer the method of calculation of interest and how the repayment will be appropriated against interest and principal due from the customers. The AFC would expect the customers to adhere to the repayment schedule agreed to and approach the AFC for assistance and guidance in case of genuine difficulty in meeting repayment obligations.
- 1.3 The AFC's policy of taking possession of the mortgaged properties and selling the properties U/S – 29 of SFCs Act 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 taking over the assets, valuation and realization of security. All the practices adopted by the AFC for follow-up and recovery of dues and re-possession of security will be in consonance with the law.

2. In order to make the recovery efforts of the Corporation comprehensive a **four dimensional approach** is proposed.

#### **2.1.RECOVERY ORIENTATION AND APPROACH:**

The policy emphasizes that all the Branch offices would have the recovery orientation right from sanction /disbursement stage .Timely documentation and disbursement should be ensured by stipulating only the practical and meaningful terms and conditions. Proper utilization of the fund should be verified earnestly to find out the project implementation .Verification of documents and progress reports, site visits should be done as and when found necessary for ensuring close monitoring of the progress at different stages of project implementation .For success of recovery, implementation of the project without time and cost overrun as far as possible is

utmost necessity. The Branches should periodically visit the sites for verifying the assets, the progress of the project. The dues of the unit must be communicated well ahead of the due date. In the event of delay of payments/defaults remedial measures must be initiated from the first instance.

## 2.2 CREDIT MONITORING:

**Special emphasis is placed on effective follow up and supervision.**

**At H.O. level** -The H.O. should strictly monitor assets quality, rating migration, stressed assets i.e showing signs of degradation and necessary instruction should be sent to the Branches for taking the remedial measures.

**At Branch Office level**-The Branches shall ensure:-

- i.** Proper utilization of the loan.
- ii.** Compliance of the terms and conditions of the sanction
- iii.** The security offered and the documentation is in order.
- iv.** Monitor whether the financial and business performance of the unit is as per the projections
- v.** Detect early signals of deterioration in credit quality/financial performance
- vi.** Monitoring any change in the Management structure, death or resignation of the key person or any other cause of concern.
- vii.** Regular contacts should be kept with the other lending Banks

**Monitoring Methodology:** The H.O. appraisal department should make an additional scrutiny on the credit decisions taken at various Branches immediately after such decision is taken before loan agreement is made. The instructions should be attended immediately by the Branches. The monitoring of the units by the Branches should be with regard to the following broad aspects.

- **Status of implementation of the project**
- **Time and cost over run**
- **Analysis of the periodical visits reports.**
- **Interaction with other lenders to the unit.**
- **Submission of annual financial statements**
- **Availability of adequate insurance cover**
- **Submission of reports by the nominee Directors**
- **Slippage in assets rating**
- **Detection and reporting of stressed assets and detection of its early signals. The status report from the Branches should be furnished monthly or as may be decided to H.O and the corrective actions both by the H.O. and the B.O should be taken urgently.**

**[Stressed asset is defined as an account where principal and /or interest remains over due for more than 30 days .Such accounts**

**should be monitored intensely both from the Branches and from H.O.]**

### **2.3 PREVENTIVE NPA MANAGEMENT STRATEGY:**

Along with the regular monitoring of the units the following steps should be taken-

- Review of all A/Cs by the Default Review committee at the Branch level
- The Relationship Manager in each Branch should closely monitor all the Standard loan accounts.
- Irregular units should be visited more frequently.
- Nominee Directors should monitor the concerned units regularly.
- Restructuring of the stressed assets and deserving sub-standard should be considered on the merit of each case.
- Monitoring of the restructured package should be done regularly to find out whether the desired impact has been achieved .Otherwise alternative course should be chalked out.

### **2.4 Post NPA Management**

For post NPA Management strategy multi-pronged strategies suited to the different stages of the passage of credit facility. As may be warranted the Corporation will consider the following options :

- a) Settlement of the loan account under the policies of the Corporation.
- b) Pre-payment of loan account as per policy of the Corporation
- c) Restructuring of the loan accounts in deserving cases.
- d) Taking over liability of the loan account by other successful borrowers.
- d) Legal action as may be warranted.

### **03. General Guidelines:**

All the members of the staff or any person authorized to represent AFC in collection of dues/possession of mortgaged assets under section – 29 of SFCs Act. 1951 would follow the guidelines set out below:

- a) 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.

- b) Identity and authority of persons authorized to represent the AFC for follow up and recovery of dues would be made known to the borrowers at the first instance. The AFC staff or any person authorized to represent the AFC in collection of dues or/and security repossession will identify himself/herself and display the authority letter issued by the AFC upon request.
- c) The AFC would respect privacy of its borrowers.
- d) The AFC is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and the AFC will adopt civil manners for interaction with borrowers.
- e) Normally the AFC'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.
- f) Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible.
- g) The AFC 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.
- h) All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
- i) Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls/visits to collect dues.

#### **04. Giving Notice to Borrowers :**

While written communications, telephonic reminders or visits by the AFC's representatives to the borrowers place or residence will be used as loan follow up measures. The AFC will not initiate any legal or other recovery measures including taking possession of the security u/s -29 of SFCS Act without giving due notice in writing giving reasonable time. The AFC will follow all such procedures as required under law for recovery/ taking action u/s-29 of SFC act.

#### **05. Taking over Possession of Security**

Possession of the security, primary and for collateral is aimed at recovery of dues and not to deprive the borrower of the property. The process will involve possession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Possession of the assets will be done only after issuing the notice as detailed above. Due process of law will be followed while taking possession of the property. The AFC will take all reasonable care for ensuring the safety and security of the property after taking custody, in the ordinary course of the business.

## **06.Valuation and Sale of Property :**

Valuation and sale of property possessed by the AFC will be carried out as per the policy of the Corporation and in a fair and transparent manner. The AFC will have right to recover from the borrower and guarantors the balance due, if any, after sale of property. Excess amount, if any, obtained on sale of property will be returned to the borrower after meeting all the related expenses provided the AFC is not having any other claims against the borrower.

## **07.Opportunity for the Borrower to take back the security :**

As indicated earlier in the policy document, the AFC will resort to possession of security only for the purpose of realization of its dues as the last resort and not with intention of depriving the borrower of the property. Accordingly, the AFC will be willing to consider handing over possession of property to the borrower any time after repossession but before **concluding sale transaction of the property**, provided the AFC dues are paid in full. If satisfied with the genuineness of borrower's inability to pay the loan installments as per the schedule which resulted in the repossession of security, the AFC may consider handing over the property after receiving at least 30% of the interest default along with the take over expenses. However, this would be subject to the AFC being convinced of the arrangements made by the borrower to ensure timely repayment of remaining installments in future. Before actually returning the unit to the original borrowers necessary agreements to that effect shall have to be made.

- 08. Further, to make the recovery process more transparent and customers friendly the additional steps as mentioned below will also be adopted.**

### **Adjustment of Subsidy :**

The capital subsidy granted by the Central Govt. or the State Govt. against investment in capital goods shall always be adjusted against the principal loan and the remaining portion, if any, shall be adjusted against the interest dues. In case of all other subsidy eg. Transport subsidy, interest subsidy etc. shall be adjusted against the interest and the remaining portion, if any, shall be adjusted against principal loan.

### **Adjustment of Seed Money :**

The Seed Money granted by State Govt. or Central Govt. shall be adjusted against the principal loan and the remaining amount, if any, shall be adjusted against the interest due.

### **Sale Permission of Machineries and adjustment of sale proceeds :**

In order to enable the borrowers sale obsolete, worn out machineries and to deposit the sale proceeds for adjusting the same against principal due immediately on receipt of an application the concerned Branch-in-charge or Field- in – charge shall take steps to place the matter before the Zonal Credit committee for approval up to its sanctioned limit. Any proposal beyond the sanction limit of the respective Zonal Credit Committee be forwarded to the Managing Director for necessary approval. The sale proceeds shall be adjusted against the principal loan first.

### **Adjustment of Liquid Security :**

Immediately before initiating legal action against a unit the liquid security pledged to the Corporation eg. NSC, FDR, LIC Policy shall be adjusted in the loan accounts against the principal outstanding.

### **Rephasement and funding of Loan account :**

In deserving cases the concerned Branch-In-Charge or Field In-charge shall take immediate steps for approval of rephasement and funding of the loan accounts from the respective Zonal Credit Committee to its sanction limit and for any such proposal beyond the sanction limit of the Zonal Credit Committee the Managing Director shall issue necessary order.

### **Non charging of interest on taken over accounts :**

No interest is to be charged on the loan accounts from the date of taking over the unit by the Corporation u/s 29 of SFC's Act .However, if the unit is returned to the original borrower on compromise or otherwise interest will be charged as per the prevailing rate.

(4) The Fair Practice Code in respect of Lending activity of Assam Financial Corporation (AFC).

1. **OBJECTIVES**

The Fair Practice Code sets out the minimum standards, for investment activity pursued by AFC, to be followed while dealing with entrepreneurs seeking financial assistance. The Code explains how AFC is expected to deal with the entrepreneurs who are availing the financial assistance from it.

The Code has been developed with a view to:

- (a) promote fair practice by setting minimum standard in dealing with entrepreneurs;
- (b) increase transparency so that entrepreneurs can have a better understanding of what they can reasonably expect of the services;
- (c) encourage market forces, through competition, to achieve higher operating services;
- (d) promote client friendly relationship between AFC and entrepreneurs;
- (e) to develop confidence in the lending system of AFC

2. **KEY COMMITMENTS**

A. Our key commitments to entrepreneurs are:

To act fairly and reasonably in dealing with entrepreneurs in:

- Meeting the commitments and standards in this code, for the lending and financial services AFC offers.
- Ensuring that our dealings with entrepreneurs rest on ethical principles of integrity and transparency.

B. To help entrepreneurs to understand how our financial products and services work by:

- Giving complete information about the various schemes of term lending of AFC.
- Ensuring that our advertising and promotional literature is clear and not misleading.

- Ensuring that you are given clear information about our products and services, the terms and conditions and the interest rate/charges, which apply to them.
- Giving you information on what is best suited to you, how you can avail of the benefits, what are their financial implications and whom you can contact for addressing your queries.

C. To keep entrepreneurs aware & updated by:

- Providing update of interest accrued on term loan account.
- Keeping informed about changes, if any, in the interest rate, charges or terms and conditions.
- Providing information of various financial schemes covering eligibility criterion, purpose, rate of interest, repayment/moratorium period, various charges payable by the entrepreneurs etc. will also be available with the loan application form.

D. To act promptly when things those go wrong by:

- Correcting the mistakes.
- Handling complaints promptly.
- Telling you how to take complaint forward if you not satisfied.

E. To publicise the code, AFC will make this code available on its website and on request provide either over the counter or by electronic communication or mail.

F. AFC will not discriminate on the basis of age, race, gender, marital status, religion or disability while adopting and practicing the code.

### 3. APPLICATION FOR LOANS AND THEIR PROCESSING

- a. At the time of sourcing a loan product, we will provide information about the interest rates applicable, as also the fees/charges, if any, payable for processing, prepayment options and charges, if any, and any other matter which affects the interest of the borrower, so that a meaningful comparison with those of other institution/banks can be made and informed decision can be taken by entrepreneur.



- b. All particulars normally required for processing the loan application will be specified at the time of application. In case any additional information is required, the applicant will be contacted immediately.
- c. The loan application form of AFC will cover various aspects of project formulation and details; information/documents required to be attached.
- d. On receipt of application for financial assistance, AFC will provide an acknowledgement for receipt of loan application. Loan application duly supported with complete information/documents, will be disposed of by AFC, normally within 45 days.
- e. AFC will not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude AFC from framing, adopting, and approving, different schemes for various financial needs of the entrepreneurs.
- f. In case of receipt of request from the borrower for transfer of its account, the consent or otherwise i.e. objection of AFC, if any, shall be conveyed within 31 days from the date of receipt of request. Such transfer shall be as per transparent & contractual terms and conditions of loan agreement.
- g. Margin and availability of security shall not be substitute for due diligence on credit worthiness of the borrower

### **3.0 LOAN APPRAISAL AND TERMS/CONDITIONS**

The competent authority shall issue Loan Sanction Letter, on sanction of term loan assistance, which inter-alia shall provide information as regards to:

- a. Amount of loan sanction
- b. Terms and conditions
- c. Rate of interest, period of compounding, panel interest etc.
- d. Repayment schedule and moratorium period
- e. The contact person for seeking disbursement of loan
- f. All terms and conditions shall be transparent in the sanction communication governing credit facilities in writing and

acceptance thereof by the borrower shall be kept on record, along with loan/security documents

- g. Copies of all loan agreement along with a copy of each of all enclosures quoted in the loan agreement should be furnished to the borrower.

#### **4.0 DISBURSEMENT OF LOANS INCLUDING CHANGES IN TERMS AND CONDITIONS**

- a. AFC will give notice to the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc.
- b. Changes in the interest rates and charges, if any, shall be affected by AFC prospectively and shall normally be effective from the date of sanction of loan. A suitable condition in this regard shall be inserted in the loan agreement.
- c. Decision to recall/accelerate payment or performance under the agreement shall be in consonance with the loan agreement.
- d. AFC will release all securities on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim AFC may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which AFC is entitled to retain the securities till the relevant claim is settled/paid.

#### **4.0 GENERAL**

- a) AFC will refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to the notice of AFC).
- b) AFC shall treat customer information as private and confidential and shall be guided by following principles and policies:  
The information shall be parted by AFC only in the following circumstances:

- i). Information required to be given under law or as demanded or required by Statutory authorities:
  - ii) Information is given with customer's written permission.
  
- c) In the matter of recovery of loans, AFC will not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc.
- d) AFC's recovery collection policy shall be built on courtesy, fair treatment and persuasion. Efforts will be made in building customer confidence and long term relationship.
- e) The staff deputed to make recovery calls shall identify themselves and shall provide details with regard to outstanding claims to the customer.
- f) Under no circumstances, AFC shall resort to any illegal means of the customer for recovery of the dues.
- g) For any grievance and complaint of misconduct against an official of the Corporation a borrower may address for redressal to  
MANAGING DIRECTOR,  
ASSAM FINANCIAL CORPORATION,  
MD.SHAH ROAD, PALTAN BAZAR,  
GUWAHATI- 781008  
Phone:(0361)2635639  
Email:[afcghy@gmail.com](mailto:afcghy@gmail.com)
- h) Annual compliance of the code and functioning of the grievances redressal mechanism shall be placed before the Board for review.
- i) Please note that the above guidelines are applicable to all loan applications for all segments irrespective of the amount of the limit.