



Ref. No. NB.DoS.HO.POL/4801/J.1/ 2017-18

16 March 2018

[Circular No. 45 /DoS- 12/2018]

The Chairman
All Regional Rural Banks

Dear Sir,

**Supervisory Action Framework (SAF) for RRBs –
Prompt Corrective Action (PCA)**

As you are aware, certain important developments have taken place in the last few years in the Regional Rural Banking aimed at financial stability and strengthening the capital structure including recapitalization of weak RRBs, consolidation of RRBs by amalgamation and imposition of Minimum Capital Adequacy Measure of 9% on an ongoing basis with effect from March 31, 2014 as well as amendments to RRB Act.

2. In order to ensure financial soundness and functional efficiency of RRBs with statutory and regulatory compliance, the Board of Supervision (for StCBs, DCCBs and RRBs) (BoS) has considered introducing the Supervisory Action Framework for Prompt Corrective Action (PCA) i.e. Self-corrective Action by RRBs and Supervisory Action by NABARD. The details are furnished in the Annexure.

3. The primary focus on introducing the above frame work for Prompt Corrective Actions is to *ensure early rectification of the irregularities / deficiencies by Self-Corrective Action of RRBs*. In case of absence of or despite self-corrective actions, the continuance of the incidence of prolonged / major irregularities and deficiencies in banks' functioning will warrant Supervisory Action by NABARD as it deems fit viz., recommending to RBI for issuing directions / caution advices / show cause notices, imposition of penalty, etc., in the interest of the bank concerned and in the interest of its depositors.

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

National Bank for Agriculture and Rural Development

पर्यवेक्षण विभाग

प्लॉट क्र सी-24, 'जी' ब्लॉक, बांद्रा-कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - 400 051. टेली: +91 22 2653 1834 • फ़ैक्स: +91 22 2653 0103 • ई मेल: dos@nabard.org

Department of Supervision

Plot No. C-24, 'G' Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 • Tel.: +91 22 2653 1834 • Fax: +91 22 2653 0103 • E-mail: dos@nabard.org

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Date of Applicability of Revised SAF

4. The supervisory action framework will be implemented based on the findings of inspection conducted with reference to March 31, 2018. The individual RRB will be advised of the specific action under SAF proposed to be taken against the bank concerned based on the current assessment of the financials and the corrective action they need to take to improve the financial position.
5. You may please note that the PCA framework does not preclude NABARD / RBI from taking any other action, as it deem fit, in addition to the corrective action prescribed in the framework.
6. This circular has been issued in consultation with Reserve Bank of India.
7. A copy of this circular may be placed in the next meeting of the Board of Directors and a confirmation to that effect should be sent to our Regional Office concerned.

Yours faithfully



(K. Venkateswara Rao)
Chief General Manager

Encl: As above

Prompt Corrective Action

With the introduction of supervisory rating model for RRBs on CAMELSC pattern, the framework for supervisory action needs to be further strengthened. At present supervisory action is initiated based on the findings of Statutory Inspections conducted by NABARD and periodic monitoring through periodical return/statements submitted by RRBs. As all RRBs are on CBS platform and the information/statements about the working of the bank is available on real time basis, the RRBs can take corrective steps without waiting for supervisor/regulator to point out.

2. If the CRAR falls below 9% or there is deterioration in asset quality, decline in profit, liquidity constraints, etc., the management of the bank should identify the cause of deterioration and take necessary corrective measures, on their own, with a view to improve the financial position of the bank. Such corrective action will be prompt as any delay could be detrimental to the interest of depositors and other stake holders of the RRB. The corrective action should include close monitoring of NPAs and its recovery, mobilization of low cost deposits, curtailing of expenditure, etc. depending upon the nature of the deficiency. The bank should prepare a time bound action plan for improvement in its functioning and removing the identified deficiency/ies with the approval of the Board which will also monitor the progress in implementation of the said action plan in every Board meeting.

3. Accordingly, a framework focusing on the need to prevent deterioration in the financial position of the banks by taking timely self-corrective action by RRBs has been developed. To initiate self-corrective action by RRBs, trigger points on three parameters i.e. CRAR (Capital Adequacy), Assets Quality (NPAs) and Profitability (Return on Assets) have been introduced as under:

4. Trigger Points:

4.1 CRAR: Three trigger points have been set:

- (i) CRAR less than 9% but equal or more than 6%
- (ii) CRAR less than 6% but equal or more than 3%
- (iii) CRAR less than 3%



4.2. NPAs: Two trigger point have been set:

- (i) Net NPAs over 10% but less than 15% (in case of RRBs having retained profit)
or
Gross NPAs over 10% but less than 15% (in case of RRBs having accumulated losses)
- (ii) Net NPAs of 15% and above (in case of RRBs having retained profit)
or
Gross NPAs of 15% and above (in case of RRBs having accumulated losses)

4.3. Return on Assets (ROA) below 0.25%

5. Self-Corrective action by RRBs

Trigger Point(TP)	Corrective Action by RRBs
I. (i) CRAR less than 9% but equal or more than 6%	a) Submission of Board approved implementable action plan for capital restoration to NABARD RO; b) Restriction on expansion of risk-weighted assets; c) Review of the action plan on monthly/quarterly basis and submission of feedback to NABARD RO regularly; Discretionary Action a) Bank will not enter into new lines of business
(ii) CRAR less than 6% but equal or more than 3%	a) Same as under para, above, at TP I.(i), b) Discussion by the bank's Board on corrective action plan with NABARD RO; c) Discussion in and guidance of Empowered Committee for improvement in the working; d) Bank to revise its credit / investment strategy and controls;
(iii) CRAR less than 3%	a) Same as under para, above, at TP I.(ii), b) Sponsor bank may closely monitor the functioning of the bank;
II. (i) Net NPAs over 10% but less than 15% (applicable to RRBs having retained profit) or Gross NPAs over 10% but less than 15% (applicable to	a) Preparation of an implementable action plan with the approval of the Board for reduction of net NPAs to 3% and gross NPAs to 5%; b) Revisiting the loan and recovery policies; c) Identification of sector and area / branches which have high percentage of NPAs / Overdue; d) Strengthening of follow-up mechanism of advances including loan review mechanism for large loans; e) Up-gradation of credit appraisal skills and systems; f) Effective follow-up of suit filed/decreed cases;



Trigger Point(TP)	Corrective Action by RRBs
RRBs having accumulated losses)	g) Bank will put in place credit risk management policies/ process/ procedures / prudential limit; h) Review of the action plan on monthly / quarterly basis and submission of feedback to NABARD RO regularly; Discretionary Action a) Bank will not enter into new lines of business
(ii) Net NPAs of 15% and above (applicable to RRBs having retained profit) or Gross NPAs of 15% and above (applicable to RRBs having accumulated losses)	a) Same as under para, above, at TP II. (i), b) Discussion by the bank's Board on corrective action plan with NABARD RO; c) Discussion with sponsor bank to support the bank's efforts in recovery; d) Discussion in and guidance of Empower Committee of RBI for improvement in functioning; Discretionary Action a) Bank will not enter into new lines of business
III. Return on Asset (ROA) less than 0.25%	a) Not to access / renew costly deposits; b) Increase fee based income; c) Contain administrative expenses; d) Reduction of NPAs and contain generation of fresh NPAs; Discretionary Action a) Bank will not enter into new lines of business

