Scheme Name: - "Compromise Settlement scheme 2026-2027"

The Bank's **Compromise Settlement Policy** was originally framed for the Financial Year **2023-2024** and was duly approved by the Hon'ble Board of Directors vide Resolution No.**5 Dated**.**11/12/2023**. Subsequently, the policy was reviewed and approved by the Hon'ble Board during the Financial Year **2025-2026** vide Resolution No. **6(2) Dated**.**30/07/2025** Thereafter, the **Reserve Bank of India** issued revised **Master Directions** vide Direction No. **RBI/DOR/2025-26/287 DOR.STR.REC.206/21.04.048/2025-26** dated **28/11/2025**, prescribing updated regulatory guidelines governing compromise settlements and technical write-offs. Accordingly, the Bank has undertaken a comprehensive review of its existing Compromise Settlement Policy and has incorporated the necessary amendments to ensure alignment with the latest RBI Master Directions, regulatory requirements.

This revised **Compromise Settlement Policy** has been formulated to establish a transparent, fair, and consistent framework for considering compromise settlements, while ensuring proper governance, regulatory compliance, and protection of the Bank's financial interests.

Preamble and introduction:

Non-Performing Assets is a huge burden to a bank or financial institutions. The increase in Non-Performing Assets impacts on bank in various ways

Viz- increase in provisions. Loss of revenue, loss of opportunity cost, deterioration in the financial position, reputation , regulatory restrictions etc., Therefore, every bank or financial Institution taking efforts to overcome the NPA issue through various measures viz

- Better due diligence at the sourcing and appraisal stage
- Close monitoring of the account – transactions
- Arresting NPAs thru Early Warning Signals -EWS
- Taking timely legal measures for effecting quick recovery

However, in many cases the legal measures are not executed due to long time taken, litigations ,difficulty in finding the right buyer , huge costs etc., with the resultant

the level of NPAs remain a strain causing a blot on the bank's financials. At KUCB, the NPAs have been increasing (presently GNPA is 13.88% as on 31 Mar 2026) , therefore, the management has decided to arrest the growth of NPA and also to take effective measures for recovery. This is being done through introducing compromise settlement scheme, where the bank will endeavour to recover its dues to the maximum extent possible, with minimum sacrifice.

In line with the above and as required by RBI vide its guidelines dated June 8, 2023, KUCB lays down the below policy for compromise settlement in case of Non Performing Assets as under :

1)Policy shall cover all borrowers including borrowers classified as Fraud or Wilful Defaulter or whose accounts have been classified as NPA as on 31st March 2025

2) Policy -Details – The policy lays down the process to be followed in all compromise settlement.

Sr No	Parameters	Details
1	Compromise Settlement – Meaning	It refers to any negotiated arrangement with the borrower for fully settling the claims of KUCB against the borrower in cash; It may entail some sacrifice of the amount due from the borrower on the part of KUCB with corresponding waiver of claims by KUCB against the borrower to that extent.
2	Eligibility of the Borrowers (including borrowers classified as fraud and or wilful defaulter) Exclusions- Loan secured by fixed deposits, insurance policies .	All those borrowers : a) whose accounts have been classified as NPA as of 31st March 2025 and b) All loans whether under sole banking, multiple banking or consortium banking shall be eligible. c) All cases where suits for recovery has been filed e.g sarfaesi, DRT, NCLT,MCS Act etc., and even cases where hukunnama or decree has been received in bank's favour but not yet enforced.
3	Ineligible Borrowers	Central Govt. /State Govt. guaranteed accounts. Units under rehabilitation/restructuring (Already approved and under implementation). Loan against Gold/Jewellery and other liquid securities e.g. LIC/NSCs/ KVPs etc.Staff Accounts. NPA accounts where bank has already entered into a compromise/ settlement and settlement is in force ..
4	Realisable value of Security	KUCB shall take the base of recent valuation not older than 6 months as on date of considering settlement. The realisable value of the security shall be the **distress** value mentioned in the valuation report. This value shall be one of the determinant for considering the compromise settlement. In case of the available valuation in beyond 6

		months, KUCB shall get the same valued by any of its empanelled valuer. In case the value of the property is above Rs.100 lacs,the property shall be valued by 2 valuers and lower of the two values shall be considered.
5	Ideal Scenarios for cases to be considered under the scheme:	1) Closure of unit 2) The borrower has no definite and regular source of income 3) The guarantor/s have no means to repay 4) The property of the borrower suffers from defects viz location, access, title, litigations, valuation etc., which renders the recovery process difficult. 5) There is no property in the name of the guarantor/s and if there suffers from defects viz location, access, title, litigations, high valuation, deterioration in the security value etc., which renders the recovery process difficult. 6) In the past, the bank has tried to take possession but could not get the same due to injunctions, multiple owners etc., which renders the recovery process difficult. 7) In the past, the bank has taken the possession but could not effectively sell the property thru auction due to no or poor response 8) The borrower and or the guarantor or their account is classified as fraud and or wilful defaulter the combination of the above scenarios shall render the case apt under the scheme.
6	Steps By the Bank	In all cases , the bank shall demonstrate and evidence the steps taken to recover the dues from the borrower/ guarantor's property, follow up with the borrower /guarantor and the result thereof.

<table>
<tr><td>7</td><td>Sacrifice and the applicable concessional rate of interest</td><td>The applicable rate of interest under the scheme shall be as detailed below:
<table>
<tr><td>Type of Advance and category of borrowers</td><td>Rate of Interest (simple) and method of calculation</td></tr>
<tr><td>1)Fraud and Wilful Defaulters</td><td>8%p.a - from the date of NPA to be calculated on the outstanding balance till the date of payment</td></tr>
<tr><td>2)Secured Advances (other than 1 above)</td><td>a)7%p.a.- If the security value is above 50% of the loan outstanding as on the date of NPA
b)6%p.a.- If the security value is below 50% of the loan outstanding as on the date of NPA
In both the cases, interest to be calculated from the date of NPA on the outstanding balance till the date of payment</td></tr>
<tr><td>3)Unsecured Advances</td><td>5%p.a. - from the date of NPA to be calculated on the outstanding balance till the date of payment</td></tr>
<tr><td>4) Unsecuered Advances where the borrower has expired subsequent to loan sanction.</td><td>4%p.a. - from the date of death of the borrower to be calculated on the outstanding balance till the date of payment.</td></tr>
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Calculation Methodology- Steps for Compromise Settlement</td></tr>
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		Step 1 – Identify the date of NPA Step2 – Valuation of the security Step 3- Calculate outstanding interest from the date of NPA (except borrower death cases) till the date of payment under the scheme Step 4- Add – Documentation charges for Compromise Settlement Step 5- less recovery post NPA date to till the date of sanction Step 6- Arrive at the compromise amount Step 7 – Give Sanction Step 8 – Collect 25% of the Compromise Settlement amount with the application Step 9 – Get the above vetted by our CA empanelled Step 10 – Recover the Balance 75% within 3 months Step 11- Enter into an compromise settlement agreement . Step 12 – Appropriation of the amount received (Include Legal & Insurance Charges) In no cases, remission or waiver of principal dues shall be considered.
8	Payment of Settlement Amount	1)25% along with the request letter / application 2)75% on or before 3 months from the date of sanction (PDC's to be obtained) The Compromise Settlement application can be made by the borrower or guarantor/s or successor In case of failure of payment as above by the borrower, the scheme offered shall stand cancelled and the amount deposited till date shall be credited to the loan account. The position of the account shall be restored to Pre- Compromise Settlement
9	Delegation of Power	KUCB shall form a separate committee comprising of minimum 3 Directors , who shall have the powers to sanction all compromise settlement proposals except

		borrowers who or whose accounts have been classified as Fraud or Wilful Defaulter. In such cases, only the Board shall have the sanctioning powers.
10	Recovery Proceedings initiated against the borrower	In these cases, the settlement shall be subject to obtaining a consent decree. The compromise settlements with the borrowers shall be without prejudice to the provisions of any other statute in force. In case , the borrower fails to meet the commitments under the settlement scheme, the bank shall proceed/ continue with the recovery action and suits .
11	Validity of the scheme	Validity of the scheme up to 31/03/2027 and the scheme shall be reviewed and extended by the Board
12	Staff Accountability	In all cases, where the outstanding in the loan exists as on 31st March 2025 the bank shall examine the staff accountability and the same shall form part of proposal for compromise settlement.
13	Reporting Mechanism and Oversight by the Board	All such cases of compromise settlements shall be reported on a Board
14	Application for compromise settlement	The template for sanctioning of such proposals by the committee /Board is annexed. Cases where such proposals are received from the guarantor/s or successor the same shall be considered .
15	Decision on application for compromise settlement	Any decision – approval or rejection (with reason) of the proposal to be communicated to the borrower within 15 days. Bank shall not discriminate the borrowers while taking the above decision.
16	Cooling Period	All cases which have been sanctioned Compromise Settlement and compromise involved shall not be eligible as borrower or guarantor for a period of 5 years .

Other Aspect :

1)Oversight by the Board

1. The Board shall mandate a suitable reporting format so as to ensure adequate coverage of the following aspects at the minimum: (i) trend in number of accounts and amounts subjected to compromise settlement (ii) out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, willful default and quick mortality accounts; (iii) amount-wise, sanctioning authority wise, and business segment / asset-class wise grouping of such accounts;

2)Other legal provisions

1. The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force.
2. Further, wherever Bank had commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

3)Period for repayment

a) Applicant borrower must pay at least 25% of the full and Settelment amount along with the application.

b) Borrower required to pay balance of settlement amount within three months from receipt of letter of approval .

4) Other provisions relating to the scheme

a) After acceptance of the said scheme it is equal to all the borrowers without any discrimination. Banks will be bound to implement,

b) All details of compromised accounts under this scheme shall be submitted annually to the next annual meeting, through a separate subject.

c) There will be no surcharge on the recovery under this scheme.

d) Since the guarantor is a co-borrower, if the borrower does not apply under this scheme, the guarantor can also apply.

e) Bank may take legal opinion as per the case received. According to the bank policy, the calculation of interest in the compromise proposal will be scrutinized by the CA on the panel of the bank. A fee of Rs.5000 will be taken from the client for the said work.

Exceptions :-

All the conditions in the compromise settlement scheme prepared as above are subject to adherence of terms and conditions given below.

(1) If the defaulter borrower dies in an accident or due to any prolong illness or has become permanently disabled.

(2) If the defaulter borrower has incurred heavy expenses on medical treatment due to a serious or prolong illness or if the income has stalled due to closure of the business and is financially unable to repay the loan.

(3) If the defaulter borrower or the earning member of the household has died in an accident or a due to serious and prolongs illness and therefore he /she has been unable to repay the loan.

(4) If the loan account has been classified as NPA due to above circumstances or any other reason and such loan accounts are to be fully paid under Compromise Settlement then the Compromise Settlement Committee and the Board of Directors shall have the power to change the interest rate or increase-decrease the compromise amount. Change the NPA cut-off date (NPA eligibility date) and any exemption for valid reason to include such accounts in this scheme and if the concession to be given in such proposal is less than Rs.1,00,000/-(Rs.One lakh only), the for approval powers in this regard shall be vested with the Honorable Board of Directors

(5) In respect of compromise settlements, the policy shall inter alia contain provisions relating to permissible sacrifice for various categories of exposures while arriving at the settlement amount, after prudently reckoning the current realisable value of security/collateral, where available. The methodology for arriving at the realisable value of the security shall also form part of the policy. The objective shall be to maximise the possible recovery from a distressed borrower at minimum expense, in the best interest of the RE.

As above, the policy of making compromise settlement scheme of the bank is being finalized and the right to change the said policy from time to time is given to Hon. The board of directors will remain.