

COSY CORNER INVESTMENTS PVT LTD

(A Non-Banking Finance Company Registered with RBI)

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COSY/LEGAL/NOTIFICATION Thrissur, June 08, 2023 (w.e.f. 06.08.2023)

In exercise of the powers of the board of directors conferred by the articles of association of the company and pursuant to the guidelines issued by the reserve bank of India, the board hereby notifies the guidelines to be followed while doing compromise settlements & technical write- offs.

COMPROMISE SETTLEMNETS & TECHNICAL WRITE- OFFs

1. Name:

These guidelines may be called in compromise settlements & technical write- offs policy.

2. Effective Date

They shall come into force on 08th June, 2023.

3. Applicability:

This policy is applicable to all loans sanctioned by the company

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BACKGROUND

Framework for Compromise Settlements and Technical Write-offs

The Reserve Bank of India has issued various instructions to regulated entities (REs) regarding compromise settlements in respect of stressed accounts from time to time, including the Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 (“Prudential Framework”), which recognises compromise settlements as a valid resolution plan. With a view to provide further impetus to resolution of stressed assets in the system as well as to rationalise and harmonise the instructions across all REs, as announced in the Statement on Developmental and Regulatory Policies released on June 8, 2023, it has been decided to issue a comprehensive regulatory framework governing compromise settlements and technical write-offs covering all the Res

Applicability and Extent

The provisions of this framework shall be applicable to all All-India Financial Institutions Non-Banking Financial Companies (including Housing Finance Companies) and shall be without prejudice to the provisions of the Prudential Framework, or any other guidelines applicable to the Regulated Entities on resolution of stressed assets.

BOARD APPROVED POLICY COMPROMISE SETTLEMENTS & TECHNICAL WRITE- OFFS

Board approved policy for undertaking compromise settlements with the borrowers as well as for technical write-offs.

1. Definitions

“**Compromise settlement**” for this purpose shall refer to any negotiated arrangement with the borrower to fully¹ settle the claims of the RE against the borrower in cash; it may entail some sacrifice of the amount due from the borrower on the part of the Regulated Entities (Res) with corresponding waiver of claims of the RE against the borrower to that extent.

“**Technical write-off**” for this purpose shall refer to cases where the nonperforming assets remain outstanding at borrowers’ loan account level, but are written-off (fully or partially) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

2. Objectives of the Policy

- a) To reduce the Company’s NPA level in absolute terms by preventing slippage of accounts and accelerating recoveries in the existing NPAs.
- b) To take a pro-active approach in finding solutions which could involve restructuring of loans if intent of borrower is positive
- c) To update system of identification and reporting of accounts showing signs of slippage of ‘NPA’ category
- d) To provide directions to contain slippage to NPA category

3. Process to be followed for all compromise settlements & technical write-offs

The basic guidelines governing compromise settlements of NPAs are listed below.

- a) A compromise should be negotiated settlement, which would ensure recovery of the dues to the maximum extent possible at minimum expense and within shortest possible timeframe.
- b) While taking NPAs a proper distinction will have to be made between willful defaulters and defaulters due to circumstances beyond their control. While in case of the former, a tough stand has to be taken, in latter cases a moderated view is to be taken.
- c) Due weightage to be given to present activities of the borrower / guarantor, their present means etc.
- d) While arriving at a negotiated settlement, the advantage available to the company for prompt recycling of funds should be weighted in comparison to the likely recovery be following legal or other protracted course of action i.e., opportunity cost analysis be made.
- e) The internal reporting system should ensure prompt reporting of all compromise proposals approved.
- f) A compromise/settlement be made only if the account has been classified as loss assets. However, if there are any genuine reasons compromise/settlement be made in case of a Non-Performing Assets account also.
- g) While compromising in any account only interest amount be sacrificed and no relief be granted in principal amount. However, in deserving cases relief in principal amount also be considered.
- h) Before entering into any compromise /settlement details of the assets of the borrower and guarantor be collected and the relief be granted if the company deems fit.

4. Minimum Ageing - Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 (“Prudential Framework”)

RBI instructions on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances dated 12th November 2021. With reference to the RBI circular no. RBI/2021-2022/125 DOR.STR.REC.68/21.04 .048/2021-22 on 'Prudential norms on Income Recognition, Asset Classification and Provisioning, pertaining to Advances Clarifications' dated 12th November 2021.

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

The RBI circular DBR.No.BP.BC.45/21.04.048/2018-19 dated 7th June, 2019 on 'Prudential Framework for Resolution of Stressed Assets' requires the lenders to recognize incipient stress in borrower accounts, immediately on default, by classifying them as special mention accounts (SMA) and the basis for classification of SMA categories shall be as follows:

Loans other than revolving facilities	
SMA Sub-categories	Basis for classification — Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days Accordingly,

Accordingly, the date of SMA/NPA shall reflect the asset classification status of the loan account, at the day-end of that calendar date. An illustration of such classification is as follows:

SMA Categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	If a customer takes a loan on 1st Jan 2021 and repayment is made without default till 1st Dec 2021 and subsequent repayments are not made. Then the loan will fall in
SMA-0	Upto 30 days	SMA 0 on 1st Jan 2022
SMA-1	More than 30 days and upto 60 day	SMA 1 on 31st Jan 2022
SMA-2	More than 60 days and upto 90 days	SMA 2 on 2nd Mar 2022
NPA	More than 90 days	The loan will be treated as NPA upon running day-end process on 1st April 2022

Case (B) Gold Loan

SMA Categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	A customer takes a loan on 1st Jan 2021 with maturity date as on 29th Jun 2021 (6- month scheme) and If the Principal or interest payment or any other amount wholly or partly overdue in such loan on 29th Jun 2021, then the loan will fall in
SMA-0	Up to 30 days	SMA 0 on 29th Jun 2021
SMA-1	More than 30 days and up to 60 days	SMA 1 on 29th Jul 2021
SMA-2	More than 60 days and upto 90 days	SMA 2 on 28th Aug 2021

NPA	More than 90 days	The loan will be treated as NPA upon running day-end process on 27th Sept 2021
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In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such process.

NPA Classification in case of interest payments.

In case of interest payments in respect of term loans, an account will be classified as NPA, if the interest applied at a specified date remains overdue for more than 90 days.

These instructions shall be effective from 31st March, 2022. Accordingly, in respect of any borrower account which becomes overdue on or after 31st March, 2022, its classification as NPA shall be based on the account being overdue for more than 90 days.

Upgradation of accounts classified as NPAs

In this regard, it is clarified that loan accounts classified as NPAs may be upgraded as 'Standard' asset only if entire arrears of interest and principal are paid by the borrower (applicable from October 1, 2022). Regarding upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

5. THE MODULE APPROACH (Criteria - Deterioration of Value of Collateral Value of Securities)

- a) Compromise / relief proposals will be negotiated in keeping with the basic objectives spelt out above. The module approach is developed, keeping in mind the following key parameters.
- b) Realizable value & marketability of securities charges to the company- if the advance loan is secured.
- c) Aggregate means of borrowers /guarantors.
- d) Age of NPA
- e) Legal position of the company pertaining to the Security
- f) Points / scores for various parameters under the modular approach as also the system of awarding points / score shall be as follows

Sr. No.	Particulars	Points
1	Value of security	
a)	Exceeds the dues (as per the books/suit/decree)	
	i. Easily marketable	10
	ii Not easily marketable	08
	iii very difficult to marketable	07
b)	(as per the books/suit/decree)	

	i.	Easily marketable	07
	ii	Not easily marketable	05
	iii	very difficult to marketable	04
c)	50% or less of the dues (as per the books/suit/decree)		
	i.	Easily marketable	04
	ii	Not easily marketable	02
	iii	very difficult to marketable	01
d)	No security		00
2	Aggregate means of borrowers / guarantor		
	i	More than dues (as per the books/suit/decree)	04
	ii	Exceed the 50% and up to 100% of the dues	03
	iii	Exceeds 25% and p to 50%	02
	iv	Below 25%	00
3	Age of NPA		
	i	Up to 2 years	05
	ii	More than 2 years & up to 4 years	04
	iii	More than 4 years & up to 8 years	02
	iv	More than 8 years	00
4	Legal position		
	i	No defect/deficiencies in documents and	04
	ii	mortgage in order	
	iii	Documents are defective and mortgage not in Enforceable	00
a)	Suit filed		
	i	Suit proceedings are continuing less than 2 years	04
	ii	Suit proceedings are continuing above 2 years & less than 4 years.	02
	iii	Suit proceedings are continuing above 4 years	
b)	Decreed accounts - Decree execution is outstanding for		
	i	Less than 2 years	04
	ii	Between 2 to 4 years	02
	iii	More than 4 years	00

“Fair market Value” given by valuer should be taken for the purpose of scoring and not distress value. While calculating as module it should be borne in mind that marketability is a function of legal tangles affecting security. Hence the following may be considered while awarding points under module.

- a) Various laws meant for protection of Agriculturists / Tribal people govern security in the form of Agricultural Land. In that case marketability would be a factor of: (i) getting permission from Collector (ii) availability of purchasers from tribal communities (iii) restrictions on sale to non-agriculturistsetc.
- b) There may be cases, where (i) security is heavily tenanted and vacant possession is next to impossible (ii) security is a subject matter of litigation between the borrower and paramount title holder (iii) security is subject to planning, environment, forest law restrictions (iv) security may be subject to

expropriation proceedings due to violation of user conditions etc.

- c) Valuers may not factor in the effect of above legal issues, while giving valuation. In such an event, opinion from a penal advocate or Law officer on these legal issues should be obtained and if found that it is very difficult to disentangle the security from legal issues, then, aggregate score under the module may be reduced by further 4 points. Where aggregate score exceeds 17, under the module. In cases where score is in the range of 17 to 14, then gradual reduction by 3, 2, or 1 point only is permissible. No reduction is permissible for the scores less than 14.
- d) For the purpose of judging and estimating, whether security is easily marketable, not easily marketable and very difficult to market, following yardsticks among other things may be kept in mind.

PARAMETERS	YARDSTICK	
Easily marketable	Property Type	Residential/Commercial
	Premises-located	Metro/Urban
	Prime Locality	-
Not easily marketable	Tenanted premises or industrial Land/Building	
Very difficult to market	Like agricultural land	

Minimum Settlement amount to be recovered

Points scored	Methodology for calculation of settlement amount
17 & above	Outstanding in running ledger + int. @10% (simple)
12 to 16	Outstanding in running ledger + int. @ 8% (simple)
8 to 11	Outstanding in running ledger
4 to 7	50% to 75% of outstanding in running ledger
2 to 3	25% to 50% of outstanding in running ledger
0 to 1	As much as possible

In case of unsecured advances / loan parameter of Realizable value of security and marketability would be irrelevant. Hence, with respect to unsecured

advances points / score for the parameter realizable value of security and marketability may be taken as **NIL**

Settlement With Deviation from Module:

There may be some rare cases, where recovery of amount arrived at as per module may not be possible. Similarly, some borrowers may need more than 12 months' time for repayment. Few others may not be in a position to pay interest at all for installment payment or come forward to pay interest at a lower rate than applicable as per the policy. For all such deviations, cogent reasons to be recorded and such proposals be put up for clearance to the next higher authority than the delegate in whose power the proposal otherwise fall.

6. The Compromise and Settlement Help in Speedy Recovery

With a view to accelerating the recovery process by way of compromise/settlement, delegated powers for write off of principal / waiver of interest / absorption of legal expenses of NPAs the approving authority shall be the Managing Director.

7. No Relief Either in Principle or In Interest Should Be Considered In The Loans And Advances or Any Debt Due From

- a) the directors of the company.
- b) any firm or company in which any of the directors of the company is interested as partner / director or guarantor.
- c) any individual, if any of its directors is his partner or guarantor.

8. Payment of Settlement Amount:

As far as possible, settlement amounts should be recovered in a lump-sum. Where the borrowers desire to pay the settlement amounts in installments, a maximum time period of 12 months from the date of approval, be allowed.

Payment of settlement amount in installments will attract interest at Base Rate (simple). Wherever installment payments are sought, there should be a minimum of 25% down payment of the settlement amount. The sanctioning authority will have authority to waive the interest for delayed payment if he deems fit.

9. Settlement Proposal from Guarantor

There are cases, where guarantors in NPA accounts come forward with settlement proposals so that they can seek release of their guarantees. Such proposals from guarantors should be treated on par with proposals from borrowers and module approach under Recovery Policy is applicable to such proposals.

10. Recovery Through Settlement in Fraud cases

Compromise / settlement can be negotiated and sanctioned in NPA accounts reported as fraud cases by treating those accounts as normal accounts, subject to following conditions:

- a) The settlement / compromise shall be negotiated only after taking legal action and after initiating criminal proceedings and other applicable legal formalities and after obtaining clearance from HO.
- b) Investigating agency prosecuting the case should be informed in writing by Registered Post / Courier Services about the proposed settlement and if objections are not received within 30 days, settlement can be implemented.
- c) Post settlement, criminal case should not be withdrawn by Company. All the assistance required or called for by the investigating Agency or court to take the case to its logical conclusion should be promptly provided by the Company.
- d) After the settlement, files relating to the account should not be destroyed or sent to old records, but should be kept safely and properly till the conclusion of the criminal proceedings.

11. Staff accountability: Staff Accountability would be examined in case of slippage of performing assets into the non-performing assets.

Staff Accountability would be examined in case of loss caused to the Company due to operational lapses, non-observance of standard procedures and practices.

12. Norms in respect of writing off of balances in the borrowed accounts

- a) The accounts, balances of which are to be written off must have been classified as NPA and tenor of the loan has exceeded by 90 days.
- b) Balances in the account are written off only after obtaining report from the Business Head/ Branch Manager about non possibility of recovery in the account. Such reports are scrutinized at Head Office level thoroughly before recommending for write off.
- c) Managing Director shall have authority to write off accounts with principal & interest outstanding up to Rs.5.00 lakhs. In respect of the accounts with outstanding above Rs.5.00 lakhs, the proposals will be placed before the Board.
- d) The exercise of writing off of the balance is carried out in consultation with the Accounts & Operations Department at Head Office and the aggregate amount to be written off be finalized with the approval of the Managing Director efforts for recovery be continued even after the balance in the account is written off. In case of a suit filed account where the balance has been written off, suit proceedings/execution proceedings be continued. The court cost and other incidental charges for such recovery should be debited to Branch's Profit & Loss Account.

13. Technical write off: The technical write off of NPA is resorted to for accounting purpose in case of “Loss assets” and 100% provisioning be made.

- a) Such write off is essentially a prudent accounting measure to reduce the level of Gross NPA as such accounts are either fully provided for or substantial provision is already available.
- b) The prudential write off to be affected to the debit of Contingency Account will be restricted to the extent of outstanding balance in the running ledger and against the provision available. The shortfall in provision on account of write off is to be made good while finalizing the company’s account. Interest held in dummy ledger is not be waived. Branches will continue to maintain dummy ledgers in respect of NPAs prudentially write off.
- c) Recovery efforts in such accounts should continue to be vigorously pursued by branches. Suits filed should be expedited to their logical conclusion by constant follow up with our advocates. Where are obtained, execution proceedings should be launched without delay.
- d) The fact of prudential write off should be kept in strict confidence and not disclosed to the borrowers under any circumstances.
- e) Branch should keep a close watch on the borrowers’ activities, their means, assets not charged to the Company, so as to mount pressure on them for recoveries.
- f) Delegated powers for Technical Write Off will be Board of Directors.

In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure,

Provided that the amount of provision including the amount representing partial technical write-off shall meet the extant provisioning requirements, as computed on the gross value of the asset.

14. Norms In Respect of Filing of Suits

- a) Considering the long-drawn process in the litigation and difficulties in executing the decrees action of filing of suit be taken as a last resort. Following norms be observed before filing of a suit.
- b) A suit be filed only after making all the efforts such as personal contacts, demand notice from the branch or through advocate, there is no alternative but to file a suit for recovery.
- c) Before filing of the suit, it should be ensured that the loan documents are complete in all respects and that the suit is well within the limitation period. The

position of documents be got examined from the company's approved advocate.

- d) Before filing of the suit final notice through company's advocate be issued.
- e) All the assets such as machinery, vehicles etc. in the custody of the Company be disposed of and the sale proceeds be appropriated towards the outstanding in the account and the suit be filed for recovery of residual amount.
- f) Suit filed through an Advocate on the Company's panel only.
- g) Before filing of the suit information regarding movable/immovable assets of the borrower and the guarantor be ascertained and steps be taken for attachment of these properties before judgment.
- h) In areas where "Lok Adalats" are arranged, branches should approach such Lok Adalats for speedy disposal of the cases. However, in case if the suit is to be compromised in the Lok Adalat, the compromise terms be got approved from the Head Office.

15. Waiver of Legal Action. There may be accounts where borrowers and guarantors have died or are not traceable and their security / net worth is nil. In such cases legal action only added to cost and does not result in any recovery. With more and more stress on retail loans, there may arise some cases, where cost of legal action will be more than the loan granted. In all such cases discretion should be available for waiver of legal action.

- a) There may be accounts where outstanding amount (running ledger) is less than Rs.0.25 lakhs, in such cases if we decide to initiate legal action which is expensive one. In all such cases discretion should be available for waiver of legal action.
- b) Powers for waiver of legal action for above accounts rest with the Managing Director.

16. Collection Of Dues

The debt collection of the Company is built around dignity and respect to customers where there are genuine problems. Company will not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment, persuasion and finding solutions. The Company believes in following fair practices with regard to collection of dues and repossession of security 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 paying 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 any other mode of repayment will be appropriated against interest and principal due from the customers. The method of collection of EMI (say postdated cheque, direct debit, ECS, etc.) would

be fixed taking in to consideration the convenience of the borrower. 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.

17. General Guidelines:

All the members of the staff or any person authorized to represent their Company in collection would follow the guidelines set out below:

- a) The customer would be contacted ordinarily at the Branch / during Center meetings / place of his / her choice and in the absence of any specified place, if two or more EMI installments are at default, at the place of his / her residence and if unavailable at his / her residence or at the place of business /occupation.
- b) Identity and authority of persons authorised to represent 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 authorised 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.
- c) The Company would respect privacy of its borrowers.
- d) The Company is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and Company will adopt civil manners for interaction with borrowers.
- e) Normally the Company's representatives will contact the borrower between 0700 hrs and 1700 hrs, unless the special circumstance of her/his business or occupation requires the Company to contact at a different time.
- 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 Company will document the efforts made for the recovery of dues and gist of interactions with the borrowers.
- 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.

18. Giving Notice to Borrowers:

While telephonic reminders or visits by the company's representatives to the borrower's place or residence will be used as loan follow up measures, the company will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. First such notice will be sent immediately upon default by the borrower or when telephonic reminders or personal

visits fail to yield result. The first notice while giving details of the amount in default will give 15 days' time period for the borrower to clear the dues and regularize the account. In case the borrower fails to respond within the given period of time, a second notice will be issued explaining the consequences of non-payment and the borrower would be given a further period of 15 days to clear the dues. The consequence of non-payment would include recall of entire loan amount forthwith. In the event of the failure of the borrower to respond within the time period, a legal notice will be issued after which the s will be free to initiate such recovery measures as it deems fit.

19. Valuation and Sale of Property

Valuation and sale of property repossessed by the Company will be carried out as per law and in a fair and transparent manner. The valuation given by the approved valuer will be conveyed to the borrower before proceeding with sale of property.

Even while finalizing sale of the property the offer(s) received by the Company will be informed to the borrower and he will be given an opportunity to bring in a higher price bid. The company will have right to recover from the borrower the balance due, if any and 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.

20. Recovery through LOK ADALAT

Lok Adalat is a legally constituted authority, for resolution of disputes through conciliation. It functions under the aegis of Central, State and District legal services Authority headed by judges from Supreme Court, High Court and District court respectively. They have powers to settle both pending suits filed cases as well as pre litigation cases. They grant awards, which are treated as decree and can be straight away executed in a court of law

21. Reporting Mechanism

The officers need to submit the quarterly basis (q-o-q) report containing compromises settlement and technical write offs approved by the higher authority to the next higher-level authority.

Officers →Managing Director→Board of Directors (In quarterly board meeting)

22. Board Oversight

The board of directors of the company shall ensure the reporting the compromise settlement and technical write-offs in by collecting following information's on quarterly basis and yearly basis.

- (i) trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off (q-o-q and y-o-y);
- (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;
- (iv) extent of recovery in technically written-off accounts.

The managing director of the company shall be responsible for submitting the report to the board directors.

23. Cooling Period

- a) In respect of borrowers subject to compromise settlements, there shall be a cooling period of 12-15 months as determined by the managing director. The managing director is the final authority to determine the cooling period in case to cases.
- b) The cooling period for farm credit exposures is 6-12 months.
- c) In respect of borrowers subject to technical write offs, there shall be a cooling period of 6-12 months as determined by the managing director. The managing director is the final authority to determine the cooling period in case to cases.

24. General

- a) The company may undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.
- b) The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force.
- c) In case of company 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.

BY THE ORDER OF THE BOARD
For COSY CORNER INVESTMENTS PVT LTD

Director

CC:

- 1. Legal Department**
 - 2. Administration Department**
 - 3. HR Department**
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