

**Prudential Guidelines on Restructuring/ Rescheduling of dues by banks – Draft Guidelines**

**Purpose**

To put in place a regulatory framework for restructuring/ rescheduling of dues by commercial banks, outside the debt restructuring mechanisms already in place.

**Classification**

A statutory guideline issued by the Reserve Bank under Section 35A of the Banking Regulation Act 1949.

**Previous Guidelines superseded**

DBOD.No.BP.BC.98/ 21.04.048/ 2000-01 dated March 30, 2001

**Scope of application**

To all commercial banks (except RRBs and LABs).

**Effective date**

These guidelines shall be applicable to all accounts in respect of which restructuring/ rescheduling packages are approved by the relevant competent authority in banks after the date of this circular.

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##### **1 Introduction**

##### **1.1 Background**

1.1.1 In spite of their best efforts and intentions, sometimes borrowers find themselves in financial difficulty because of factors beyond their control and also due to certain internal reasons. For the revival of the borrowers as well as for the safety of the money lent by the banks, timely support through restructuring in genuine cases is called for. However, the prudential treatment accorded to such restructuring and delay in implementation of the restructuring package often may come in the way of such endeavours.

1.1.2 The objective of these guidelines is to prescribe the prudential treatment of restructured accounts to provide a transparent mechanism for timely restructuring of debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned.

##### **1.2 Scope**

1.2.1 These guidelines are applicable to restructuring/ rescheduling of amounts due from all borrowers, other than those (i) eligible for restructuring under the CDR mechanism; (ii) eligible for restructuring under the debt restructuring mechanism for SMEs; and (iii) restructured on account of natural calamities, for which Reserve Bank has issued a separate set of guidelines.

##### **1.3 Key Concepts**

1.3.1 Meanings of some of the key concepts used in these guidelines are broadly as indicated below:

- i) Agricultural activities: As defined in RPCD circular RPCD. No. Plan. BC. 4 / 04.09.01/ 2006-07 dated July 3, 2006, and as modified from time to time.
- ii) Borrowers: Counterparties availing fund-based and non-fund based facilities from banks which are included under 'loans & advances' or 'investments' or 'off-balance sheet items'
- iii) Corporate debt restructuring: The mechanism as explained in DBOD.No.BP.BC. 45 / 21.04.132/ 2005-06 dated November 10, 2005.
- iv) Debt restructuring mechanism for SMEs: The mechanism as explained in DBOD circular on CDR for SMEs – DBOD. BP. BC. No. 34 / 21.04.132/ 2005-06 dated September 8, 2005.

v) Fully secured: When the amounts due to a bank are fully covered by the realisable value of security, duly charged in its favour in respect of those dues, the bank's dues are considered to be fully secured. While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in the intangible form like guarantee etc., of the promoter/ others.

vi) Industrial activities: Industrial activities will include infrastructure projects as defined in the guidelines on infrastructure financing issued vide DBOD. BP. 67/ 21.04.048/ 2002-03 dated February 4, 2003, and DBOD. BP.BC. 92 / 21.04.048 / 2003- 2004 dated June 16, 2004, as modified from time to time.

vii) Restructured accounts: A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the bank would not otherwise consider. Restructuring would normally involve modification of terms of loans/ advances/ securities, which would generally include, among others, alteration of repayment period/ repayable amount/ the amount of instalments/ rate of interest.

viii) Repeatedly restructured accounts: When a bank restructures an account a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. If, however, the second restructuring takes place after a period of five years from the date on which the first payment (principal or Interest) had fallen due under the first restructuring package and where the record of recovery in these accounts has been satisfactory in the interregnum, that account shall not be reckoned as a 'repeatedly restructured account'.

ix) Retail borrower: Includes counterparties who avail of consumer finance, credit cards, personal loans, housing loans.

x) Sacrifice: Erosion in the economic value of loans/ advances/ investments made by banks in present value terms arising on account of any restructuring.

xi) SMEs: Small and Medium Enterprise (SME) is an undertaking in which investment in plant and machinery exceeds investment limit of SSI sector (Rs.1 crore or Rs.5 crore, as the case may be) and up to Rs.10 crore, as defined in RPCD circular RPCD.PLNFS. BC. No.02/ 06.02.31/ 2006-07 dated July 1, 2006.

## **2. Applicable criteria**

### **2.1 Eligible borrowers**

2.1.1 These guidelines will apply to restructuring / rescheduling of amounts due from all borrowers engaged in the following:

(i) activities resulting in tangible industrial products, and tangible agricultural produce;

(ii) infrastructure activities as defined in RBI guidelines DBOD. BP. 67/ 21.04.048/ 2002-03 dated February 4, 2003, and DBOD. BP.BC. 92 / 21.04.048 / 2003- 2004 dated June 16, 2004, as modified from time to time;

(iii) projects pertaining to any of the above, which are under implementation, as defined in RBI guidelines DBOD. No. BP. BC. 108/ 21.04.048/ 2001-02 dated May 28, 2002, as modified from time to time;

(iv) activities belonging to services sector.

However, borrowers who come within the purview of (a) corporate debt restructuring mechanism for large corporates; (b) debt restructuring mechanism for SMEs and (c) borrowers affected by natural calamities, which are already covered by separate sets of guidelines issued by the RBI, would be excluded from the purview of these guidelines.

2.1.2 As regards wilful defaulters, bank(s) may review the reasons for classification of the borrower as wilful defaulter in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower is in a position to rectify the wilful default provided he is granted an opportunity. Such exceptional cases may be admitted for restructuring as per the Board-approved policy only with the approval of the appropriate authority as per the delegation of powers. The bank may ensure that borrowers / dues involving frauds or diversion of funds with malafide intent are not eligible for restructuring under these guidelines.

## **2.2 Eligible Accounts**

2.2.1 Accounts of eligible borrowers, with outstanding fund based exposure of Rs. 25 lakh and above on the date of restructuring, that are neither classified as 'loss' asset nor have been fully written off, if restructured, would be eligible for prudential treatment prescribed in para 3 below provided each of the following criteria is satisfied:

i) Banks clearly establish that the underlying projects / ventures/ activities are viable. The viability of the projects / ventures/ activities has been daily documented (which will be available for verification by internal / external auditors/ RBI inspectors. Restructuring in all such cases is based on well-defined, Board-approved viability parameters. Any restructuring done without looking into cash flows of the borrower or assessing the viability of the projects / activity financed by banks would invite supervisory concerns

ii) Restructuring is done for the first time;

iii) The dues to the bank are fully secured (except for infrastructure projects; c.f. paragraph 2.2.3 below);

iv) The venture/ project / activity becomes viable in 7 years and the repayment period for the restructured debts does not exceed 10 years;

v) Promoters'/ borrower's sacrifice and additional funds brought by them should be a minimum of 15% of banks' sacrifice;

vi) Personal guarantee is offered by the promoter/ owner/ borrower/ counterparty except when the unit is affected by external factors pertaining to the economy and industry;

vii) Restructuring is done with prospective effect;

Restructuring is done at the request of or with the express consent of the borrower;

ix) The amount of sacrifice (computed as prescribed in paragraph 2.5), if any, is either written off or fully provided for; and

x) The restructuring package is implemented within the specified period of 90 days for single banking accounts and 120 days for multiple banking accounts, from the date of application or the date on which the banks take an in-principle decision to restructure, whichever is earlier.

2.2.2 If a restructured account of an eligible borrower does not meet any of the conditions stipulated in paragraph 2.2.1 (i) to 2.2.1 (ix) it would attract the prudential treatment as detailed in paragraph 4 below. This would also include the repeatedly restructured accounts.

2.2.3 Infrastructure projects: In respect of infrastructure projects, banks generally extend finance on the basis of various factors including cash generating capacity of the projects and not necessarily the tangible security cover available to the bank. Hence, as special case, infrastructure financing, is exempted from the condition of being fully secured to qualify as an eligible account under these guidelines provided the financing bank(s) have in place an appropriate mechanism to trap the cash flows generated from these projects and the financing banks have a clear and legal first claim on these cash flows.

### **2.3 Statutory provision regarding acquisition of shares**

2.3.1 In case, banks acquire shares either directly or through conversion of the borrowers' dues as part of the restructuring package, they should ensure due compliance with the statutory requirement under Section 19(2) of the Banking Regulation Act, 1949, and the relevant SEBI regulations.

### **2.4 Treatment of OTS under the restructuring package**

2.4.1 One Time Settlement (OTS) can also be considered, wherever necessary, as a part of the restructuring package provided the borrower is having multiple banking arrangement. In case under a multiple banking arrangement one or more of the financing banks had exited the financing arrangement under bilateral OTS packages, before the account is taken up for restructuring, any fulfilled commitments under such OTS may not be reckoned as an available inflow under the restructured package, but future payment commitments of the borrower arising out of such OTS may be factored into the restructuring package.

## **2.5 Computation of amount of Sacrifice**

2.5.1 Sacrifice should be computed as the difference between (a) the present value of future cash flows (principal and interest) reckoned based on the current BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring; and (b) the present value of future cash flows (principal and interest) based on interest charged as per the restructuring package; both being discounted by the current BPLR as on the date of restructuring plus appropriate term premium and credit risk premium as on the date of restructuring.

2.5.2 As an alternative to the methodology prescribed at paragraph 2.5.1 above, in respect of restructured accounts where the total dues to bank(s) are less than Rupees one crore, banks will have the option of computing sacrifice, till the financial year ending March 2010, at 5% of the total dues. However, with effect from the financial year commencing on April 1, 2010, banks shall adopt the method specified in paragraph 2.5.1 for computing the amount of sacrifice in all restructured accounts, and provide for the shortfall or reverse the surplus provisions, if any, as the case may be.

## **2.6 Treatment of unrealised interest**

2.6.1 Banks may recognise interest on accrual basis in a restructured account as long as the account is classified as 'standard';

2.6.2 When a 'standard' restructured account is subsequently classified as NPA, banks shall make provisions to the full extent of accrued but unrealised interest, which was recognised as income; When banks realise any part of the accrued but unrealised interest in a restructured NPA, they may reverse the provisions held towards unrealised interest to the extent income has been realised.

2.6.4 When the restructured NPA is subsequently upgraded to 'standard' category, banks may reverse the provisions held towards accrued but unrealised interest.

## **3 Prudential norms for eligible restructured accounts**

The eligible restructured accounts shall qualify for the prudential treatment enumerated in the following paragraphs.

### **3.1 Asset classification**

3.1.1 Restructuring could take place either before (i.e., a standard asset) or after (i.e., a substandard or doubtful asset) the asset has been classified as 'NPA'/'NPI' and would accordingly be subject to the following norms.

3.1.2 Treatment of restructured '**standard**' accounts: A rescheduling of the instalments of principal and / or interest in an eligible account, before the account is classified as NPA would not cause a standard asset to be classified in the sub-standard category, provided conditions in Paragraph 2.2.1 are complied with. The asset classification of the account will not deteriorate during the period of one year after the date when the first payment of interest or principal, whichever is earlier, falls due under the restructured terms, provided the account has performed satisfactorily during that period. This one year period is referred to as 'specified period' elsewhere in these guidelines.

3.1.3 Treatment of restructured '**sub-standard**' / '**doubtful**' accounts: A rescheduling of the instalments of principal and / or interest in an eligible account, would render a 'sub-standard' / 'doubtful' asset eligible to be continued in the 'sub-standard' / 'doubtful' category during the 'specified period', [defined in paragraph 3.1.2] provided the account has performed satisfactorily during that period.

3.1.4 In respect of restructured accounts which are implemented within the specified period of 90 days or 120 days, as the case may be, the asset classification status as on the date of receipt of application for restructuring from the borrower will be relevant while applying the norms at paragraphs 3.1.2 and 3.1.3.

3.1.5 In respect of restructured accounts which are not implemented within the specified period of 90 days or 120 days, as the case may be, the asset classification status on the actual date of implementation will be relevant while applying the norms at paragraph 3.1.2 and 3.1.3.

3.1.6 Upgradation of restructured accounts: The restructured accounts, which are classified as sub-standard / doubtful accounts, including additional finance (if any), would be eligible to be upgraded to the standard category only after the account has performed satisfactorily during the specified period. Please see Annex for illustrations of asset classification of restructured accounts.

3.1.7 In respect of conversion of principal and / or interest in respect of standard / performing accounts, into equity, debentures, bonds etc. such instruments shall be included in the AFS category and subjected to periodical marking-to-market and provisioning as applicable to standard / performing assets. In case of conversion of principal and / or interest in respect of NPAs (including NPIs) into equity, debentures, bonds, etc., such instruments should be treated as NPA/ NPI, should be subject to periodical marking-to-market and provision should be made as per the norms applicable NPA/ NPI. Consequently, income should be recognised on these instruments only on realisation basis.

3.1.8 Additional finance: The additional finance in an eligible restructured account may be treated as 'standard asset, during the specified period (as defined in paragraph 3.1.2). However, in the case of accounts where the existing facilities are classified as 'sub-standard' or 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not

qualify for upgradation at the end of the above specified one year period, the additional finance shall be placed in the same asset classification category as the restructured debt.

3.1.9 Moratorium under Restructuring: If a standard asset is taken up for restructuring before the asset is classified as NPA and the restructuring package provides a longer period of moratorium on interest payments beyond the original moratorium period, the asset can no more be treated as standard asset. It shall, therefore, be classified as sub-standard.

### **3.2 Provisioning**

3.2.1 '**Sacrifice**' in an account should be computed as per the methodology laid down in paragraph 2.5 and (i) either written off by debit to the Profit & Loss account or (ii) provided for by debit to Profit & Loss account - such provision shall be held in a distinct account.

3.2.2 Sacrifice may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value. Consequently, banks may provide for the shortfall in provision made towards sacrifice in that account or reverse the amount of excess provision made towards sacrifice in that account which is held in the distinct account.

3.2.3 In the event any security is taken against interest sacrifice, it should be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

3.2.4 There may be cases where the account is restructured and rate of interest on existing FITL is reduced with or without elongation in the repayment schedule. In such cases, the sacrifice in the FITL (both principal and interest) should be computed as per paragraph 2.5 and either written off or provided for.

3.2.5 All restructured assets shall attract appropriate provisioning requirements as relevant for the asset classification status and realisable value of securities (where relevant) in respect of loans/ advances as required in terms of the guidelines on income recognition, asset classification and provisioning of banks' advances portfolio. The amount of provision made for restructured NPA, may be reversed when the account is re-classified as a 'standard asset/ performing asset'.

3.2.6 Banks shall make appropriate provisions towards depreciation in the value of the non-SLR securities pertaining to the re-structured assets consequent upon marking them to market as required in terms of the guidelines on valuation of banks' investment portfolio. Banks shall also periodically mark to market the FITL in its books notionally treating these as bonds / debentures held in the AFS category and make appropriate provisions for any erosion in the value of such FITL. In respect of bonds/ debentures/ equity/ FITL created on account of conversion of unrealised



interest and where the unrealised interest has been recognised as income, the mark-to-market provisions shall be in addition to the provisions that may be held by the bank towards unrealised interest.

3.2.7 Banks shall make a provision to the extent of accrued but *unrealised interest* (including funded interest term loans, or conversion of such unrealised interest into equity, bonds, debentures, zero coupon bonds or any other non-SLR security) which is recognised as income in respect of accounts classified as NPA / NPI and hold it in a distinct account. The provision is intended to off-set the impact on the profit and loss account arising on account of recognition of the accrued but unrealised interest as income. The provision made towards unrealised interest in each account shall be reversed when the account is re-classified as a 'standard/ performing' asset.

### **3.3 Marking-to-market**

3.3.1 Equity, debentures and other financial instruments acquired by way of conversion of outstanding principal and/ or interest, or otherwise, should be classified in the AFS category and valued in accordance with the extant instructions on valuation of banks' investment portfolio. Equity shares may be valued as per market value, if quoted. Where equity is not quoted, valuation may be at break-up value in respect of standard assets and in respect of sub-standard / doubtful assets, equity may be initially valued at Re1 and at break-up value after restoration / upgradation to standard category.

### **3.4 Applicability of capital market exposure norms and non-SLR norms**

3.4.1 Acquisition of equity shares/ convertible bonds/ convertible debentures in companies by way of conversion of debt / overdue interest under the CDR mechanism is allowed to be taken up without seeking prior approval from RBI, even if by such acquisition the prudential capital market exposure limit prescribed by the RBI is breached. However, this will be subject to reporting of such holdings to RBI, Department of Banking Supervision (DBS), every month along with the regular DSB Return on Asset Quality. Nonetheless, banks will have to comply with the provisions of Section 19(2) of the Banking Regulation Act, 1949.

3.4.2 Acquisition of non-SLR securities by way of conversion of debt is exempted from the mandatory rating requirement and the prudential limit on investment in unlisted non-SLR securities, prescribed by the RBI, subject to periodical reporting to the RBI in the aforesaid DSB return.

## **4 Prudential treatment for 'other' accounts**

Restructuring / rescheduling of amounts due from the following categories of borrowers as well as those which do not qualify for prudential treatment enumerated in paragraph 3 above, will be governed by the prudential treatment enumerated in the following paragraphs:

- (i) retail borrowers – including borrowers of consumer loans (including credit cards), housing loans, education loans, self employment;
- (ii) borrowers engaged in trading activities;
- (iii) borrowers availing bank finance which result in capital market exposures or commercial real estate exposures for banks;
- (iv) borrowers indulging in frauds and malfeasance even in a single bank, and those involved in diversion of funds with malafide intent.

#### **4.1 Asset classification**

4.1.1 Restructuring could take place either before (i.e., a standard asset) or after (i.e., a substandard or doubtful asset) the asset has been classified as 'NPA' / 'NPI' and would accordingly be subject to the following norms.

4.1.2 Classification of restructured '**standard**' accounts: A restructured 'standard/ performing' account shall be classified in the sub-standard / non-performing category from the date of approval of the restructuring package by the authorised official.

4.1.3 Classification of restructured '**sub-standard**' / '**doubtful**' accounts: A restructured 'substandard' and 'doubtful' account shall be continued in the same asset classification category.

4.1.4 Subsequent classification: The subsequent asset classification of the restructured account will be decided with reference to the record of payment and shall continue to migrate to the next asset classification category with reference to the original terms and conditions of sanction.

4.1.5 In case of conversion of principal and / or interest in respect of restructured accounts into equity, debentures, bonds, etc., such instruments shall be included in the AFS category, should be treated as NPA/ NPI, ab-initio; should be subject to periodical marking-to-market; and provision should be made as per the norms applicable NPA/ NPI. Consequently, income should be recognised on these instruments only on realisation basis.

4.1.6 Additional finance: The additional finance in a restructured account shall attract the same asset classification status as existing facilities. Where the additional finance is classified as NPA/ NPI, interest income on the additional finance should be recognised only on cash basis.

4.1.7 Upgradation of restructured accounts: The restructured accounts, which are classified as sub-standard / doubtful, including additional finance (if any), would be eligible to be upgraded to the standard category only after the account has performed satisfactorily during the specified period. Please see Annex for illustrations of asset classification of restructured accounts.

## 4.2 Provisioning

4.2.1 The provisioning requirements prescribed for eligible restructured accounts (c.f. paragraph 3.2) shall apply to the ineligible restructured accounts also.

## 4.3 Marking-to-market

4.3.1 The marking to market requirements prescribed for eligible restructured accounts (c.f. paragraph 3.3) shall apply to the ineligible restructured accounts also.

## 4.4 Applicability of capital market exposure norms and non-SLR norms

4.4.1 The capital market exposure and Non-SLR norms prescribed for eligible restructured accounts (c.f. paragraph 3.4) shall apply to the ineligible restructured accounts also.

## 5 Disclosures

5.1.1 In addition to the disclosures required to be made under the guidelines for CDR mechanisms, banks should disclose in their published annual Balance Sheets, under "Notes on Accounts", the following information in respect of restructuring undertaken **during the year**:

### Particulars of accounts restructured outside the debt restructuring mechanisms

(Rs. Crore)

Particulars	Eligible accounts			Other accounts		
	No. of borrowers	Amt. outstanding	Amt. of sacrifice	No. of borrowers	Amt. outstanding	Amt. of sacrifice
Standard assets / performing investments restructured						
Sub standard assets/ non performing investments restructured						
Doubtful assets restructured						
TOTAL						

5.1.2 Banks shall also disclose the **cumulative** position of amount of unrealised interest which has been recognised as income and the extent of provisions held thereagainst in respect of all restructured / rescheduled assets.

(Rs. Crore)				
Sr. No.	Category	Amount of unrealised interest recognised as income	Of which - Amount of interest realised	Amount of provisions held in respect of unrealised interest which has been recognised as income
1	CDR – Large corporate			
2	Debt restructuring mechanism for SMEs			
3	Other Restructured accounts: eligible accounts Other accounts			

5.1.3 The foregoing disclosures pertaining to the accounts restructured/ rescheduled under these guidelines apply to all accounts restructured/ rescheduled during the year. While banks should ensure that they comply with the minimum disclosures prescribed, they are encouraged to make disclosures beyond the prescribed minima.

**ANNEX**  
(c.f. Para 3.1.6 and 4.1.7)

**Asset Classification of Restructured Accounts under the guidelines**

	<b>Particulars</b>	<b>Case 1</b>	<b>Case 2</b>	<b>Case 3</b>	<b>Case 4</b>
<b>I</b>	Date of restructuring	31.03.07	31.03.07	31.03.07	31.03.07
	Asset Classification (AC) before restructuring	'Standard'	'Standard'	'Doubtful – less than one year' w.e.f 31.12.06	'Doubtful – less than one year' w.e.f 31.12.06
	Date of NPA	NA	NA	31.12.05	31.12.05
	Period of delinquency	Two months	Two months	Eighteen months	Eighteen months
<b>II</b>	<b>Asset classification on restructuring</b>				
	Eligibility status	Eligible	Others	Eligible	Others
	AC after restructuring	'Standard'	Downgraded to 'Substandard' w.e.f 31.03.07 (i.e., on the date of restructuring)	'Doubtful – less than one year'	'Doubtful – less than one year'
	First payment due under the revised terms (assumed)	31.12.07	31.12.07	31.12.07	31.12.07
<b>III</b>	<b>Asset classification after restructuring</b>				
<b>A</b>	<b>If satisfactory performance vis-à-vis restructured terms</b>				
(a)	AC during the specified one year period (i.e., from 31.12.07 to 31.12.08)	No change (i.e., remains 'Standard')	'Doubtful – less than one year' w.e.f. 31.03.08 (i.e. one year after classification as 'Substandard')	No change (i.e., remains 'Doubtful – less than one year')	'Doubtful – one to three years' w.e.f. 31.12.07 (i.e., one year after classification as 'Doubtful less than one year')
(b)	AC after the specified one year period	Continues in 'Standard' category	Upgraded to 'Standard' category	Upgraded to 'Standard' category	Upgraded to 'Standard' category
<b>B</b>	<b>If performance not satisfactory vis-à-vis restructured terms</b>				
(a)	AC during the specified one year period	Downgraded to 'Doubtful less than one year' with effect from 30.04.08 (Taking 30.04.07 as the notional date of NPA w.r.t. original terms of payment)	'Doubtful – less than one year' w.e.f. 31.03.08 (i.e. one year after classification as 'substandard' on 31.03.07	'Doubtful one to three years' w.e.f. 31.12.07	'Doubtful – one to three years' w.e.f. 31.12.07 (i.e., one year after classification as 'Doubtful less than one year' (on 31.12.06)
(b)	AC after the specified one year period	Will migrate to 'Doubtful – one to three years' w.e.f. 30.04.09 and 'Doubtful more than three years' w.e.f. 31.12.11.	Will migrate to 'Doubtful – one to three years' w.e.f 31.03.09 and 'Doubtful more than three years' w.e.f. 31.12.11.	Will migrate to 'Doubtful – more than three years' w.e.f 31.12.09	Will migrate further to 'Doubtful more than three years' w.e.f. 31.12.09