

Statutory Bank Branch Audit



Automation of IRAC in banks

RBI/2020-21/37 Ref.no.DoS.PPG/SEC.03/11/01/005/2020-21 dt.

Sept.14, 2020

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- ✓ To be implemented latest by June 30, 2021.
- ✓ System shall handle both downgrade and upgrade of accounts through straight through process(STP) without manual intervention.
- ✓ Calculation of provision, income recognition/derecognition shall be system driven.
- ✓ Exception may be granted in certain circumstances, which are expected to be minimum and temporary.
- ✓ Manual override to have at least two level authorization and preferably from a centralized location.
- ✓ Such manual override shall have audit trails and subjected to audit by concurrent/statutory auditors.
- ✓ Such exceptions to be placed before Audit committee.
- ✓ Logs of such manual override to be maintained for a minimum period of 3 years and shall not be tampered with during storage.

Presentation by
CA Lokesh Gupta

Bank Statutory Audit

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- ✓ [IRAC \(NPA\) norms](#)
- ✓ [Provisioning norms](#)
- ✓ [Restructuring of Advances](#)
- ✓ [Project under Implementation](#)
- ✓ Other certifications

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Data from borrower

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- **Use of reporting by borrower auditor eg CARO, 2020/Notes to accounts:**
- 3(ii)(b)-sanctioned working capital limit in excess of Rs.5 crores (in aggregate),
- 3(vii)(a)-regular deposit of statutory dues,
- 3(ix)(a)-default in repayment of loans or other borrowings.
- 3(ix)(b)-Company declared wilful defaulter by any bank/FI/lender.
- 3(ix)(c)-TL applied for the purpose for which obtained
- 3(ix)(d)-Funds raised for short term utilized for long term purposes.
- 3(x)(a)-IPO/FPO applied for purposes for which those were raised.
- 3(xi)(a)-fraud by the company/fraud on the company.
- 3(xi)(b)-fraud reported by the auditors in Form ADT-4.
- 3(xi)(c)-auditor considering whistle-blower complaints.
- 3(xiii)-Transactions with related parties.
- 3(xix)- Talks about financial ability to be going concern.

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CARO reporting on stock

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(Amounts in ₹ million)

Quarter	Name of bank	Particulars	Amount as per books of account	Amount as reported in the quarterly return/ statement	Amount of difference	Whether return/ statement subsequently rectified
31-Mar-21	HDFC Bank, Chennai	Sundry creditors	423.84	423.84	0	Yes
31-Mar-21	Chartered Bank	Rate	408.01	408.01	0	Yes
31-Mar-21	HDFC Bank, Chennai	Sundry creditors	216.08	209.46	662.22	Yes
31-Sep-21	ICICI Bank and Kotak Mahindra	Sundry creditors	865.45	824.45	512.08	Yes
31-Mar-21	SBI	Rate	804.21	771.75	718.87	Yes

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Reporting

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- Proper Reporting –SA 700, SA 705, SA 706, SA701, SA 720
- IFC on Financial Reporting for PSBs wef 2020-21. (Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks)
- Consistency of Reporting between various reports.
- Communication with the previous auditors
- Engagement Letter SA-210 and Written Representation SA-580
- Accounting Policies of the bank.

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GST -Reverse Charge

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- Goods Transport Agency Services (entry no.1 not 13/2017)**
- Services from Advocates ((entry no.2 not 13/2017)**
- Sponsorship Services (entry no.4)
- Services by Arbitral Tribunal (Entry no.3)**
- Recovery Agent (Entry no.8 Not no.13/2017-Central tax)**
- Services provided by Director(entry no.6)
- Services by Government or local authority.
- Services received import of services.(Bond floating, underwriting)
- services provided by an individual **DSAs** other than a body corporate, partnership or LLP wef 27.07.2018.
- Security Services wef 1.1.2019. (not no.29/2018)**
- Services by business facilitator to a bank wef 1.1.2019.**
- Renting of motor vehicle where cost of fuel is included in price.

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Enforcement action framework in respect of Statutory Auditors for lapses in statutory audit

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Press Release 2017-2018/3425 dated 29.06.2018

- Audit quality or conduct is not satisfactory
- Debarred by other regulators/law enforcement agencies/government agencies.

Consequence-

Not approving their appointment for SA for specified period.

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Enforcement action framework

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Press Release 2017-2018/3425 dated 29.06.2018

- a) Lapses in carrying out audit assignments resulting in misstatement of a bank's financial statements;
- b) Wrong certifications given by the auditors with respect to list of certifications as advised by the RBI to banks;
- c) Wrong information given in the Long Form Audit Report (LFAR);
- d) Issues related to misconduct by auditors in respect of their bank audit assignments; and
- e) Any other violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to banks.

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Enforcement action framework

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The Adjudication process

Notice (SCN) in writing will be served on the SA to reply within 15 days

Speaking order.

Disclosure of Enforcement Action

Any enforcement action, including issuance of Cautionary Advice, on an audit firm will be communicated to ICAI, as and when such action is taken.

The fact of such communication to the ICAI will also be placed in the public domain by the RBI.

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Enforcement action framework

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Fact of the Lapse

Statutory provision-
Variance between figures as per audited financial statements-determined by RBI

Materiality of Lapse

Extent of violation i.e. by what degree or percentage

The frequency of the lapse/violation

The impact of the lapse/violation –impact on banks Capital to Risk Weighted Assets Ratio (CRAR)

Aggravating factors such as repeated/persisting violations.

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Certificates

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The banks may examine the wrong certification, if any, by the auditors and take appropriate action under advice to us.

(RBI/2009-10/121 DBS.CO.IPC.BC.3/12.01.001/2009-10 dated August 14, 2009)

UDIN for certificates issued by the auditors is compulsory (single for an assignment)

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Special purpose report or certificate

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Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)

- a) Certificate regarding whether the IRAC have been made as per the guidelines issued by the RBI.
- b) Ghosh Committee (frauds and malpractices)
- c) Jilani Committee (Internal control and inspection/credit system)
- d) Entries relating to last year MOCs
- e) Accounts restructured/rescheduled/Renegotiated
- f) Exposure to sensitive sector i.e. exposure to capital market, Infrastructure and real estate sector.

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Certificate for Interest Subvention

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Banks are required to completely pass on the benefit of interest subvention, as applicable, to the eligible exporters upfront and submit the claims to RBI for reimbursement duly certified by the external auditor.

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Special purpose report or certificate

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- g) ECGC claims filed at the branch and its status.
- h) Unhedged Foreign currency exposure in case of borrower with exposure of Rs.1 crore or more.
- i) 12 odd dates certificate for SLR requirements.
- j) Cash and bank balances
- k) Interest subvention certificates
 - i. Exporters
 - ii. Housing schemes
 - iii. Education Loans
 - iv. MSME
 - v. 2% interest subvention for agri loans
 - vi. 3% interest subvention for agri loans

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Compromise, Settlements and Technical Write-offs

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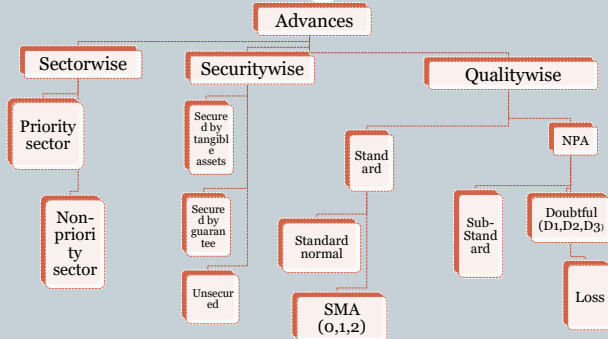
RBI/2023-24/40 DOR.STR.REC.20/21.04.048/2023-24 dated June 08, 2023

- Board approved policy including for conditions precedent minimum ageing, deterioration in collateral value, permissible sacrifice, staff accountability.
- Also to include delegation of powers for approval/sanction.
- Board approval in all cases of fraud and wilful defaulters.
- Compromise settlements with time for payment of the agreed settlement amount exceeds 3 months shall be restructuring.
- Reporting format and reporting on atleast a quarterly basis.
- Cooling period –other than farm credit period is 12 months.

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Advances-Classification

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Special Mention Account (SMA)

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- **Loans other than revolving facilities**

Basis for classification – Principal or interest payment or any other amount wholly or partly overdue.

SMA-0 upto 30 days

SMA-1 More than 30 and upto 60 days

SMA-2 More than 60 and upto 90 days

- **Loans in the nature of revolving facilities like cash credit/overdraft**

Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:

SMA-1 More than 30 days and upto 60 days

SMA-2 More than 60 days and upto 90 days

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Non Performing Asset (NPA)

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An asset, including a leased asset, becomes Non performing when it ceases to generate income for the bank.

- ✓ RBI/2023-24/06 DOR.STR.REC.3/21.04.048/2023-24 dated April 1, 2023.
- ✓ RBI/2022-23/15 DOR.STR.REC.4/21.04.048/2022-23 dated April 1, 2022.
- ✓ RBI/2021-2022/104 DOR.No.STR.REC.55/21.04.048/ 2021-22 dated October 1, 2021.
- ✓ RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/ 2021-22 dated Nov.12, 2021
- ✓ RBI/2021-2022/158 DOR.STR.REC.85/21.04.048/ 2021-22 dated Feb.15, 2022

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NPA – Term Loan

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- Interest and/ or Installment of principal remain overdue for a period of **more than 90 days**.

Overdue

- ✦ Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

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NPA – Term Loan

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Overdue

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 processes.

• **Example:**

Particulars	Date
Due date of loan account <i>(Full dues not received before the lending institution runs the day-end process for this date)</i>	31.03.2022
Date of overdue (SMA-0)	31.03.2022
SMA-1 (more than 30 days of being continuously overdue)	30.04.2022
SMA-2 (more than 60 days of being continuously overdue)	30.5.2022
NPA	29.06.2022

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NPA - Overdraft/ Cash credit

23

> the account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC).

> applicable to all loan products being offered as an overdraft facility, including those not meant for business purpose and/or which entail interest repayments as the only credits.

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Due date-specify in loan agreement

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- Exact due dates for repayment of loan
 - Frequency of repayment
 - Breakup between principal and interest
 - Examples of SMA/NPA classification dates etc
 - In case of moratorium, exact date of commencement of repayment
- > To be clearly specified in loan agreement
- > Any changes, modified agreement to provide the same.
- > Fresh loans-mandatory wef December 31, 2021
- > Existing loans, loans due for review/renewal.

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“OUT OF ORDER” status

24

- a) The outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- b) There are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period.

WEF 12.11.2021- (point (a) remains same, point (b) be read as)

- the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or
- the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

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NPA-Bills Purchased/discounted

25

The bill remains overdue for a period of more than 90 days.

Points to consider

- Due date of BP/BD
- Bills dishonored not reversed to operative account(usage of devolvement account).
- Rotational entries

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NPA-Agricultural Advances

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The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each State. [Illustration](#)
Farm credit not covered as per [Annex-2](#), would be as per normal.

Short duration crops

- Crops, which are not "long duration" crops
- The installment of principal or interest thereon remains overdue for two crop seasons

Long duration crops

- Long duration crops would be crops with crop season longer than one year
- The installment of principal or interest thereon remains overdue for one crop season.

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IR policy for loans with moratorium on interest

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- Loans with moratorium on interest payment, interest income may be recognized on accrual basis for standard accounts.
- Loans with moratorium on interest payment (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

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S.No.	Particulars	Short Term	Crops	Long Term	Crops
1	Sanction date	Kharif 1 st April 2021 to 30 th September, 2021	Rabi 1 st October 2021 to 31 st March, 2022	Sugarcane 1 st October, 2020	Banana 1 st July, 2020
2	Harvesting time	September, 2021	March, 2022	December, 2021	September, 2021
3	Repayment due date	31 st December, 2021	30 th June, 2022	31 st March, 2022	31 st December, 2021
4	Interest subvention @ 3%	Available upto date of repayment subject to maximum repayment due date.(subject to 1 year)	Available upto date of repayment subject to maximum repayment due date.(subject to 1 year)		
5	Date of irregularity	31 st December, 2021	30 th June, 2022	31 st March, 2022	31 st December, 2021
	<u>Multiple/double cropping pattern</u>				
6	First crop season end date	30 th June, 2022	31 st December, 2022	NA	NA
7	Second crop season end date	31 st December, 2022	30 th June, 2023	NA	NA
8	Date of NPA	31 st December, 2022	30 th June, 2023	NA	NA
	<u>Single/mono cropping pattern</u>				
6	First crop season end date	31 st December, 2022	30 th June, 2023	31 st March 2024	31 st December 2023
7	Second crop season end date	31 st December 2023	30 th June, 2024	NA	NA
8	Date of NPA	31 st December 2023	30 th June, 2024	31 st March 2024	31 st December 2023

Restructuring -Natural Calamities

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Relief by banks in areas affected by natural calamities
(RBI/FIDD/2018-2019/64 Master direction FIDD CO.FSD.BC
No.9/05.10.001/2018-19 dated October 17, 2018)

12 types of natural calamities

- Cyclone
- Drought
- Earthquake
- Fire
- Flood
- Tsunami
- Hailstorm
- Landslide
- Avalanche, cloud burst, pest attack and cold wave/frost.

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Natural Calamities-Asset Classification

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- Restructured portion of loan may be treated as current dues and not NPA. Asset classification then as per revised terms and conditions. However higher provision will be required
- Interest income from such restructured accounts classified as 'standard assets' will be recognised as per the norms prescribed.
- Remaining amount due, will be governed by the original terms and conditions.
- Additional finance, if any, may be treated as "standard asset" and in future by terms and conditions of its sanction.
- Accounts restructure for the second time or more on account of natural calamities would retain the same asset classification category on restructuring.
- Insurance proceeds, if any, receivable should be adjusted to the 'restructured accounts' in case fresh loans have been granted to the borrower.

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Restructuring -Natural Calamities

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- Declaration of Natural Calamity is in domain of the Central/State Government
(Called as Annewari, Paisewari, Girdawari)
- State level bankers committee for Calamity covering entire State/ larger part of a state
- And Otherwise District Consultative Committee.
- Natural calamities portal live from July 20, 2017. (RBI/2017-18/38 dated August 3, 2017) (<https://dbie.rbi.org.in>)

Basic Conditions

- Crop Loss Assessed should be 33% or more (50% or more upto 20.08.2015)
- Restructuring should be completed within a period of 3 months unless period extended by RBI.

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Restructuring -Natural Calamities

32

- **Sanctioning of Fresh Loans**
 - Fresh crop loan
 - Long terms loans for repair of existing economic assets or acquisition of new assets.
 - Consumption loan upto Rs.10,000/- (or more) to existing borrowers without collateral.
 - No denial for lack of security and margin requirements may be waived
 - Waiver of penal interest
 - Defer the compounding of interest charges.

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Credit Card Accounts

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- Credit card account will be treated as NPA if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the payment due date mentioned in the statement (next statement date upto 15.7.2015).

(RBI/2015-16/126DBR.No.BP.BC.30/21.04.048/2015-16 dated 16.07.2015)

Penal charges only if credit card accounts remains past due for more than 3 days.

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Erosion in value of security/frauds

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- Potential threats for recovery on account of erosion in the value of security/non-availability of security.
- Frauds committed by borrowers
- Classify as NPA

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NPA-Other Advances/Items

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- ❖ the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the RBI (Securitisation of Standard Assets) Directions, 2021.
- ❖ in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

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Non submission of stock statements

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Stock Statements determining drawing power should not be older than 3 months. Otherwise same deemed as irregular

A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

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Non submission of stock statements

37

Stock Statements determining drawing power should not be older than 3 months. Otherwise same deemed as irregular

A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

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Accounts With Temporary Deficiencies

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The **classification of an asset as NPA** should be based on the **record of recovery**.

Do not classify an advance account as NPA merely due to **deficiencies** which are **temporary in nature**

Non-availability of adequate drawing power based on the latest available stock statement

balance outstanding exceeding the limit temporarily

non-submission of stock statements

non-renewal of the limits on the due date, etc

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Review/renewal of limits

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Regular and ad hoc credit limits need to be reviewed/ regularised not later than 3 months from the due date/date of ad hoc sanction.

constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence that renewal/ review of credit limits is already on and would be completed soon.

An account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

RBI cir 2020-21/27 dated Aug 21, 2020- frequent/repeated ad-hoc review/renewal of credit facilities instead of regular review/renewals, non-capturing and/or inaccurate capturing of review/renewal data in the banking/information systems.

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Accounts regularised near about the Balance Sheet Date

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Solitary or few credits are recorded before the balance sheet date

Account indicates inherent weakness on the basis of the data available

The banks must furnish satisfactory evidence to the Auditors about the manner of regularisation of the account to eliminate doubts.

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Asset Classification To Be Borrower-wise And Not Facility-wise

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- **All the facilities granted by a bank** to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and **not the particular facility/investment** or part thereof which has become irregular.
- If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on IRAC.

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Advances Under Consortium Arrangements

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Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances.

Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA.

The banks, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery.

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Asset Classification To Be Borrower-wise And Not Facility-wise

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- The bills discounted under LC favouring a borrower may not be classified as a NPA, when any other facility granted to the borrower is classified as NPA.
- Where documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills,

the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.

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Exception To Above Rule

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- Advances against term deposits,
- NSCs eligible for surrender,
- IVPs
- KVPs
- Life policies

need not be treated as NPAs, provided adequate margin is available in the accounts.

- Advances against gold ornaments and Government securities and all other securities are not covered by this exemption.

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Government Guaranteed Advances

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The credit facilities backed by guarantee of the Central Government (and not State Government) though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked.

This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income.

This do not apply to State Government guaranteed exposures.

Points To Verify

Government letter and Gazette notification and no other letter of comfort or letter stating that the guarantee is under implementation may be accepted.

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Substandard Assets

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NPA \leq 12 months

Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

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Categories of NPA

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- Substandard Assets
- Doubtful Assets
- Loss Assets

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Doubtful Assets

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NPA $>$ 12 months

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

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Loss Assets

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A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

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Security to NPA norms

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- Accounts with potential threats for recovery on account of
 - ❖ erosion in the value of security; or
 - ❖ non-availability of security; and
 - ❖ existence of other factors such as frauds committed by borrowers

Cases of such serious credit impairment the asset should be straightaway classified as doubtful or loss asset as appropriate:

- Realisable value of the security < 50% of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Then straightaway taken to doubtful category and provisioning as applicable to doubtful assets.
- Realisable value of the security < 10% of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset. It may be either written off or fully provided for by the bank.

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Security to NPA norms

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Though the availability of security or net worth of borrower/ guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise.

- BUT

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Income Recognition Policy

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The policy of income recognition has to be objective and based on the record of recovery. The banks should not charge and take to income account interest on any NPA.

This rule applies to Government guaranteed accounts also.

This rule do not apply to TL/Limit against TD, NSCs,IVPs,KVPs and LIP, provide adequate margin is available in the account

Fees and commissions earned by the banks as a result of renegotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

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Appropriation Of Recovery In NPAs

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1. Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

2. In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

Presentation by
Rajesh Kumar

PROVISIONING NORMS

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Loss assets

Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

In case of frauds

- a) Entire amount (ignore security except financial collateral eligible under BASEL III capital norms) in 4 quarters.
- b) If delay in reporting of fraud, entire provision in one time.
- c) If provision in different FY, unprovided amount to be debited to 'other reserves' and provision created.

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Rajesh Kumar

Upgradation of Loans Classified As NPAs

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If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts.

With regard to upgradation of a restructured/ rescheduled account which is classified as NPA separate norms apply

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Rajesh Kumar

PROVISIONING NORMS-Doubtful

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- i. 100% of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.

For advances covered by ECGC guarantee, provision only for the balance in excess of the amount guaranteed by the corporation to be made. Same applied for CGTMSE and CRGFTLIH.

- ii. For secured portion, provision may be made :

Period for which the advance has remained in 'doubtful' category Provision requirement (%)

- | | |
|-------------------------|-----|
| • Up to one year | 25 |
| • One to three years | 40 |
| • More than three years | 100 |

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Sub-Standard Assets

- (i) A general provision of 15% on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.
- (ii) The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10%, i.e., a total of 25% on the o/s balance.

Infrastructure loan accounts which are classified as sub-standard will attract a provisioning of 20% instead of 25% if banks have in place an appropriate mechanism to escrow the cash flows and also have a clear and legal first claim on these cash flows.

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CA Lokesh Gupta

Non – Exhaustive Indicative List of Signs of Financial Difficulty

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- a) A default, as per the definition provided in the framework, shall be treated as an indicator for financial difficulty, irrespective of reasons for the default.
- b) A borrower not in default, but it is probable that the borrower will default on any of its exposures in the foreseeable future without the concession, for instance, when there has been a pattern of delinquency in payments on its exposures.
- c) A borrower's outstanding securities have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange due to noncompliance with the listing requirements or for financial reasons.

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Restructuring

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>Where the bank, for economic or legal reasons relating to the borrower's **financial difficulty**, grants to the borrower **concessions** that the bank would not otherwise consider.

- >Involves modification of terms of the advances / securities, which would generally include, among others,
- ❖ alteration of payment period
 - ❖ payable amount
 - ❖ the amount of instalments
 - ❖ rate of interest (due to reasons other than competitive reasons)/
 - ❖ roll over of credit facilities
 - ❖ sanction of addtl credit facility/release of additional funds to aid in default
 - ❖ enhancement of existing credit limits
 - ❖ compromise settlements where time for payment of settlement amount exceeds 3 months.

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Non – Exhaustive Indicative List of Signs of Financial Difficulty

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- d) On the basis of actual performance, estimates and projections that encompass the borrower's current level of operations, the borrower's cash flows are assessed to be insufficient to service all of its loans or debt securities (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.
- e) A borrower's credit facilities are in non-performing status or would be categorised as nonperforming without the concessions.
- f) A borrower's existing exposures are categorised as exposures that have already evidenced difficulty in the borrower's ability to repay in accordance with the bank's internal credit rating system.

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Non – Exhaustive Indicative List of Signs of Financial Difficulty

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Irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin basis or drawings exceeding sanctioned limits, periodic interest debited remaining unrealised;

- Failure/anticipated failure to make timely payment of instalments of principal and interest on term loans;
- Delay in meeting commitments towards payments of instalments due, crystallized liabilities under LC/BGs, etc.
- Excessive leverage;
- Inability to adhere to financial loan covenants;

Presentation by
CA Lokesh Gupta

Thank You

CA Lokesh Gupta
Mob: 98104 34904

Presentation by
CA Lokesh Gupta

Non – Exhaustive Indicative List of Signs of Financial Difficulty

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• Failure to pay statutory liabilities, non- payment of bills to operational creditors, etc.;

• Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements, delay in publication of financial statements and adversely qualified financial statements;

• Steep decline in production figures, downward trends in sales and fall in profits, margin erosion etc.;

• Elongation of working capital cycle, excessive inventory build-up;

• Significant delay in project implementation;

• Downward migration of internal/external ratings/rating outlook.

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