

# Income recognition and Asset Classification (Non-Performing Advances (NPA))

## *Nagpur Statutory Branch Audit of Banks*

*March 24, 2021*

# AGENDA



## Introduction



Basic rules for Performing Advances



Early warning signals



Non-Performing Advances



Disruption



Merger of Banks and Other Environmental Changes

# INTRODUCTION

- » Special regulatory dispensation for MSME, retail and agriculture. See February 2020 notification
- » Agri Jewel Loans with interest subvention
- » Evergreening of small accounts – retail agri KCC
- » Special dispensation to Commercial Real Estate or CRE extension of DCCO – specially those accounts where media has highlighted financial troubles or mismanagement of funds
- » Where bank has pooled assets two major matters to be vary of – true sale criteria and verification of the original documents of the borrower
- » Early warning system – whether functioning, verification of CRILC and CFR for every loan given.
- » Where ever other banks have indicated default in CRILC the auditors must look at the bank's own classification. When default was on the date of Sanction, whether bank has exercised due diligence.
- » Forex related verification like LRS, export realisation, imports payments, LC, etc

# INTRODUCTION

- » IRAC norms
- » Divergence
- » Frequency of shifting security from AFS to HFT
- » EWS
- » KYC
- » Revenue Leakage
- » CRR/SLR computation and marked securities
- » Valuation of security taken against the lending

## INTRODUCTION

- » Submit a report of serious irregularities to Bank Management and RBI. If no such irregularity then NIL report to be submitted
- » Divergence in Provision for NPA and other special dispensation must be verified to ensure that it tends to zero.
- » That the entire responsibility of preparing the accounts, determining the accurate provision, internal control, EWS and financial statements are of the management
- » All working papers belong to RBI in case they wish to exercise that right
- » So on and so forth.....



# AGENDA



Introduction



**Basic rules for Performing Advances**



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Merger of Banks and Other Environmental Changes

**BASIC RULES  
FOR  
PERFORMING  
ADVANCES****Life cycle of an Advance**

- Credit Evaluation
- Sanction
- Disbursement
- Monitoring

**Objective of extending Credit**

- Capital generation
- Working capital gap
- Encourage entrepreneurship
- And so on.....

It is never to auction security or to let it slip in to non-performance. An advance to borrower is with a condition of repayment. However, what has become a big talking point is increasing non-performance of borrowers to service such facilities

## BASIC RULES FOR PERFORMING ADVANCES

### Pre Sanction

- Credit Evaluation
- CRILC/CFR
- Consortium/multiple-banking/sole banker
- Terms of advance – general terms and specific terms
- Type of advance – TL/CCOD, Priority sector.....

### Post Sanction

- Sanction – security, interest rate, amount
- Conditions precedent to disbursement
- Disbursement – to supplier/to borrower
- Monitoring



## BASIC RULES FOR PERFORMING ADVANCES

### Types of advances

- Fund Based
  - Term Loan
  - Cash Credit / Overdraft
- Non-Fund Based
  - Bank Guarantees
  - Letter of Credit

### Categories of Advances

- Fund Based
  - With security
    - Priority sector – agriculture/ housing
    - Others – business – assets purchase/expansion
  - Without security
    - Priority – Agriculture/housing/education
    - Others-TOD, short term loans (1M, 3M, 6M)

# AGENDA



Introduction



Basic rules for Performing Advances



**Early warning signals**



Non-Performing Advances



Disruption



Merger of Banks and Other Environmental Changes



## EARLY WARNING SIGNALS

- Special Mention Accounts
  - Overdue 0-30 days SMA0
  - Overdue 30-60 days SMA1
  - Overdue 60-90 days SMA2
- Red Flags
  - Fraud or potential fraud
- IBC/ICA
- Government Action

# AGENDA



Introduction



Basic rules for Performing Advances



Early warning signals



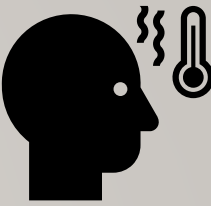
**Non-Performing Advances**



Disruption



Merger of Banks and Other Environmental Changes

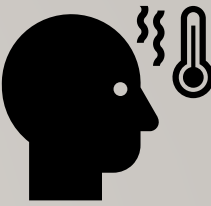


## Non-Performing Advance

- Definition
- Term Loans
  - Security
    - Jewel
    - Others
  - Unsecured
- CC/OD
  - Security
    - FD
    - Others
  - Unsecured
- Agriculture
  - KCC/ATL
  - Tractor
  - Seeds and services
  - Cattle
- Movement of NPA accounts
- Actions by Bank

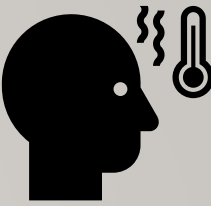
**NON-  
PERFORMING  
ADVANCE**





## NON- PERFORMING ADVANCE- DEFINITION

- i. interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- ii. the account remains 'out of order' as indicated at paragraph 2.2 below, in respect of an Overdraft/Cash Credit (OD/CC),
- iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iv. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops

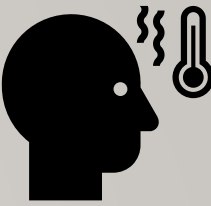


## NON- PERFORMING ADVANCE- DEFINITION

vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

vii. 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.

In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.



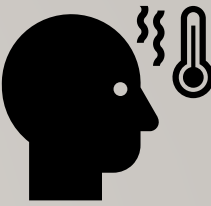
## NON-PERFORMING ADVANCE- DEFINITION

### Out of Order

An account should be treated as '**out of order**' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but 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, these accounts should be treated as '**out of order**'.

### 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.



## NON- PERFORMING ADVANCE- DEFINITION

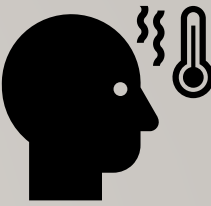
### Accounts with Temporary deficiency

i) Stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be 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.**

ii) Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. Delay beyond six months is not considered desirable as a general discipline. **Hence, 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.**





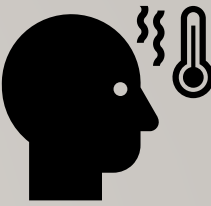
## NON-PERFORMING ADVANCE- CLASSIFICATION

### Categories of NPAs

Banks are required to classify non performing assets further into the following three categories based on the period for which the asset has remained non performing and the realisability of the dues:

- i. Substandard Assets
- ii. Doubtful Assets
- iii. Loss Assets

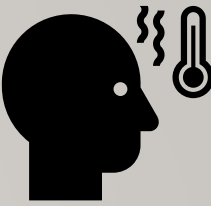




## NON- PERFORMING ADVANCE- CLASSIFICATION

### Substandard Assets

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 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.

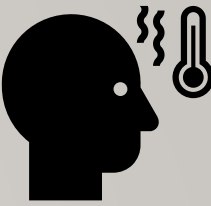


## Categories of NPAs

### Doubtful Assets

#### NON- PERFORMING ADVANCE- CLASSIFICATION

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 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.

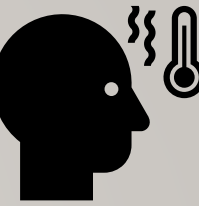


## Categories of NPAs

### Loss Assets

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.

**NON- PERFORMING  
ADVANCE-  
CLASSIFICATION**



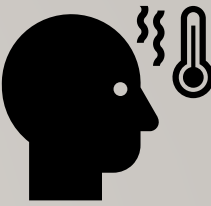
## NON- PERFORMING ADVANCE – CLASSIFICATION

Other considerations –

Non Fund Based Advances

1. LC – Devolved LC becomes fund based advances
  1. 90 days overdue - Substandard
2. Bank Guarantee – invoked
  1. Paid by bank due to lack of drawing power/sanction becomes Fund based advance
  2. Overdue for 90 days – substandard
3. Security
  1. Margin
  2. Primary security
  3. Collateral security





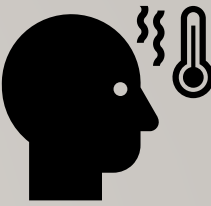
## NON- PERFORMING ADVANCE- CLASSIFICATION

**i) 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.**

ii) 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.

iii) The bills discounted under LC favouring a borrower may not be classified as a Non-performing assets (NPA), when any other facility granted to the borrower is classified as NPA. If, however, the LC issuing bank does not make payment and borrower is unable to make the payment of the discounted bill for which LC is dishonoured the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.

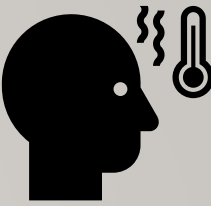




## NON- PERFORMING ADVANCE- CLASSIFICATION

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.



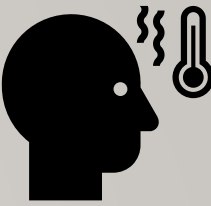
## NON- PERFORMING ADVANCE- CASE STUDY

M Ltd has term loan of ₹195 Crores with Bank A. On 22-11-2019 ₹113 crores is outstanding in SMA 2. Unit is functioning but not at full capacity. CC limit of ₹100 crores is under consortium of which Bank A shares ₹22 crores. Security is ₹450 crores for consortium.

A foreign customer is approached who agrees to give advance against order of approximately ₹ 114 crores against Bank guarantee of equal amount.

Bank insists that the M Ltd. deposit this entire amount in term loan account.

M Ltd. agrees. The bank guarantee is issued without security. Amount is received and deposited in term loan account to extinguish it.



## NON-PERFORMING ADVANCE- CASE STUDY

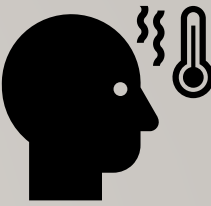
M Ltd. agrees. The bank guarantee is issued without security. Amount is received and deposited in term loan account to extinguish it.

The borrower is unable to meet the delivery timelines. **In mean time Bank A merges with Bank B.** The bank guarantee is invoked. Bank B pays the guarantee but has no space to debit it in the borrower's accounts. It issues adhoc limit in CC (without NOC from consortium) and debits this account. The amount is unpaid as on 30-12-2020.

**Is it NPA? If so from which date? If not, why not?**

What are the other issues that attract out attention and the consequences that Bank A is faced with. What are the consequences faced by Bank B.





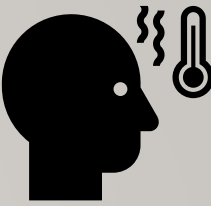
## NON- PERFORMING ADVANCE- CLASSIFICATION

### **Agricultural advances**

- i. A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.
- ii. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.

“long duration” crops would be crops with crop season longer than one year and crops, which are not “long duration” crops, would be treated as “short duration” crops. The crop season for each crop, would be as determined by the State Level Bankers’ Committee in each State.

These norms are applicable only to Farm Credit extended to agricultural activities as listed at paragraph III (1) of the Circular on Priority Sector Lending – Targets and Classification



## NON- PERFORMING ADVANCE- CLASSIFICATION

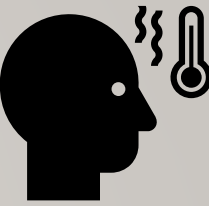
**Agricultural advances** RBI/FIDD/2019-20/70 -Master Direction FIDD.CO.Plan.BC  
No.08/04.09.01/2019-20 July 29, 2019 (Updated as on March 12, 2020)

Following categories will fall under Agriculture advances

1. Farm Credit

- i. Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.
- ii. Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)
- iii. Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.



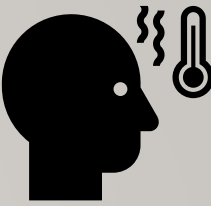


## Farm Credit - contd

### NON-PERFORMING ADVANCE- CLASSIFICATION

- iv. Loans to farmers up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.
- v. Loans to distressed farmers indebted to non-institutional lenders.
- vi. Loans to farmers under the Kisan Credit Card Scheme.
- vii. Loans to small and marginal farmers for purchase of land for agricultural purposes.

Agriculture Infrastructure and Ancillary Activities also fall under the category of Agriculture Advance.

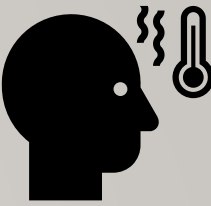


## NON-PERFORMING ADVANCE- CASE STUDY

Agriculture loans are given with land, jewelry or without security depending on the type of advance and borrower.

1. A farmer takes loan for seeds and fertilizer against security of jewelry
2. A farmer takes loan under ATL with land as security
3. A farmer takes loan under ATL with crops and land as security
4. A farmer takes KCC with jewelry as security
5. A farmer takes KCC against crops

Which is agriculture loan? How will each be classified as NPA



## NON- PERFORMING ADVANCE- PROVISION

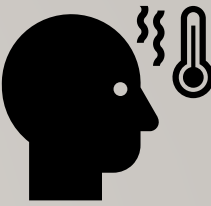
Para 5.1.1 of Master Circular on IRAC 2015.

The primary responsibility for making adequate provisions for any diminution in the value of loan assets, investment or other assets is that of the bank managements and the statutory auditors.

The assessment made by the inspecting officer of the RBI is furnished to the bank to assist the bank management and the statutory auditors in taking a decision in regard to making adequate and necessary provisions in terms of prudential guidelines.

### **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.



## NON- PERFORMING ADVANCE- PROVISION

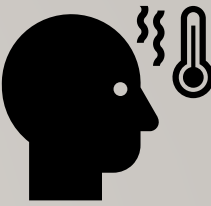
### Doubtful assets

- i. 100 percent 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.
- ii. In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 25 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

### 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

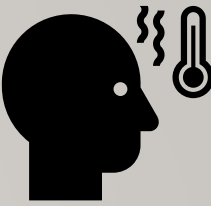




## NON-PERFORMING ADVANCE- PROVISION

### Substandard assets

- (i) A general provision of 15 percent 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 per cent, i.e., a total of 25 per cent on the outstanding balance. Where escrow accounts are available in respect of infrastructure lending, infrastructure loan accounts a provisioning of 20 per cent is required instead of the 25 per cent.
- (iii) Unsecured exposure is defined as an exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, *ab-initio*, of the outstanding exposure. 'Exposure' shall include all funded and non-funded exposures (including underwriting and similar commitments).

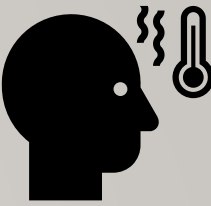


## NON- PERFORMING ADVANCE- SECURITY

**‘Security’** will mean tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State government guarantees), comfort letters etc.

### **Valuation of Security for provisioning purposes**

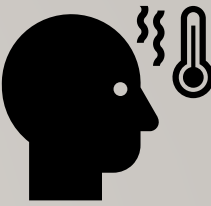
With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of Rs. 5 crore and above stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board would be mandatory in order to enhance the reliability on stock valuation. Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors



## NON- PERFORMING ADVANCE- INCOME RECOGNITION

1. The policy of income recognition has to be objective and based on the record of recovery. Internationally income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA. **This will apply to Government guaranteed accounts also.**
2. However, interest on advances against Term Deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.
3. 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.



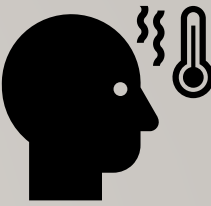


## NON-PERFORMING ADVANCE- INCOME RECOGNITION

### Reversal of income

1. If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realised. **This will apply to Government guaranteed accounts also.**
  2. In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.
- #### 3.2.3 Leased Assets
3. The *finance charge* component of finance income [as defined in 'AS 19 Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became non performing, and remaining unrealised, should be reversed or provided for in the current accounting period.





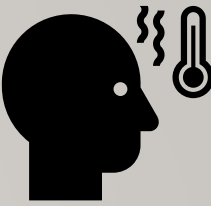
## NON-PERFORMING ADVANCE- INCOME RECOGNITION

### **Appropriation of recovery in NPAs**

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.

### **Interest Application**

On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.



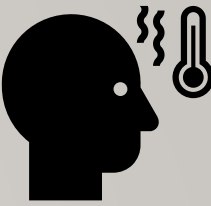
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## NON-PERFORMING ADVANCE- CASE STUDY

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The borrower is unable to meet the delivery timelines. **In mean time Bank A merges with Bank B.** The bank guarantee is invoked. Bank B pays the guarantee but has no space to debit it in the borrower's accounts. It issues adhoc limit in CC (without NOC from consortium) and debits this account. The amount is unpaid as on 30-12-2020.

**Is it NPA? If so from which date? If not, why not?**

Provision requirements

# Types of divergence

- Divergence on account of NPAs
- Divergence on account of NPLs
- Divergence in Other Assets
- Understatement of Other Liabilities
- Claims Not Acknowledged as Debt
- Divergence in RWAs
- Priority Sector mis-classification



# Why divergence ?

- **Control failures** – majority of causes are ‘**non-financial**’
- Non-financial reasons -
  - **Control points**
    - Business groups as the first line of decision makers – always reluctant to decide
    - NPA Cell – Independent entity - different banks have different structures
    - NPA Cell role – must take independent decision
    - Internal Audit
    - Statutory Auditors
  - Many believe that downgradation is always on account ROR
- Failure of any of these processes is a process gap

# Major Reasons for divergence in Asset Classification and Provisioning

- Failed Restructuring
- Repeated Restructuring/restructuring conditions not met
- Funding of cost overrun - Incorrect computation of cost over-run, cost over-run after DCCO, TEV not undertaken
- Non-achievement of DCCO-extension beyond stipulated timeline
- Record of recovery – DPD > 90 days, ever-greening, CC/OD overdrawal without stock/DP, system identification of NPA
- Erosion of Security-erosion beyond 50%, erosion above 90%
- S4A implemented but provisions not made as per extant guidelines – (20%/40% for standard or 25%/50% for NPA)
- Any other (like upgradation before completion of specified period, reversal of unrealized interest, etc.)

## Issues observed during supervisory process

### Terms and conditions of restructuring not fulfilled

- CDR package not implemented within 120 days;
- Restructured repayment tenure was beyond permissible limit;
- Promoters' personal guarantee not given;
- Security perfection not completed in terms of package conditions
- Financial viability was not conducted
- Restructuring performed from retrospective basis
- Promoters' contribution not brought upfront
- Land treated as promoters' contribution
- Pledge on unencumbered shares of the company held by promoters not undertaken
- The performance of the company was below CDR projections
- Non satisfactory performance during specified period

## Issues observed during supervisory process

### Ever-greening

- Accounts closed to open new accounts to **camouflage rollover of accounts**- mainly in cases of STL which are not permitted beyond two times rollover
- Accounts which were already NPA but **camouflaged through ever greening** before the date of reference for restructuring
- Round tripping of funds from other banks
- Funds given to parent coming back to SPV to regularize the account
- Funds under devolved BG/LC not considered together with CC over-drawal
- Debt Service Reserve Account created from own disbursal and utilised to service interest/installment
- Enhancing FB limit repeatedly without assessment
- Change of DP multiple times in a month
- Converting NFB limit into FB limit without justification
- Sanction of ad-hoc limit to regularize an account
- Transfer of funds between intra-group companies



## Issues observed during supervisory process

- Conditions of various schemes ( SDR, S4A, 5:25) not fulfilled
- Under SDR debt to equity conversion did not take place within 180 days. Even after conversion, there was no change of management
- Under S4A, there was no change of management
- Under 5:25, additional funding was sanctioned along with restructuring
- Restructuring was disguised as rectification under CAP. Long term funding was sanctioned as part of CAP
- Restructuring benefits availed multiple times (CDR, SDR, S4A) but not successful

# AGENDA



Introduction



Basic rules for Performing Advances



Early warning signals



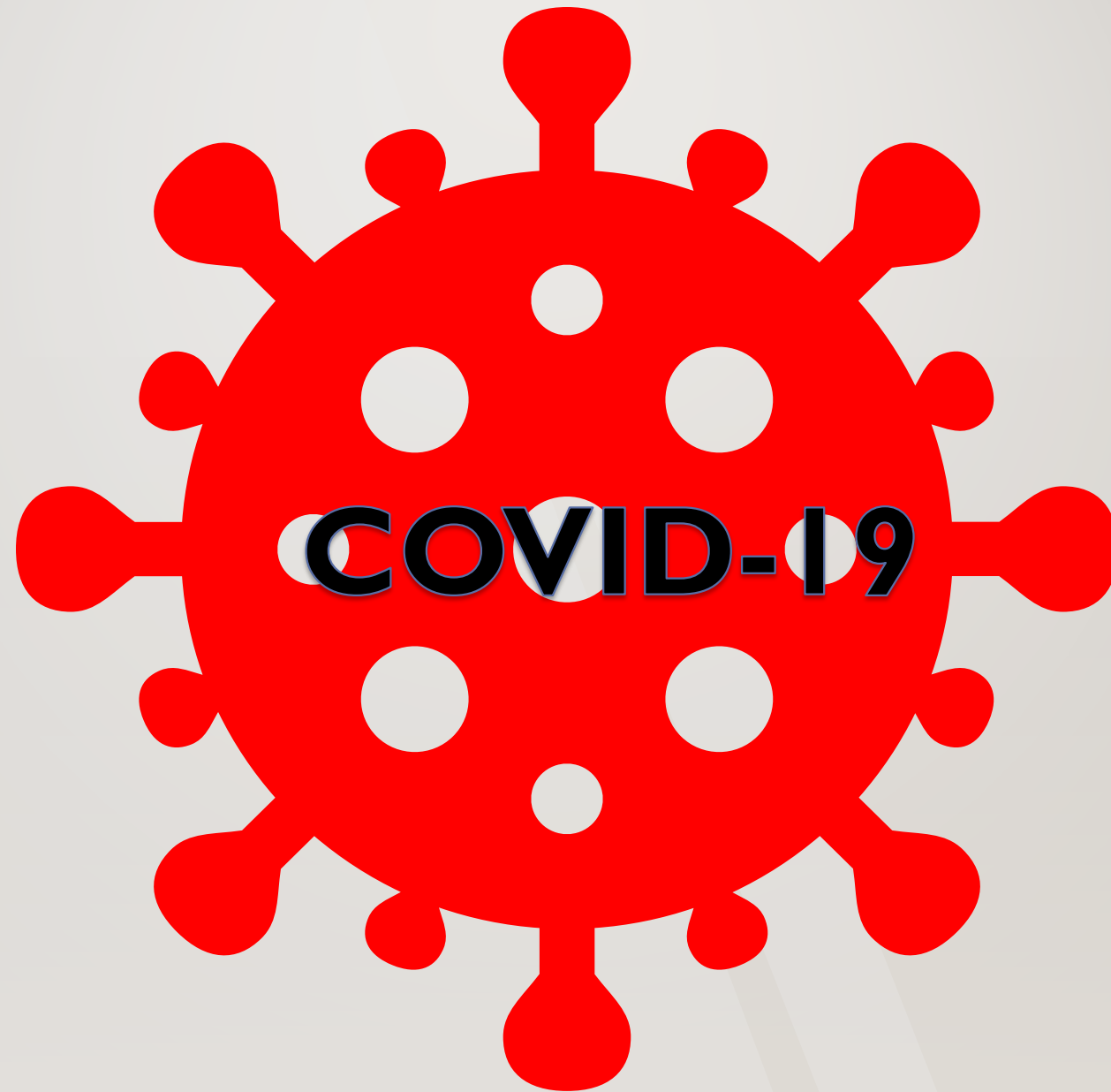
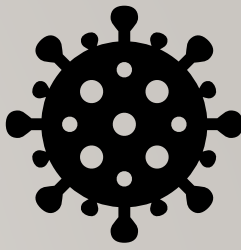
Non-Performing Advances

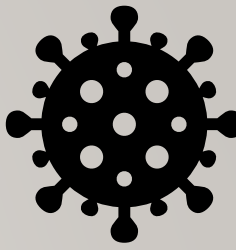


Disruption



Merger of Banks and Other Environmental Changes





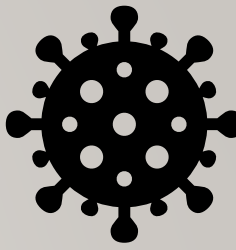
The closure of businesses and total lock down was unprecedented. The reverberations are felt today and will be felt for a long time. We have lost those 6 months forever. In fact 2020 is considered as year not existing.

## DISRUPTION

### Primary Impact

1. No PHYSICAL movement
2. PSB, by definition, are customer contact based
3. Lack of preparedness of Banks for working offsite
4. Lack of preparedness by Auditors
5. Unprepared regulators – Bank Branch Audit?
6. Regulators and Government working overtime.



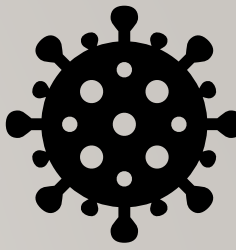


RBI has released 38 circulars upto February 5, 2021 only relating to the COVID-19 directions. List of such circulars is available on RBI website and [here](#)

## DISRUPTION – PROACTIVE REGULATOR

### The important circulars for conducting audit

1. March 27, 2020 Covid Regulatory Package amended May 23, 2020
2. April 17, 2020 Asset Classification
3. April 17, 2020 Resolution of Timelines under Framework of Stressed Assets
4. June 4, 2020 Interest Subvention under prompt repayment scheme (dairy, fisheries, animal husbandry, STL agri
5. August 6, 2020 MSME restructuring of Advances
6. August 6, 2020 Loans against Gold ornaments/jewelry non-agri use
7. September 7. 2020 Financial parameters – Covid 19 stress.
8. October 27, 2020 Exgratia payment of interest (difference between Compound and simple interest.



**DISRUPTION –  
PROACTIVE REGULATOR**

## COVID Package

### 1. Rescheduling of repayments

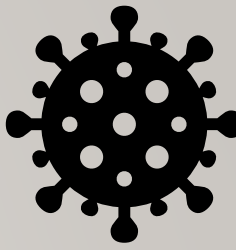
1. All term loans to be given moratorium of 3 months from March 1 upto May 31. Extended to August 30.
2. All interest recovery to be deferred on CC from March 1 to May 31
3. The Advance must be SMA2 or lower to be qualified for this relief on February 29, 2020

### 2. Easing of Working Capital financing

1. Recalculate all DP by reducing margin requirement. These relief to be justified in supervisory assessment

### 3. Classification as SMA and NPA

1. Those accounts which are selected for the relief will not be classified as NPA only because of the relief under this circular as the fallout is due to extraneous circumstance and not borrower weakness

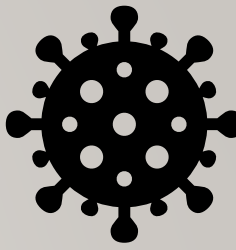


## DISRUPTION – PROACTIVE REGULATOR

### COVID Package 4. Other Conditions

1. Lending institutions shall frame Board approved policies for providing the above-mentioned reliefs to all eligible borrowers, *inter alia*, including the objective criteria for considering reliefs under paragraph 4 above and disclosed in public domain.
2. Wherever the exposure of a lending institution to a borrower is ₹ 5 crore or above as on March 1, 2020, the bank shall develop an MIS on the reliefs provided to its borrowers which shall *inter alia* include borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.
3. The relief period will not be part of the calculation for overdue or out of order.





## DISRUPTION – PROACTIVE REGULATOR

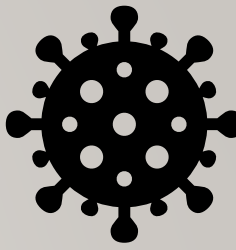
### Provisioning

1. In respect of accounts in default but standard where provisions of paragraphs (2) and (3) above are applicable, and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters as under:

- (i) Quarter ended March 31, 2020 – not less than 5 per cent
- (ii) Quarter ending June 30, 2020 – not less than 5 per cent

2. All other provisions required to be maintained by lending institutions, including the provisions for accounts already classified as NPA as on February 29, 2020 as well as subsequent ageing in these accounts, shall continue to be made in the usual manner.



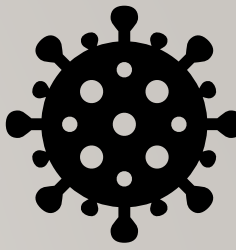


**DISRUPTION –  
PROACTIVE REGULATOR**

**Micro, Small and Medium Enterprises (MSME) sector –  
Restructuring of Advances** August 6, 2020 (see 1.1.2019 and 11.02.2020 circulars)

1. Existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions:

- i. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020.
- ii. The borrower's account was a 'standard asset' as on March 1, 2020.
- iii. The restructuring of the borrower account is implemented by March 31, 2021.
- iv. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 1, 2020.



**DISRUPTION –  
PROACTIVE REGULATOR**

**Micro, Small and Medium Enterprises (MSME) sector –  
Restructuring of Advances** August 6, 2020 (see 1.1.2019 and 11.02.2020  
circulars) contd.

v. As hitherto, for accounts restructured under these guidelines, banks shall maintain additional provision of 5% over and above the provision already held by them

vi. Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.

vii. As hitherto, for accounts restructured under these guidelines, banks shall maintain additional provision of 5% over and above the provision already held by them.

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Merger of Banks and Other Environmental Changes



## MERGER OF BANKS AND OTHER ENVIRONMENTAL CHANGES -MERGER

- Two systems one bank – banks within bank
- NPA recognition
  - Borrower wise
  - Date of NPA
  - Recovery in Borrower account
  - Part of same consortium
- Merged banks giving different ratings before merger
- Income recognition – different systems
- Litigations





## MERGER OF BANKS AND OTHER ENVIRONMENTAL CHANGES - OTHER ENVIRONMENTAL CHANGES

- Supreme Court interim order and final order
- Valuation of Security
- Date of NPA for all borrower accounts under moratorium
- Notional NPA – provision under standard assets
- Provision in 2020-21 is not for NPA
- RBI instituting SSM or Senior Supervisory Manager concept for monitoring Audit.
- Divergence in NPA reporting as per RBI



THANK YOU

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# Connect with us

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