



**Anand Branch of
WIRC of ICAI**

Seminar on Bank Audit

Bank Branch Audit – Overview
Advances & IRACP Norms

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CA Niranjan Joshi
23.03.2023
Anand

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Agenda

Audit Planning

Verification of Advances

IRACP / NPA

LFAR – Effective Reporting

Certification

financial Audit

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Agenda

financial Audit
information statements

Your Backbone – Strong Planing

Ethical Compliance

Compliance with Standards on Auditing

Compliance with Guidance Note

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Guide to the COE

Part 1	Complying with the Code, fundamental principle and conceptual framework	Section 100 to 199
Part 2	Professional Accountants in service	Section 200 to 299
Part 3	Professional accountants in public practice	Section 300 to 399
Part 4	Independence Standards	Section 400 to 999
Part 4 A	Independence for Audit and Review Engagements	Section 400 to 899
Part 4 B	Independence for assurance engagements other than audit and review	Section 900 to 999

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Fundamental Principles

Integrity - Straightforward and honest approach, Fair dealing and truthfulness, Do not associate with communication or information containing false or misleading information, Steps to disassociate with above information once known

Objectivity - Not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others. Not to undertake a professional activity if it unduly influences the accountant's professional judgment.

Professional Competence and due care - Attain and maintain professional knowledge and skill, Act diligently and in accordance with applicable technical and professional standards, Ensure appropriate training and supervision of subordinates

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Fundamental Principles

Confidentiality - Maintain confidentiality of information acquired as a result of professional and employment relationships, Disclose information when required by law or authorised by the client, Consider relevant factors while deciding disclosure of confidential information, Maintain confidentiality even after the end of relationship with client


Professional Behaviour - Avoid activities that impair the reputation of the profession, Do not make exaggerated claims for services offered, and disparaging references or unsubstantiated comparisons with others, Do not advertise any professional/other facts which are in violation of Advertisement Guidelines of ICAI

Threats to avoid
Self Interest Threat, Self Review Threat, Advocacy Threat, Familiarity Threat, Intimidation Threat.

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Your Backbone – Strong Planning

Ethical Compliance

Compliance with Standards on Auditing

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Standards on Auditing




- SQC1 – Quality Control for Firms
- SA 200 – Basic Principles Governing Audit.
- SA 230 – Audit Documentation
- SA 500 – Audit Evidence
- SA 400 – Risk Assessment and Internal Control
- SA 300 – Audit Planning
- SA 220 – Quality Control for Audit Work
- SA 299 – Joint Audit of Financial Statements
- SA 310 – Knowledge of Business
- SA 600 – Using work of another auditor

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Audit Execution

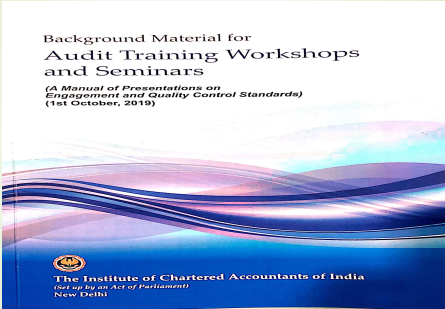


- SA 320 – Audit Materiality
- SA 520 – Analytical Procedures
- SA 530 – Audit Sampling
- SA 220 – Quality Control For Audit Work
- Analyse and Evaluate the errors in samples selected
- Get the rectification / MOC Passed
- Work as per Audit Program and schedule
- Prepare reports according to requirement
- Qualify in Audit Report if necessary
- Knowledge about CAAT tools

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Background Material for SA's



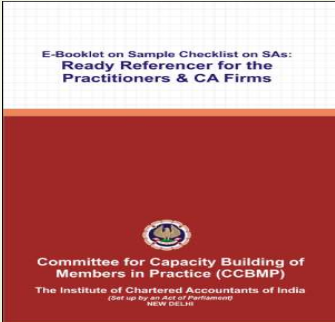
Background Material for
Audit Training Workshops
and Seminars
(A Manual of Presentations on
Engagement and Quality Control Standards)
(1st October, 2019)

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Sample Checklists



E-Booklet on Sample Checklist on SAs:
Ready Referencer for the
Practitioners & CA Firms

Committee for Capacity Building of
Members in Practice (CCBMP)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
NEW DELHI

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Your Backbone – Strong Planing

Ethical Compliance

Compliance with Standards on Auditing

Compliance with Guidance Note

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Branch Audit

GN (A & AS) 16 (Revised 2023)

**Guidance Note on
Audit of Banks (2023 Edition)**

Read and Follow

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Objective

Compliance with:

- RBI / ICAI Guidelines
- Terms of Appointment
- Accounting Standards
- Standards on Auditing

Other Certification work

Effective Reporting

Completion of Work in Time

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Audit Trail

- ☞ Manual Registers / Records
- ☞ Core Banking Solution CBS
- ☞ Management Information System
- ☞ Data made available for remote audit
- ☞ Lack of Adequate Information
- ☞ Lack of Adequate Knowledge of system
- ☞ Lack of audit Trail

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Reserve Bank of India - Index To

भारतीय रिज़र्व बैंक
Reserve Bank of India
RBI Circulars February - 2021

Circular Number	Date Of Issue	Department	Subject	Month
RBI/2020-2021/105 A.P. (DIR Series) Circular No. 12	26.2.2021	Financial Markets Regulation Department	Investment by Foreign Portfolio Investors (FPIs) in Defaulted Bonds - Relaxations	February
RBI/2020-2021/104 DOOR No.CBE.BC-452 1.01.03.2020-21	24.2.2021	Department of Regulation	Large Expressions Framework - Exemptions	August
RBI/2020-2021/103 DOOR ABE.BC.No-4411 4.06.01/10/2020-21	24.2.2021	Department of Regulation	Implementation of Section 51A of UAPA, 1967 - Updates to UNSC's 1507/1509 ISL (Chawli) & AS- Qatar Sanctions List Amendment of 92	September

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Agenda

- Audit Planning
- Verification of Advances
- IRACP / NPA
- LFAR – Effective Reporting
- Certification

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Types of Advances

Fund Based – Outflow of Funds immediate

Cash Credit – Clean, Hypothecation
Overdrafts – Secured/Unsecured
Term Loans – Fixed Period / Asset Created
WCTL – Fixed Period/Renewable
Bills – Purchase/Discounted or Collection
Exports Credit – Pre/Post Shipment
Imports Credit – Capital Goods/RM

Non Fund Based – Outflow of Funds not immediate
 Letter of Credit (LC)/ Letter of Guarantee (LG/BG)/ Letter of Comfort (LoC)/ Buyers Credit (BC)/ Standby Letter of Credit (SBLC)/ Deferred Payment Guarantee (DPG)

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Types of Advances

Security wise Classification
 Secured (Prime / Collateral) (Tangible / Intangible)
 (Hypothecation, Pledge, Mortgage, Assignment)

Unsecured

Sector wise Classification
 Priority Sector Advances – (Agriculture, Education, Housing, Export Credit, MSME, Social Infra, Renewable Energy)
 Other (Non Priority Sector) Advances

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Verification of Advances

Set up materiality

Selection of Sample

Testing of Sample Selected

Noting down the observations

Discussion with the branch Management

Reporting appropriately

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Sample Selection - Advances

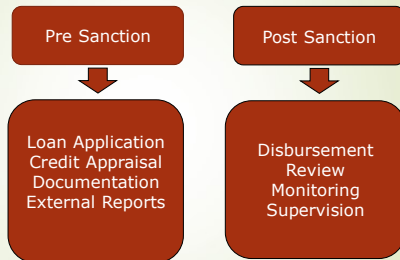
Cash Credit	25% – 40% Sanction 25% – 40% Renewals
Overdraft	5% – 10% Against Security 75% – 100% Clean
Term Loans	20% – 30% Sanction
Import / Export	15% – 25% of Sanction
BG	15% – 20% of Sanction
LC	15% – 20% of Sanction
Loc/BC	50% – 75% of Sanction

10% of Total Advances of Branch OR Rs. 10 Crores whichever is lower – 100%

Schematic / Retail Loans at least 5% – 10% of each type
(Housing/Vehicle/Personal/Against Deposit/Gold/Education/etc.)

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Audit Area



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Loan Application/ Credit Appraisal

Application Form
 KYC Compliance
 Project Reports / Feasibility Report
 Latest audited financial statements
 Statutory Registrations
 NOCs from Government Departments
 Adequate security cover
 Sanctions within the discretionary DOP
 Change in the terms of sanction is ratified by appropriate authority.
 Short Review / Technical Review
 Adhoc Limits / Temporary limits

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25 **Adhoc/Short Review – 21.08.2020**

Banks are expected to have a detailed Board approved policy on methodology and periodicity for review/renewal of credit facilities within the overall regulatory guidelines, and adhere to the same strictly.

However, an analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain supervisory concerns, including that of 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, and non-coverage of review/renewal activities under the concurrent audit/internal audit mechanism.

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26 **Adhoc/Short Review – 21.08.2020**

In this connection, we reiterate that timely and comprehensive review/renewal of credit facilities should be an integral part of the Board approved loan policy and credit risk management framework, and **banks should avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons.**

Banks are also advised to capture all the data relating to regular as well as ad-hoc/short review/renewal of credit facilities in their core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. Further, the processes governing review/renewal of credit facilities should be brought under the scope of concurrent/internal audit/internal control mechanism of banks with immediate effect.

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27 **Documentation**

Sanction T & C to be accepted by the borrower.

Execution of Loan documents, as per the sanction letter & loan policy.

Fresh loan documents are obtained on change in limit, change in constitution of the borrower

Original documents are held in safe custody

Charge at Appropriate Authorities Registered

Updation of Information in CBS Master

Compliance with Stamp Duty

Adequate Insurance of Securities and Bank's Clause.

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External Reports / Documents

Confidential report & NOC from existing banker.

CIBIL Report – Adverse comments / Score

Valuation of Securities.

Credit Rating – Internal / External

Due Diligence Certificate [Multiple/ Consortium]

Vetting of Legal Documents by Legal Expert.

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Disbursement

Client Master in CBS Properly recorded.

Verify that Disbursement done only after compliance of all terms & conditions of Sanction.

Acceptance of the borrower confirming the terms & conditions of sanction is obtained.

Home Loans/ term loans to be disbursed directly to the Builder / Owner/ supplier.

Post Disbursement Inspection

Monitoring of End Use of Funds

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Review / Monitoring / Supervision

TOL / TODs

Stock Statements / Drawing Power

Insurance Policy

Submission of Audited FS

Credit Audit / Stock Audit etc

Visit Reports

Account Statements / Operations

Review / Renewal of Proposals

Early Warning Signals (EWS)

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IRACP - NPA

Policy of **Income Recognition** should be objective & based on record of recovery rather than on any subjective considerations.

Classification of Assets on the basis of objective criteria, which ensure a uniform & consistent application of the norms.

Provisioning made on the basis of the classification of assets based on the period for which the asset has remained non-performing & the availability of security & the realisable value thereof.

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Asset Classification

PERFORMING ASSET (Standard Assets)	Performance (Int + Inst) RISK
Account is <u>performing</u> & <u>does not</u> carry more than <u>normal risk</u> attached to the business.	
NON-PERFORMING ASSET (NPA) (Sub Standard, Doubtful, Loss)	Performance (Int + Inst) RISK
Asset <u>ceases to generate</u> income. <u>Higher Risk than Normal Risk</u> attached to business. Non performing as per various criteria for various types of loans.	

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Identification of NPA

Term Loans

Interest and/or Installment remains **overdue** for a period of **more than 90 days**

[Loans such as Housing / education / Staff Loans etc., calculate overdue after the end of moratorium period, if any]

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.

Important to note due dates

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Identification of NPA

Bills Purchased / Discounted

Bill Purchased / Discounted remains overdue for a period of **more than 90 days**

Derivative Transactions

Overdue receivables representing positive mark to market value of derivative contract remaining unpaid for a period of **90 days** from specified due date

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Identification of NPA

Liquidity Facility

Remains outstanding for **more than 90 days** in respect of securitisation transaction.

Credit Card Dues

If minimum amount due, as mentioned in the statement, is not paid fully within **90 days** from the due date.
(RBI Circular dated 16.07.2015)

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Identification of NPA

Agricultural Advances

Short Duration Crop – If Interest or installments remains overdue for two crop seasons
(Short duration crops are which are not long duration crops)

Long Duration Crop - Interest or installments remains overdue for one crop seasons
(crop season longer than 1 year)

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.

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Identification of NPA

Farm Credit extended to agricultural activities as listed at Annex 2 of RBI Master Circular RBI/2021-2022/104 DOR.No.STR.REC.55/21.04.048/ 2021-22*

Farm Credit should include:

A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in **Agriculture only**. This will include:

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Identification of NPA

- (i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture
- (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,
- (iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
- (iv) Loans to farmers up to ₹ 50 Lakhs 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

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Identification of NPA

B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz. dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of ₹2 crore per borrower. This will include:

- (i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture
- (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)

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Identification of NPA

(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans up to ₹ 50 Lakhs against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

C. Loans to Primary Agricultural Credit Societies (PACS), Farmers Service Societies (FSS) and Large sized Adiwasli Multi purpose Societies (LAMPS) for on lending to agriculture.

In respect of agricultural loans, other than those specified in the Annex - 2, identification of NPAs would be done on the **same basis as non-agricultural advances**, which, at present, is the **90 days delinquency norm**.

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Identification of NPA*

Cash Credit / Overdraft

The account is 'out of order' if:
Outstanding Balance remains continuously in excess of sanctioned limit/drawing power for 90 days.

or

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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Delinquency Norms of 90 days

More than 90 Days	90 Days
Term Loans	CC
Bills	OD
Liquidity Facility	Derivative Transaction
Project under Implementation	Credit Card Dues

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Identification of NPA

IRACP Circular on 12.11.2021/01.04.2022

Specification of due date/repayment date - Should be complied before

SMA separate for TL and CC (07.06.2019 RBI Circular)*

SMA to be calculated as a Day End Process – same like due amount – not paid on the date when its due

SMA applicable to all types of loans

Out of Order for CC/OD*

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Identification of NPA

IRACP Circular on 12.11.2021

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

Upgradation of Accounts

In order to avoid any ambiguity in this regard, it is clarified that loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

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Classification Norms

Availability of security or net worth should not be considered while treating advance as NPA

Temporary deficiencies
 Outstanding Balance in account based on the DP calculated from stock statements older than 3 months would be deemed as irregular & if such irregular drawings are permitted for a period of 90 days, account needs to be classified as NPA. (TD)

Non-renewal/ Non – regularisation of regular/ adhoc limit within 180 days from the due date. (TD)

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Classification Norms

Upgradation

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 NPA and may be classified as 'Standard' account. For restructured accounts refer para 12.2 and 15.2 of master circular.

Accounts regularised near about the BS Date

Care should be taken that a solitary or few credits in the account made at/near the balance sheet date extinguishing the overdue interest/principal is not the only criteria for classifying the asset as standard.

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Classification Norms

Classification Borrower wise and not facility wise (Qua borrower)

All facilities granted to a borrower shall be treated as NPA & not only that facility which has become irregular.

Advances to Primary Agricultural Credit Society (PACS) and Farmers Service Societies (FSS) ceded to commercial banks. Qua borrower concept not to apply. Only facility which is overdue will be classified as NPA.

Consortium Advances

- Member banks shall classify the accounts according to their own record of recovery.
- Bank needs to arrange to get their share of recovery or obtain an express consent from the Lead Bank.

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Classification Norms

Erosion in Value of Security

Where realisable value of security is less than 50% of the value assessed, account to be straightaway classified as Doubtful Asset.

Where realisable value of security is less than 10% of outstanding balance, account to be straightaway classified as Loss Asset.

Advances against TD/KVP/NSC/IVP/LIP etc.

These advances need not be treated as NPA provided adequate margin is available. Advances against Gold loans, government securities are not covered in this criteria.

Central Government guaranteed advance to be classified as NPA only if Government repudiates the guarantee when invoked.

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Provisioning Norms

Standard Asset (5.5)	Farm Agricultural and SMEs Sectors	0.25 %
	Commercial Real Estate (CRE) Sector	1.00 %
	(CRE) Residential Housing Sector	0.75 %
	All Others not included above	0.40 %
	Housing Loans (Teaser)	2.00 %
Sub Standard Asset	Total Outstanding	15.00 %
	If Total Outstanding is Unsecured	25.00 %
Bad & Doubtful Asset	Doubtful I – upto 1 year (Secured Portion)	25.00 %
	Doubtful II – 1 to 3 years (Secured Portion)	40.00 %
	Doubtful III – more than 3 years	100.00 %
	Unsecured Portion of all I, II	100.00 %
Loss Asset	Total Outstanding	100.00 %
Provision Coverage Ratio (PCR)	Banks should have total Provisioning Coverage Ratio of not less than 70% as on 30.09.2010	

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Write Off – NPA's

Banks may write off accounts at HO Level even though the advances are still outstanding at branches.

It is necessary that provision is made as per the classification accorded to the respective accounts .

The banks should either make full provision as per the guidelines or write off such advances & claim such tax benefits as are applicable, by evolving appropriate methodology in consultation with their auditors/tax consultants. Recoveries made in such accounts should be offered for tax purposes as per the rules.

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Part B – Guidelines for Restructuring

Four Broad Categories:

Advances extended to Industrial Units
Advances extended to IU under CDR
Advances to SME
All other advances

CDR mechanism available only to borrowers engaged in industrial activities.

Eligibility

Any account classified under standard, sub standard and doubtful categories.

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Restructuring of Advances

Restructuring of Advances

(Upto 1500 Crores)

A restructured account is one 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.

Exceptions

- MSME Accounts
- Accounts covered by Natural Calamity
- Project Loans
- Accounts covered by COVID 19 RBI Circular
- Take out Finance

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Eligibility Criteria for Restructuring

Restructuring cannot be done retrospectively.

While the restructuring proposal is under consideration, usual asset classification norms would continue to apply.

Asset Classification status on date of approval of restructuring relevant to decide the asset classification status after such restructuring

Restructuring should be subject to customer Application / consent for terms and conditions.

Financial viability should be established and there is reasonable certainty of repayment.

Borrowers indulging in frauds & malfeasance are ineligible.

BIFR cases are not eligible without their express approval.

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Restructuring of Advances

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- Standard Asset would get reclassified as sub standard immediately (Downgrade)
- Account which is already NPA would continue to have the same classification.
- Additional finance would be treated as standard up to a period of one year.
- All restructured accounts, classified as NPA upon restructuring would be eligible for upgradation after observation of satisfactory performance during the specified period. (during 1year it should not be out of order for more than 90 days and no overdue at the end)

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Restructuring – Provisioning Norms

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- Provision on restructured advance as per extant provisioning norms.
- Standard restructured advances will attract higher provision for first 2 years.
- NPA restructured advances when upgraded to standard attract higher provision in first year.
- Diminution in fair value is an economic loss to bank & needs additional provision on each BS date.
- For advances below Rs.1 crore, 5% of total exposure can be provided notionally for such diminution in fair value of advance.

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RBI Circular dated 07.06.2019

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Prudential Framework for Resolution of Stressed Assets

Effective date: Immediate

Apply to:

- Scheduled Commercial Banks (excluding RRBs)
- All India Term Financial Institutions (NABARD, NHB, EXIM Bank, SIDBI)
- Small Finance Banks
- Systematically important Non-Deposit taking NBFC's and Deposit taking NBFC's

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RBI Circular dated 07.06.2019

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Purpose

Providing framework for early recognition, reporting and time bound resolution of stressed assets

These directions are issued without prejudice to issuance of specific directions, from time to time, by the Reserve Bank to banks, in terms of the provisions of Section 35AA of the Banking Regulation Act, 1949, for initiation of insolvency proceedings against specific borrowers under the Insolvency and Bankruptcy Code, 2016 (IBC).

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RBI Circular dated 07.06.2019

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Framework for Resolution of Stressed Assets

Early Identification and reporting of stress
Implementation of Resolution Plan
Implementation conditions of Resolution Plan
Delayed implementation of Resolution Plan
Prudential Norms

Supervisory Review
Disclosures
Exceptions
Withdrawal of extant instructions

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RBI Circular dated 07.06.2019*

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Early Identification and reporting of stress

SMA Sub-categories	Basis for classification Principal or interest payment or any other amount wholly or partly overdue between
SMA - 0	1 to 30 days
SMA - 1	31 - 60 days
SMA - 2	61 - 90 days

For Revolving credit facilities like Cash Credit/OD

SMA Sub-categories	Basis for classification Outstanding Balance remains continuously in excess of sanctioned limit or Drawing power, whichever is lower, for a period of
SMA - 1	31 - 60 days
SMA - 2	61 - 90 days

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RBI Circular dated 07.06.2019

61 **Early Identification and reporting of stress**

Lenders shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC), on all borrowers having aggregate exposure of Rs. 50 Millions (5 Cr) and above with them on monthly basis.

Further Lenders shall submit a weekly report on instances of defaults of all borrowers having aggregate exposure of Rs. 50 Millions (5 Cr) and above on close of business on every Friday

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RBI Circular dated 07.06.2019

62 **Implementation of Resolution Plan**

All lenders must put Board Approved Policy Expected that the lenders initiate the process of implementing Resolution Plan even before a default

Once default is reported, "Review Period" of 30 days, wherein lenders may decide on resolution strategy, may choose to initiate legal proceedings for insolvency or recovery.

If RP is to be implemented, all lenders to sign inter creditor agreement (ICA) during Review Period. Decision to be taken as agreed by lenders representing 75% by value of total outstanding credit facilities (FB+NFB) and 60% of lenders by number.

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RBI Circular dated 07.06.2019

63 **On or after the reference date, resolution plan must be implemented within 180 days from end of review period**

Aggregate exposure of the borrower to lenders	Reference Date
Rs. 20 Billion (2000 Crores) and Above	Date of these directions
Rs. 15 Billion (1500 Crores) and above but less than Rs. 20 Billion (2000 Crores)	January 1, 2020
Less than Rs. 15 Billion (1500 Crores)	To be announced in due course

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64 **RBI Circular dated 07.06.2019**

Implementation conditions of Resolution Plan

1 billion (100 Cr) and above exposure – Independent Credit Evaluation (ICE) of the residual debt by Credit Rating Agencies (CRAs) specifically authorised by RBI for this purpose.

5 billion (500 Cr) and above exposure – Two such Independent Credit Evaluation (ICE) of the residual debt by Credit Rating Agencies (CRAs) specifically authorised by RBI for this purpose.

RP is implemented if following conditions are met.

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65 **RBI Circular dated 07.06.2019**

RP Not involving Restructuring / Change in Ownership shall be deemed to be implemented only if the borrower is not in default with any of the lenders as on 180th day from the end of Review Period

RP Involving Restructuring / Change in Ownership shall be deemed to be implemented only if following conditions are met:

All related documentation, creation of security/charge / perfection of security are completed by the lenders

New Capital Structure and changes in terms of conditions of the existing loans gets duly reflected in the books of the lenders and borrower

Borrower is not in default with any of the lenders.

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66 **RBI Circular dated 07.06.2019**

Delayed implementation of Resolution Plan

Additional provision required when viable RP is not implemented

Timeline for implementation of viable RP	Additional Provision as % of total outstanding
180 days from the end of review1 period	20%
365 days from the commencement of Review Period	15%

Additional provision is to be made over and above the higher of following (max 100% of outstanding)

- Provisions already held.
- Provisions required to be made as per asset classification status of the borrower account.

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Prudential Norms – Restructuring

Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower.

Restructuring may involve 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; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.

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Non exhaustive indicative list of “**financial difficulty**”
(Based on Basel Committee Guidelines)

A default:

- Borrower not in default, but is probable that the borrower will default on any of its exposures in foreseeable future without the concession,
- Borrowers outstanding securities have been delisted
- Actual performance vs estimates, cash flows to be assessed insufficient to service all of its loans or debt securities
- Borrowers credit facilities are NPA
- Borrowers existing exposures are categorised as exposures that have already evidenced difficulty in borrowers ability to repay in accordance with banks internal credit rating system

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Asset Classification

On restructuring account will be downgraded from Standard to Substandard. NPAs will remain in same category

Upgradation

Only when all the outstanding loan / facilities in the account demonstrate ‘satisfactory performance’ during the period from the date of implementation of RP up to the date by which at least 10% of the sum of outstanding principal debt as per RP and interest capitalisation sanctioned as a part of the restructuring, if any, is repaid

(provided that account can not be upgraded before one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of RP)

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In addition to the satisfactory performance

In case of aggregate exposure of Rs. 1 Billion and above
External credit rating of investment grade BBB- or better

In case of aggregate exposure of Rs. 5 Billion and above
Two such external credit ratings of investment grade BBB- or better

On failure to demonstrate satisfactory performance during monitoring period, asset classification upgrade is subjected to fresh restructuring / change of ownership framework as per IBC and additional provision of 15% for such accounts should be made at the end of review period.

Provisioning as laid out in the Master Circular on Prudential Norms on IRAC dated 01.07.2015

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RBI Resolution Framework for COVID 19 related stress

RBI Circular dated August 6, 2020

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Principle based resolution framework for addressing borrower defaults as per RBI Circular dated June 7, 2019.

Corporate Borrowers having exposure more than 25 Cr
Personal Loans
Other Exposures

Expert committee (07.09.2020 RBI Circular)

Board approved policy a must
Permitted features of resolution plan
Asset Classification
Disclosure in Financial Statements

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What is MSME – 21.08.2020 RBI Circular

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Earlier guidelines were through Gazette Notification No. S.O. 1642 (E) dated 09.09.2006

Definition Modified vide Gazette Notification No. S.O. 2119(E) dated 26.06.2020 (By GOI)

Udyam Registration Certificate – Mandatory

Those Enterprises having Udyog Aadhar Memorandum, they should take Udyam Registration Certificate before 31.03.2021

Value of Plant and Machinery / Equipment should mean WDV as at the end of Financial year.

Banks should update their Credit Policy/ Classification Criteria

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What is MSME – GOI Notification 26.06.2020

Classification of Enterprises

Enterprise	Criteria
Micro Enterprises	Investment in Plant & Machinery Does not exceed <u>one crore</u> rupees Turnover does not exceed <u>five crore</u> rupees
Small Enterprises	Investment in Plant & Machinery Does not exceed <u>ten crore</u> rupees Turnover does not exceed <u>fifty crore</u> rupees
Medium Enterprises	Investment in Plant & Machinery Does not exceed <u>fifty crore</u> rupees Turnover does not exceed <u>two hundred & fifty crore</u> rupees

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IRACP Norms – NPA

- Check compliance required for Revised LFAR
- Verify the Opening NPA statement and compare the same with Closing NPA statements
- Verify the dates, amounts, value of security, Asset Classification Status etc.
- Verify the account operation in NPA accounts to check whether all income which was unrealized, has been actually reversed at the time of NPA Classification
- Check whether % of provision is properly calculated
- Check whether bank has identified Probable NPAs
- Check whether appropriate provision for probable NPAs is calculated
- Check whether Income unrealized on Probable NPAs is fully provided for.
- Daily marking of NPAs from 01.07.2021

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Questions



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