

इंडियन बैंक



Indian Bank

इलाहाबाद

ALLAHABAD

Indian Bank & Allahabad Bank are now one.

Awareness programme on Prudential Norms on IRAC and Provisioning pertaining to Advances

03.01.2021

CO: Credit Monitoring Department-I



On recommendations of Narsimham Committee on Banking Sector Reforms (1991) , **PRUDENTIAL ACCOUNTING NORMS** have been implemented in Banks in India (1993)

PRUDENTIAL ACCOUNTING NORMS

- Income Recognition
- Asset Classification
- Provisioning

Income in the Loan account is booked and accounted for , till the time it is defined as Standard as per RBI Guidelines

Its now an established rule for the last 30 years but has gained importance in view of recent RBI guidelines dated 01.10.2021 & 12.11.2021.

*Some finer points have been added which requires strict compliance by the **Bank** as well as the **customers***

DEFINITION-SMA (Special Mention Accounts)

- Loan Accounts invariably moves through various stages of SMA (except Fraud or Specifically marked NPA)
- Special Mention Accounts are those which are exhibiting signs of incipient stress resulting in borrower defaulting in servicing of debt obligations

Loans Other Than Revolving Credit facilities		Loans in the Nature of Revolving Credit Facilities like CC / OD	
SMA Sub Categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	SMA Sub Categories	Basis for classification –Outstanding balance remains continuously in excess of the sanctioned limit or drawing power , whichever is lower, for a period of:
SMA 0	Upto 30 days		
SMA 1	More than 30 days and upto 60 days	SMA 1	More than 30 days and upto 60 days
SMA 2	More than 60 days and upto 90 days	SMA 2	More than 60 days and upto 90 days

In the above context, it is further clarified that borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date

Example:

- ❖ If **due date** of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the **day-end process** for this date, the date of overdue shall be March 31, 2021.
- ❖ If it continues to remain **overdue**, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of **30 days** of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.
- ❖ Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

A non performing asset (NPA) is a loan or an advance where

- Loan AC (DL or TL) – Interest and/ or Installment of Principal remain **Overdue** (when not paid on **Due Date fixed by the Bank**) for a period of more than 90 days
 - Cash Credit Or Overdraft AC , if remains “**Out Of Order**” for a period of more than 90 days
- Out Of Order:**

An account shall be treated as ‘**out of order**’ if:

- ❖ *the outstanding balance in the CC/OD account **remains continuously in excess** of the 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***

A non performing asset (NPA) is a loan or an advance where

- Limits not Reviewed for more than 180 days from the **due date of Renewal**
- Limit allowed to avail against Stock statement of more than 180 days old
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted. (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)
- **AGRI Loans** : the instalment of principal or interest thereon remains overdue for two crop seasons for **short duration** crops.
- **AGRI Loans**: the instalment of principal or interest thereon remains overdue for one crop season for **long duration** crops.
- 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.

All the previously discussed Guidelines are in existence for the last 30 years although being fine tuned from time to time by RBI

As per the Clarification on above Guidelines by RBI dated 12.11.2021, it is expected that Banks should be **more transparent** to their borrowers with regard to **SMA & NPA identification**

Further it is also expected that customers should also be **constructively engaged with the Banks** for maintaining the asset quality of their loans in a **better informed scenario**, particularly about the criteria for SMA stages and situation for being declared as NPA/ Defaulted Borrower and initiation of Recovery measures

Changes directed for compliance to attain the previously discussed points and to be incorporated in Sanction Documents:

- **Exact Due Date of Repayment of Loan**
- **Frequency of Repayment**
- **Break up between Principal & Interest to be repaid**
- **If loan with moratorium of Principal & Interest - exact date of commencement of repayment**
- **Examples of SMA / NPA classification dates should also be mentioned for better understanding of the customer**

Above details are to be provided to customer at the time of Loan sanction as also on subsequent changes , till the time loan is fully paid.

Above Compliance is to be ensured **on or before 31.12.2021** for **fresh Loans**
For existing Loans , the same is to be complied at the time of Review/ Renewal

Illustrative Movement of an account to SMA to NPA

Due date of Payment	Payment date	Payment Covers	Age of oldest dues in days	SMA / NPA categorisation	SMA since date / SMA Class date	NPA categorisation	NPA Date
01.01.2022	01.01.2022	Entire dues upto 01.01.2022	0	NIL	NA	NA	NA
01.02.2022	01.02.2022	Partly paid dues of 01.02.2022	1	SMA 0	01.02.2022	NA	NA
01.02.2022	02.02.2022	Partly paid dues of 01.02.2022	2	SMA 0	01.02.2022	NA	NA
01.03.2022		Dues of 01.02.2022 not fully paid 01.03.2022 is also due at EOD 01.03.2022	29	SMA 0	01.02.2022	NA	NA
		Dues of 01.02.2022 fully paid Due for 01.03.2022 not paid at EOD 01.03.2022	1	SMA 0	01.03.2022	NA	NA
		No payment of full dues of 01.02.2022 and 01.03.2022 at EOD 03.03.2022	31	SMA 1	01.02.2022 03.03.2022	NA	NA
		Dues of 01.02.2022 fully paid, Dues for 01.03.2022 not fully paid at EOD 01.03.2022	1	SMA 0	01.03.2022	NA	NA
01.04.2022		No payment of dues of 01.02.2022 and 01.03.2022 and amount due on 01.04.2022 at EOD 01.04.2022	60	SMA 1	01.02.2022 03.03.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.04.2022 at EOD 02.04.2022	61	SMA 2	01.02.2022 02.04.2022	NA	NA
01.05.2022		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 01.05.2022	90	SMA 2	01.02.2022 02.04.2022	NA	NA
		No payment of dues of 01.02.2022 till 01.05.2022 at EOD 02.05.2022	91	NPA	NA	NPA	02.05.2022
01.06.2022	01.06.2022	Fully paid dues of 01.02.2022 at EOD 01.06.2022	93	NPA	NA	NA	02.05.2022
01.07.2022	01.07.2022	Paid entire dues of 01.03.2022 & 01.04.2022 at EOD 01.07.2022	62	NPA	NA	NA	02.05.2022
01.08.2022	01.08.2022	Paid entire dues of 01.05.2022 & 01.06.2022 at EOD 01.08.2022	32	NPA	NA	NA	02.05.2022
01.09.2022	01.09.2022	Paid entire dues of 01.07.2022 & 01.08.2022 at EOD 01.09.2022	1	NPA	NA	NA	02.05.2022
01.10.2022	01.10.2022	Paid entire dues of 01.09.2022 & 01.10.2022	0	STD A/c with no overdues	NA	NA	STD from 01.10.2022

Illustrative Movement for Out Of Order

Date	Descrip	Debit	Credit	Balance	Remarks
31.03.21	Opening bal.			10000	Presuming Limit & DP Rs.10000.00. NIL Irregularity on 31.03.21
31.03.21	Intt	1000		11000	
24.04.21	cash deposit		2500	8500	No intt irregularity for previous 90 days
30.04.21	Intt	1025		9525	
05.05.21	cash deposit		750	8775	
31.05.21	Intt	1035		9810	As on 31.05.21 Total CTO during previous 90 days (31.05.21 to 02.03.21) is 3250/- against Intt debit of Rs.3060/- . Hence “ No OOO”
10.06.21	cash deposit		250	9560	
30.06.21	Intt	995		10555	As on 30.06.21 total CTO during previous 90 days is 3500/- against Intt debit of Rs.3055/-. Hence “No OOO”
26.07.21	cash deposit		550	10005	AC will Slip to NPA on 24.07.2021 as the total CTO during previous 90 days (25.04.21 to 23.07.21) is only Rs.1000/- against intt debit of Rs. 3055/-
31.07.21	Intt	1005		11010	
30.08.21	cash deposit		1011	9999	

Status analysis of A/C as on 24.07.2021 as per the prescribed Conditions of "Out Of Order"	Remarks on above illustration
The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days,	AC is overdrawn for 24 days only(since 30.06.21 to 23.07.21). So not an Out of Order
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	No case of NIL CTO AC is having Credit Turnover of Rs.1000/- during "Previous 90 days" (since 25.04.21 to 23.07.21) So not an Out of Order A/C
The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to	Intt debited during previous 90 days (since 25.04.21 to 23.07.21) is Rs. 3055/- , whereas repayment during the same period is Rs 1000/- . Hence

Relevance of the Principle of 'First In First Out' (FIFO) in appropriation of payments into the borrowal account:

- The Principle of **FIFO i.e., 'First In, First Out'** accounting method is relevant to arrive at the No. of days of overdue for determining the SMA I NPA status. **The FIFO principle assumes that, the oldest outstanding dues in the loan account needs to be cleared first**. The FIFO method thus requires that what is due first must be paid by the borrower first.
- For example; if in any loan account as on 01.02.2021 there are no overdues and an amount of Rs. X is due for payment towards principal instalment/interest/charges, any payment being credited on or after 01.02.2021 in the loan account will be used to payoff the dues outstanding on 01.02.2021. Assuming that nothing is paid or there is partial payment (Rs Y) of dues during the month of February, the overdue as on 01.03.2021 will be Rs .X-Y.
- Additionally, an amount of Rs.Z becomes due as on 01.03.2021, Now any payment (partial payment) into the account on or after 01.03.2021 will be first utilized to payoff the partial due of 01.02.2021 (Rs X - Rs.Y). If there is more recovery than the Rs X - Rs Y. then. after recovering dues of 01.02.2021, the remaining amount will be treated as recovery towards due of 01.03.2021.

Credit Card Accounts

- In credit card accounts, the amount spent is billed to the card users through a monthly statement with a definite due date for repayment. Banks give an option to the card users to pay either the full amount or a fraction of it, i.e., minimum amount due, on the due date and roll-over the balance amount to the subsequent months' billing cycle.
- A credit card account will be treated as non-performing asset 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.
- Banks shall report a credit card account as 'past due' to credit information companies (CICs) or levy penal charges, viz. late payment charges, etc., if any, only when a credit card account remains 'past due' for more than three days. The number of 'days past due' and late payment charges shall, however, be computed from the payment due date mentioned in the credit card statement.

Post-shipment Supplier's Credit

- In respect of post-shipment credit extended by the banks covering export of goods to countries for which the Export Credit Guarantee Corporation's (ECGC) cover is available, EXIM Bank has introduced a guarantee-cum-refinance programme whereby, in the event of default, EXIM Bank will pay the guaranteed amount to the bank within a period of 30 days from the day the bank invokes the guarantee after the exporter has filed claim with ECGC.
- Accordingly, to the extent payment has been received from the EXIM Bank, the advance may not be treated as a non performing asset for asset classification and provisioning purposes.

Asset Classification to be borrower-wise and not facility-wise

- It is difficult to envisage a situation when only one facility to a borrower/one investment in any of the securities issued by the borrower becomes a problem credit/investment and not others. Therefore, 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 income recognition, asset classification and provisioning.
- 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. However, in case 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.

Upgradation of loan accounts classified as NPAs

loan accounts classified as NPAs may be upgraded as 'standard' asset **only if entire arrears of interest and principal are paid by the borrower.** With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.



Our Vision

**To restrict NPA slippage within
2% of base Standard Advance**

Our Mission

To Maintain Asset Quality

Thank You