Customer Education - Non-performing Assets (NPA)

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

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

- Interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 as amended from time to time.
- 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.

INCOME RECOGNITION

Income Recognition Policy

The policy of income recognition has to be objective and based on the record of recovery. Therefore, the banks should not charge and take to income account interest on any NPA. This will apply to Government guaranteed accounts also.

However, interest on advances against Term Deposits, National Savings Certificates (NSCs), Kisan Vikas Patras (KVPs) and life insurance policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

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.

- In cases of loans where moratorium has been granted for repayment of interest, income may be recognised on accrual basis for accounts which continue to be classified as 'standard'. This shall be evaluated against the definition of 'restructuring' provided in paragraph 16 of this Master Circular.
- Income recognition norms for loans towards projects under implementation involving deferment of DCCO shall be subject to the instructions contained in paragraph 4.2.15 of this Master Circular and that for loans against gold ornaments and jewellery for non-agricultural purposes shall be subject to the instructions contained in circular DBOD.No.BP.BC.27/21.04.048/2014-15 dated July 22, 2014 on the subject, as updated from time to time.

Reversal of income

- 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.
- If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest, if any, corresponding to the interest accrued during such moratorium period need not be reversed.
- 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.
- Leased Assets - The finance charge component of finance income [as defined in 'AS 19 Leases')] 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.

Appropriation of recovery in NPAs

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.

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. As per the new accounting policy of the bank, the remittances made in the NPA accounts including suit filed / decreed / Revenue Recovery / One Time Settlement accounts shall be appropriated first towards principal portion and thereafter to the charges, costs and interest suspense. ("Principal Charges ---+ Costs ---+ Interest Suspense"). In case appropriation has to be made as per any statute/ direction/ order of judicial forum, the appropriation is to be made based on the same.

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.

ASSET CLASSIFICATION

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

(i) 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.

(ii) Doubtful Assets

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 substandard, 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.

DA1 An asset would be classified as DA1 if it has remained in the substandard category for a period of 12 months. Under DA1 the account should remain for 12 months.

DA2 An asset would be classified as DA2 if it has remained in the DA 1 category for a period of 12 months. Under DA2 the account should remain for 24 months.

DA 3 - Account is classified as DA3 from the 5th year of NPA onwards.

(iii) 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.

PROVISIONING NORMS

The minimum provision requirement prescribed by RBI is as under. Our Bank is following accelerated provisioning norms which is over and above the RBI requirement

Upgradation of loan accounts classified as NPAs

The loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. In case of borrowers having more than one credit facility from a bank, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities. 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.

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

- Up gradation of NPAs are also borrower wise and the up gradation is done by the System automatically.

- Up gradation to be done on EOD on a daily basis through Straight Through Process (STP).

- Overdraft / Cash Credit accounts shall be automatically up graded when the accounts are regularised / brought back with in the sanctioned limits / Drawing Power. That is to say, the credit / payment made by the borrower should be equal to or more than the amount required for clearing the interest suspense or any other debits by way of expenses etc. subject to the condition that Drawing Power (DP) is updated basis the latest stock/book debt statements and the period of overdue of review/renewal is not exceeding 180 days.

- Terms Loan accounts shall be up automatically up graded when all the dues in the account/s by way of EMI / Instalment / Interest unpaid are fully repaid by the borrower.

- All the overdue including interest suspense of connected/linked accounts are also to be cleared in full for auto up gradation. Interest suspense of linked account which are not due to be reversed by the system without actual recovery.

- Project loans classified as NPA on account of DCCO non achievement: DCCO / revised DCCO in accordance with RBI guidelines is to be marked in the system and all the financial and non- financial irregularities if any in the account as well as connected account are rectified. Branches are advised not to mark any account as NPA manually. Interest reversal and provisioning will be done by the System.

For upgradation of term loan accounts

For upgradation of the term loan accounts, borrower should remit the pending EMI's. During EOD system will verify if further dues are pending in the account. If no dues are pending, system will auto upgrade the account during EOD. If dues are still pending to be remitted, account won't be upgraded and would continue under NPA category itself Until the required amount is remitted, the amount remitted will be adjusted towards principle portion of the account.

For upgradation of working capital limits

For upgradation of the working capital limits, borrower should remit the pending dues (credit shortage amount/interest/pending charges etc) along with the outstanding interest suspense portion. If the dues are fully cleared, during EOD, system will upgraded the account. If the amount remitted is not sufficient for upgradation, the remitted amount would be adjusted towards the principle portion of the account until the required amount is remitted by the party.

System capabilities has brought in for arriving the due/overdue amount. Upgradation/downgradation is a system driven automated process during everyday EOD.

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.

Advances under consortium arrangements

Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

The accuracy of the security details entered in the System is of paramount importance for the System to calculate Provision correctly. So all branches are advised to doubly confirm that security creation in Loan Master in CBS is completed faultlessly before the annual closing.

Whenever revaluation of security is done, please update the revaluation details in "Maarvel" by complying with the following instructions.

a. fusion (Home Page \Get Account Security Note down the security number of the respective security property. (To get the security details of the accounts, enter the account number (without '-' in Get Ac/c Security option available in iFusion Home Page.)

b. Enter the valuation details (Concurred / Distress/ Saleable / Market value – whichever is lower) in "Maarvel" through the command "ESECVAL". A pop up window will appear seeking the security number. Provide the security number noted fromFusion, as mentioned in Step a) above. Enter the latest valuation date, latest valuation amount etc. and Save.

c. Authorise the same in Maarvel (ASECAUTH) through "Authorisation -> Security Module Authorisation –> Security valuation -> Refresh -> Authorise.

d. In case of sharing a common security with multiple accounts, COC should be informed of the same for allocating the security value proportionately.

e. In case of sale/release of security property, the security should be removed from the system (in consultation with COC by submitting scanned copy of sanction received for release of security property) and should not figure in the security value present in the system.

Accounts where there is erosion in the value of security/frauds committed by borrowers

In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment, the asset should be straightaway classified as doubtful or loss asset as appropriate:

a) Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category.

b) If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset.

Provisioning norms in respect of all cases of fraud

a) Banks should normally provide for the entire amount due to the bank or for which the bank is liable (including in case of deposit accounts), immediately upon a fraud being detected. While computing the provisioning requirement, banks may adjust financial collateral eligible under Basel III Capital Regulations - Capital Charge for Credit Risk (Standardised Approach), if any, available with them with regard to the accounts declared as fraud account;

b) However, to smoothen the effect of such provisioning on quarterly profit and loss, banks have the option to make the provisions over a period, not exceeding four quarters, commencing from the quarter in which the fraud has been detected;

c) Where the bank chooses to provide for the fraud over two to four quarters and this results in the full provisioning being made in more than one financial year, banks should debit 'other reserves' [i.e., reserves other than the one created in terms of Section 17(2) of the Banking Regulation Act 1949] by the amount remaining un-provided at the end of the financial year by credit to provisions. However, banks should proportionately reverse the debits to 'other reserves' and complete the provisioning by debiting profit and loss account, in the subsequent quarters of the next financial year;

d) Banks shall make suitable disclosures with regard to number of frauds reported, amount involved in such frauds, quantum of provision made during the year and quantum of unamortised provision debited from 'other reserves' as at the end of the year.

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