Non-Performing Assets

The banking business has boomed since Independence, particularly after the LPG reforms. The sector is currently valued at ₹115.07 lakh crore and expected to double at ₹288 lakh crore by 2020. The growth of the economy depends upon the efficiency and stability of the banking sector. The most important factor which measures the health of the banking industry is the size of Non-Performing Assets (NPAs), the concept which was introduced first by Narsimham Committee (1991). It denotes the efficiency with which a bank is optimising its total resources and therefore, serving an index to the degree of asset utilisation and managerial effectiveness. NPAs affect the profitability of the banks in terms of rising cost of capital, increasing risk perception thereby affecting liquidity position of banks. The major problem today faced by all the commercial banks is the increasing risk of non-performing assets, which poses challenge to their ultimate survival. Indian banks have been saddled with increasing levels of stressed assets and NPAs. Read on…

What is a Non-Performing Asset

As per RBI master circular DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015, an asset (including a leased asset) that ceases to generate income is treated as non-performing asset (NPA).

CA. Ketan Jogalekar

The author is a member of the Institute. He can be reached at ketanj12@gmail.com

A Loan or an advance is classified as NPA as under:

Nature of Facility	Parameters
Term Loan	Interest and/or instalment of principal remain overdue beyond 90 days
Overdraft/Cash Credit	Remains 'out of order' as indicated above
Bill Purchased/ discounted	Remains overdue beyond 90 days
Crop Loans (short duration crops)	Instalment of principal or interest thereon remains overdue for 2 crop seasons

Nature of Facility	Parameters
Crop Loans (Long duration crops)	Instalment of principal or interest thereon remains overdue for 1 crop season
Securitisation transactions	Amount of liquidity facility remains outstanding beyond 90 days
Derivative transactions	Overdue receivables representing positive mark-to-market value of a derivative contract which remains unpaid beyond 90 days from specified due date for payment

Note

A credit card account will be treated as NPA, if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the payment due date mentioned in the statement.

Probable Causes of NPA

A robust banking sector is the backbone of the economy, therefore to improve the health of the banking system we must look into account all the likely causes which can hinder its smooth performance.

Causes accountable to banks	Causes accountable to borrower	Other causes
Poor credit appraisal mechanism	Longer gestation time, lack of quality control	Fast changing technology, Political welfare
Wrong selection of borrowers	Poor choice of location, Mis-management of funds	Taxation laws, credit and government policies
Lack of trained staff, lack of proper follow up by banks	Wrong selection of projects, diversion of funds	Change in consumer tastes and preferences, recession in the market

Steps Taken to Tackle NPAs

Taking note of the existing stressed assets and NPA situation, Government has taken several steps on legal, financial and policy level reforms. The RBI introduced a host of schemes and frameworks with the aim of curtailing the growing NPAs. These are mentioned as below:

January 2014 - Joint Lenders Forum and Plan - Banks would need to constitute a committee called JLF and roll out a CAP comprising rectification, restructuring and recovery of loans.

June 2015 - Strategic Debt Restructuring (SDR) - This was introduced with the aim of helping banks to recover their loans by taking control of distressed listed companies.

May 2016 - Insolvency and Bankruptcy Code, 2016 - This is the strongest measure taken so far, yet due to lack of operational guidelines and a legal framework, the code too has its fair share of critics.

June 2016 - Scheme for Sustainable Structuring of Stressed Assets (S4A) - RBI introduced (S4A) for the resolution of bad loans of large projects. This is aimed at strengthening the lenders' ability to deal with stressed assets by providing an avenue for reworking the financial structure of entities facing genuine difficulties.

However, these measures have been riddled with their own set of problems.

RBI has introduced revised framework for the resolution of stressed assets by notification DBR. No.BP.BC.101/21.04.048/17-18 dated February 12, 2018.

The revised framework requires banks to identify signs of incipient stress in loan accounts and classify stressed assets as Special Mention Accounts (SMAs) immediately on default. Banks were required to identify incipient stress in the account by creating three sub-categories:

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

Further, banks would also have to incorporate changes in their reporting process to include the following: – The CRILC Main report will now be sent monthly, as against the quarterly frequency. – Banks will also need to submit a weekly report on all borrower entities in default with an exposure of 50 million INR and above. This will ensure early identification and reporting of stressed assets by banks.

Formation and implementation of resolution plans (RPs) by lenders – Under the revised framework, all

lenders must put in place board-approved policies for the resolution of stressed assets, including the timelines for resolution. As soon as there is a default in the borrower entity's account with any lender, all lenders – singly or jointly – shall initiate steps to cure the default. This means that the revised clause eliminates chances of banks interpreting assets. Currently, while one bank classified an account as stressed, or NPA, others continued to show them as standard. This required the RBI auditors to force show them as divergence in NPA reporting.

The new framework puts down strict timelines over which insolvency proceedings must be initiated. These timelines come into effect starting 1st March 2018.

-For accounts with an exposure of 2,000 crore INR or more, banks will have to ensure that a resolution plan is in place within 180 days after a 'default'.

-If the resolution plan is not implemented within 180 days, the account must be referred to the IBC within 15 days.

-For large accounts where a resolution plan is being implemented, the account should not be in default at any point during the specified period.

-If there is a default within the specified period, the lenders should file an insolvency application. -For accounts with exposure of 100 crore INR to 2,000 crore INR, a timeline for resolution will be announced over a two-year period. • These timelines will lead to speedy recovery of the loan from the borrower.

The new framework will subsume almost all stressed asset schemes.

Audit of NPA

Considering above new framework which is introduced by RBI, the auditors focus is not only on Audit of NPA but should also incorporate the audit of all stressed assets. Audit of NPA would basically involve identification of an account as NPA, its correct classification, provisioning, income recognition, if an account is restructured, compliance of various conditions as enumerated in the Master Circular etc.

NPA identification norms have been described above as per RBI master circular dated July 1, 2015.

Asset Classification

Having identified an account as NPA, it is further required to be classified into a) Sub-standard Assets b) Doubtful Assets c) Loss Assets

Category	Parameters
Sub-standard Assets	Remained NPA for a period not less than or equal to **one** year. In such cases, the current net worth of the borrower or guarantor or market value of the security charged is not enough to ensure recovery of the bank's dues; Likely to sustain some loss if deficiencies are not corrected.
Doubtful Assets	Remained in substandard category beyond 1 year; Recovery - highly questionable and Improbable.
Loss Assets	Asset considered uncollectible and of little value but not written off wholly by the bank. Continuance as bankable assets although it may have some salvage or recovery value.

Guidelines for Classification:

- NPA classification should be done taking into account the degree of credit weaknesses and availability of collateral security for realisation of dues.
- Banks should avoid the tendency to delay or postpone identification of NPAs especially in respect of high value accounts.
- Availability of security/net worth of the borrower/guarantor should not be taken into account while identifying the NPA.
- Banks should not classify an advance account as NPA merely due to existence of some temporary aberration/deficiency such non-availability of adequate Drawing Power based on latest stock statement, over limit, non-submission of stock statement, renewal of account, etc.
- A working capital account would become NPA, if the irregularity continues beyond 90 days even though the unit would be working and its financial position is satisfactory.
- Regular and ad hoc limits are required to reviewed/regularised within 180 days from the due date/date of sanction; else, it is to be classified as NPA.
- An NPA Loan account, other than restructured and rescheduled, can be upgraded to standard

The 100-year plan!

LIC's

JEEVAN UMANG

UIN: 512N312V01 PLAN NO: 845

A non-linked, with profit, whole life assurance plan.

Get GUARANTEED Survival Benefit equal to 8% of Basic Sum Assured each year after the final premium, till Age 99 and lump sum maturity benefit on survival to Age 100.

FEATURES:

- Age Eligibility : For a child of 90 days to 55 years
- Minimum Basic Sum Assured : ₹ 2,00,000/-
- Maximum Basic Sum Assured : No limit
- Premium Paying Term : 15, 20, 25 and 30 years
- Policy Term : (100 minus age at entry) years

OPTIONAL RIDERS:

- LIC's Accidental Death and Disability Benefit Rider
- LIC's Accidental Benefit Rider
- LIC's New Term Assurance Rider
- LIC's New Critical Illness Benefit Rider

SPECIAL FEATURES:

- Life long risk cover till Age 100
- Bonus throughout the term
- Final additional bonus (if any)
- Loan facility

Contact your agent/branch or visit our **website www.licindia.in** or SMS **'YOUR CITY NAME'** to 56767474 (e.g. 'Mumbai')

Follow us : YouTube LIC India Forever

Beware of spurious phone calls and fictitious/fraudulent offers IRDAI clarifies to public that • **IRDAI or its officials do not involve in activities like sale of any kind of insurance or financial products nor invest premiums.** • **IRDAI does not announce any bonus.** Public receiving such phone calls are requested to lodge a police complaint along with details of phone call, number.

LIC
भारतीय जीवन बीमा निगम
LIFE INSURANCE CORPORATION OF INDIA

LIC/AR/17-18/04/ENG

For more details on risk factors, terms and conditions, please read the sales brochure carefully before concluding a sale.

IRDAI Regn No.: 512

Zindagi ke saath bhi, Zindagi ke baad bhi.

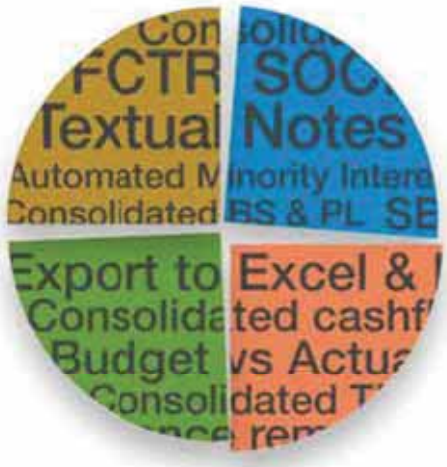
assets upon payment of arrears of interest and principal.

- Asset classification should be borrower-wise and not facility wise. In case one facility/ investment of the borrower causes problem, all the facilities granted to the borrower are to be treated as NPA.
- Bills discounted facility under Letter of Credit (LC) favoring a borrower need not be classified as NPA in case any other facility is NPA. However, in case of non-payment of bills under the LC on due date by the LC issuing bank and the borrower fails to make good the amount immediately, the outstanding under the Bills discounted is also to be classified as NPA.
- In account where there is potential threat of recovery on account of erosion in value of Security (50%/10% of value assessed earlier or outstanding), non-availability of security, existence of other factors such as frauds committed by borrowers, etc. such asset should straightaway be classified as doubtful or loss asset as appropriate.
- Finance granted to PACS/FSS under the on-lending system, only that particular portion of credit in default to be classified as NPA.
- Advances against paper securities such as TDRs, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts.
- Loan with moratorium for payment of interest, the amount of interest would become overdue after the due date for payment of interest, if uncollected.
- In staff housing loan or similar other accounts where the interest is to be recovered after repayment of principal, such accounts would become NPA only when there is default in repayment of principal or interest on respective due dates.
- Advances backed by guarantee of Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. However, State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days.

Projects under Implementation - Classification of NPA

Project Loans for infrastructure sector	Project Loans for non-infrastructure sector
An infrastructure project loan would be classified as NPA before the date of commencement of commercial operations (DCCO) as per record of recovery (90 days) unless it is restructured and eligible for classification as **standard asset**.	A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue).
An infrastructure project would be classified as NPA if it fails to commence commercial operations within 2 years from the original DCCO.	If the non-infrastructure project fails to commence commercial operations within 6 months from the original DCCO, it is to be treated as NPA, etc.
If a project loan classified as standard asset is restructured any time during the period up to two years from the original date of DCCO, it can be retained as a **standard asset** if the fresh DCCO is fixed and the account continues to be serviced as per the restructured terms subject to the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery.	

eMerge



Are you geared up for Quarterly Consolidation?

From 1st April, 2019, all listed companies having subsidiaries are required to submit quarterly/ YTD consolidated financial statements to the Stock Exchange. Quarterly consolidation is a complex activity and doing it manually using spreadsheets is error prone.

eMerge, a Robust Solution for Financial Consolidation

- Prepares financial statements as per IND AS
- Automatically computes goodwill / capital reserves on consolidation, non-controlling interests and FCTR
- Instantly reflects last minute audit adjustments in the consolidated financial statements

For more features and case studies, please visit www.emergeconsol.com
To set up a demo, call Prakash +91 99604 77889 or
send email to sales@emergeconsol.com

Delay in infrastructure projects involving court cases and projects in other than court cases, extension of DCCO up to another 2 years (beyond the existing extended period of 2 years i.e. total extension of 4 years) and up to another 1 year (beyond the existing extended period of 2 years i.e. total extension of 3 years) respectively is considered for treating them as NPA.	

Provisioning Requirement:

Total provision required would be normal provision plus provision in lieu of diminution in fair value of advances. Diminution in fair value would be required to be recomputed on each balance sheet date. Banks have option of notionally computing the diminution in fair value and providing at 5% in case of all restructured accounts where the total dues to bank is less than one crore. With effect from April 1, 2015, a standard account (for reasons other than change in DCCO) would be immediately classified as sub-standard on restructuring as also the non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per the extant asset classification norms with reference to the pre-restructuring repayment schedule.

-Standard Assets – Does not disclose any problem and which does not carry any more than normal risks attached to business – Provision requirement - Agriculture/SME Adv – 0.25%

Commercial Real Estate (CRE) – 1%

CRE-Residential Housing Sector – 0.75%

HL (teaser rate period) – 2%

Other Loan & Advances – 0.4%

Restructured project loan classified as standard would attract higher provision. Para 4.2.15.3(iv) of Master Circular may be referred for the same.

- Sub-Standard Assets - Classified as NPA for a period not exceeding Twelve months. Classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of the required conditions at least for one year. – provision requirement - A general provision of 15% on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.
- Additional provision of 10% on unsecured exposure. Unsecured Exposure means exposure where realisable value of security is not more than 10%, ab-initio, of the outstanding exposure.

Doubtful Assets - Remained Sub-standard for a period of 12 months. – Provision requirement – a)100% to the extent to which the advances are not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on realistic basis. b) with regard to secured portion depending upon the period for which the asset has remained doubtful, provision on the following basis:

1. Up to 1 year: 25%
2. 1 to 3 years: 40%
3. Over 3 years: 100%

Loss Assets – Loss asset is one where loss has been identified by the bank, external or internal auditors or the RBI inspection, but the amount has not been written off (wholly/partly) – 100% of the outstanding should be provided for/written off.

Take out Finance

Under Take out Finance, possibility of default, in view of the time-lag involved in taking over, cannot be ruled out. The norms of asset classification will have to be followed by the concerned lending bank/ financial institution and they should not recognise income on accrual basis, but only on actual receipt. Bank/FI should also make suitable provision pending the takeover by other institution.

Upon takeover of the account, the provision could be reversed. But the taking over institution is required to make provision in its books treating it as NPA from the actual date of becoming NPA even though the account was not in its books as on that date.

Export Project Finance

In the event of the export proceeds in respect of export project finance is held up due to

LEAZEON

End-to-end IFRS 16 / Ind AS 116 Lease Administration and Accounting Software

Transition accounting

Disclosure reports and audit trail

Automated calculations and JVs

Central repository of all leases

Other key features

- Impact analysis of transition of existing leases to new standard with Retrospective and Modified Retrospective methods
- Calculates ROU asset / liability
- Automated depreciation & dismantling provision calculations
- Accounting for lease re-measurements & modifications
- Automated journal entries to your existing ERP
- Maker-checker to ensure accuracy
- Identification of leasing transactions with related parties

TRANSITION DATE
IFRS 16 (Jan 1, 2019)
Ind AS 116 (Apr 1, 2019)

Why wait till the last moment?

Book your demo now!

For more details, please visit **www.leazeon.com**

For demo, please call
Akshay +91 70301 97888 or Arun +91 98220 34590
Send email to sales@leazeon.com

political developments in the importer's country, the asset classification may be made after a period of one year from the date the amount was deposited by the importer in the bank abroad.

Provision under Special Circumstances

i) Advances under rehabilitation package approved by BIFR/TL institutions -Provision should continue to be made as per classification of assets as sub-standard or doubtful.

   -Additional facilities sanctioned as per package, provision on additional facilities sanctioned be made for a period of one year from the date of disbursement including that of SSI units identified as sick and put under rehabilitation programme by banks.

ii) Provision requirements based on assets classification status are applicable in respect of TDRs, NSC eligible for surrender, IVPs, KVPs, gold ornaments, government and other securities and LIC policies.

iii) Amount held in Interest Suspense Account should be deducted from the relative advances and thereafter provisioning as per norms may be made on the net balance. Amount held in Interest Suspense account should not be reckoned as part of provisions.

iv) ECGC guaranteed doubtful assets, provision need only to be made on the balance in excess of the guaranteed amount by ECGC. While arriving the provision requirement, the realisable value of the security is first deducted from the outstanding balance.

Income Recognition

Income from NPA assets is to be recognised only when it is actually received. However, interest on advances against term deposits, NSC, IVPs, KVPs, and Life policies may be taken into income account on the due date provided adequate margin is available in the accounts.

On an account (incl. bills purchased and discounted and Government guaranteed accounts) turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. Likewise, fees, commission and similar income in respect of past periods, if uncollected, need to be reversed.

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.

Banks may continue to record such accrued interest, but not realised, in a Memorandum account in their books which should not be taken into account for computing Gross Advances.

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.

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.

- 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' 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.

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

GST - Goods & Services Tax, Customs, Foreign Trade Policy

R.K. Jain's

GST

GST Tariff of India 2019-20 ₹ 2250/- (per set)
(8th Edition 2019) (In Two Vols.) by R.K. Jain

GST Law Manual 2019-20 ₹ 2250/- (per set)
(8th Edition 2019) (In Two Vols.) by R.K. Jain

GST - Input Tax Credit, E-Way Bill & Other Procedures 2019-20 ₹ 650/-
(2nd Edition 2019) by C.R. Raghavendra, J.S. Bhanu Murthy & Chetana Ramesh

Exports, Imports and Deemed Exports under GST 2019-20 ₹ 750/-
(2019 Edition) by Kaza Subrahmanyam & T.N.C. Rajagopalan

GST Smart Guide 2019-20 ₹ 650/-
(2019 Edition) by Ramesh Chandra Jena

GST Law Times [Weekly] ₹ 5950/-
[A Weekly journal covering GST Laws, Procedures and Cases. Articles, FAQ, Notifications, Departmental Clarifications. Annual Subscription for 2019 (Jan.-Dec.)

Customs

Customs Tariff of India 2019-20 ₹ 2250/- (per set)
(68th Edition : Budget 2019) (In Two Vols.) by R.K. Jain

Customs Law Manual 2019-20 ₹ 1995/- (per set)
(60th Edition : Budget 2019) (In Two Vols.) by R.K. Jain

Handbook of Duty Drawback 2018-19 ₹ 1650/-
(16th Edition : December 2018) by R.K. Jain

Excise Law Times [Fortnightly] ₹ 4500/-
[A Fortnightly journal on Customs, Export & Import, FEMA, Excise, Anti-Dumping and Money Laundering. Articles, Notifications, CBIC Circulars, Trade Notices, Question Answer Box]. Annual Subscription for 2019 (Jan.-Dec.) is ₹ 4500/-

Electronic Library

GST-ExCus 2019 – DVD
An Electronic Library on DVD that gives you instant information on GST, Customs, EXIM, FEMA, Money Laundering, Anti-dumping, Central Excise, Service Tax, and Allied Laws simultaneously from Case Law from 1932, Circulars, Notifications & Statute from 1986 & GST Acts, Rules, Forms & Notifications with periodic up-to-dates. Annual subscription for 2019 (Jan-Dec.) is ₹ 12,500/-.

Foreign Trade Policy

Foreign Trade Policy & Handbook of Procedures ₹ 1550/-
(Vol. 1) (24th Edition : Dec. 2017) by R.K. Jain

Handbook of Input-Output Norms ₹ 1450/-
[Duty Exemption Schemes]
(Vol. 2) (23rd Edition : Sept. 2016) by R.K. Jain

Excise

Central Excise Law Manual 2018-19 ₹ 1450/-
(66th Edition : 2018) by R.K. Jain

Mail your order to:

CENTAX PUBLICATIONS PVT. LTD.
1512-B, Bhishm Pitamah Marg
(Opp. ICICI Bank of Defence Colony), New Delhi -110 003, INDIA
Phones : 24693001 to 3004, 24611224, Fax : 011-24635243
E-mail : centax@vsnl.com

Also, available at

North Zone

NEW DELHI : Jain Book Depot (CP), Ph. : 23416101-03 ● Jain Book Agency, (CP), Ph. : 23416390-94) (Hauz Khas Ph. : 41755666) ● Pooja Law House, Ph. : 23370152 ● Universal Book Traders, Ph. : 23911966. (Conn. Place, Ph. : 23416277) ● Krishna Law House, Ph. : 23919317 (C.P. 23417866) ● Commercial House, Ph. : 23947862-63 (Daryaganj, Ph. : 23267860-62 ● Aggarwal Law House, Ph. : 23378249 **CHANDIGARH** : Shri Ram Law House, Ph. : 2709277. **LUDHIANA** : Chetan Book Traders, Ph. : 9417001146. **JAIPUR** : Bharat Law House, Ph. : 2316388. ● Kishore Book Depot, Ph. : 2362578 ● Current Law House, Ph. : 2317842. **GWALIOR** : Harish Law Traders, Ph. : 2424880. **RAIPUR** : India Publisher, Ph. : 2583603, 2582532. **MEERUT** : Western Law House, Ph. : 2640778. **ALLAHABAD** : Modern Law House, Ph. : 2560700. **LUCKNOW** : Modern

West Zone

MUMBAI : Student Book Centre, Ph. : 22050510 ● New Book Corporation, Ph. : 22054492 ● Sunderdas Gianchand, Ph. : 22080518 ● Vora Book House, Ph. : 22018660 ● Ideal Book Mart, Ph. : 22050884 ● M & J Services, Ph. : 24134216 ● Pragati & Co., Ph. : 22053885. **AHMEDABAD** : Standard Book Distributors, Ph. : 27540731 ● The Book Corporation, Ph. : 26465385 ● Karnavati Law House, Ph. : 26578319. **VADODARA** : Hemdip Agency, Ph. : 2422603 ● Sagar Law House, Ph. : 2350293 ● **PUNE** : Ajit Law Book Depot, Ph.: 24451546 ● Hind Law House, Ph. : 24456535 ● Enbee Law Book Agency, Ph. : 24458424. **NAGPUR** : Shanti Law House, Ph. : 2438647, 2460698. **AURANGABAD** : Aurangabad Forms House, Ph. : 9823912397. **RAJKOT** : Rohit Law

South Zone

CHENNAI : C. Sitaraman & Co., Ph. : 28111516, 28112990. **BANGALORE** : Puliani & Puliani, Ph. : 41511015 ● R.K. Sharma & Co., Ph. : 22258666. **HYDERABAD** : Asia Law House, Ph. : 24526212 ● Legal Enterprises, Ph. : 24755059 ● Central Law House, Ph. : 27703634. **COIMBATORE** : V. Angamuthu, Ph. : 2301136 ● Lakshmi Law House, Ph. : 2234199 ● Anand & Co. Ph: 2493983. **ERNAKULAM** : Swamy Law House, Ph. : 2366285 ● Law Book Shop, Ph. : 2397895. **COCHIN** : Travancore Law House, Ph. : 2353766. **VISAKHAPATNAM** : Andhra Law House, Ph. : 2525829 ● Vinod Law House, Ph. : 2745864. **MADURAI** : Bama Law Agency, Ph. : 2349753, 2349801 ● Sathya Law House, Ph. : 2332260. **VIJAYAWADA** : Deccan Law House, Ph. : 2576242. **SALEM** : Karthik Law Agency,

East Zone

KOLKATA : Kamal Law House, Ph. : 22101558 ● Book Corporation, Ph. : 22306669 ● Venus Book Distributors, Ph. : 22483146 ● Tax `N' Law, Ph. : 22427092 ● Key Book Concern, Ph. : 9051526115. **PATNA** : Laws & Laws, Ph. : 2505737. **RANCHI** : Pritam Law House, Ph. : 8292632077. **JAMSHEDPUR** : Sharda Book Depot, Ph. : 2435348. **ROURKELA** : Legal Stationers, Ph. : 3296105. **CUTTACK** : The Law, Ph. : 2368022 ● Cuttack Law House, Ph. : 2509372. **IMPHAL** : Global Agency, Ph. : 2441450.

CENTAX

POSTAGE FREE IF ADVANCE REMITTED BY CHEQUE

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.

How to Optimise Information Technology in NPA Management

There is hardly any use of IT in NPA management by banks. Presently banks are mainly using computers for day-to-day transaction of loan accounts at branch level and compilation of manually reported statistical data. Further, the software used in the banks are not effective in meeting the present needs of the banks, rather sometimes they create problems. For example, the cash credit packages presently used in some banks are unable to detect the NPA, accounts, as a result payments are being made in the NPA accounts, thus increasing NPA pool of the banks, Banks should use proper software and networking at the branch and controlling office levels for the purpose of forecasting of potential NPA syndrome in each loan account, automatic identification and categorisation of NPA as on each balance sheet date, calculation of critical amounts for arresting slippage as well as upgradation, auto-generation of statistical returns for NPA-MIS, estimation of provision requirement in each NPA account, transmission of data to management through networking, risk analysis and appraisal of credit proposals, Sensitivity analysis of various impacts on NPA. The software for MIS should contain such particulars parameters fields which can generate necessary information for the above purposes.

Some Important References to RBI Circular

Master Circular No. DBOD.No.BP. C.9/21.04.048/2014-15 dated July 1, 2014

Circular FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015.

FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015.

RBI/2017-18/129 DBR.No.BP. C.100/21.04. 048/2017-18

Para 4.2.2: Banks should establish appropriate internal systems (including technology enabled processes) for proper and timely identification of NPAs, especially in respect of high value accounts.

Para 4.2.5: 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.

Annex 5: 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.

Conclusion

Non-performing assets have always been a problem for the Indian banking sector as it is having a direct impact on the profitability of the banks. The failure of the banking sector may have an adverse impact on other sectors. Thus, there is a need to ensure that the banks take proper steps to resolve it, thereby ensuring fair and efficient recovery of loans so that banking sector continue to function without stress. The government is taking many steps to reduce the problem of NPAs but banks should also have to be more proactive to adopt a structured NPAs policy to prevent the non-performing assets and should follow stringent measures for its recovery. Bankers should also consider the ROI on a proposed project and provide loans to customers who have better credit worthiness as prevention is always better than cure. ■

The purpose of life is to believe, to hope, and to strive. - *Indira Gandhi*