



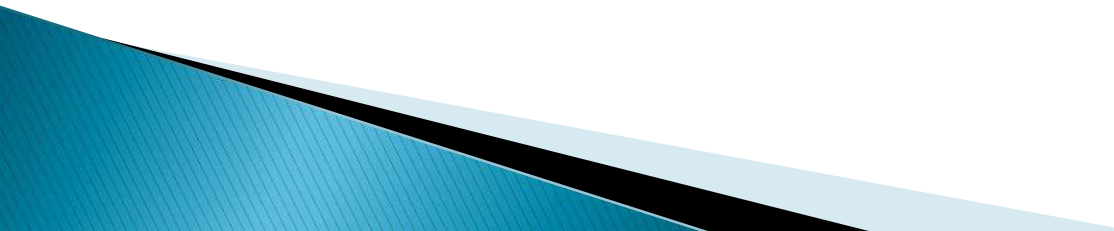
Supervisors perspective on Asset classification, Income recognition and Provisioning

Conference for the Heads /Members of the Audit Committee
of the Boards of Commercial banks

CAFRAL- November 5,2012

G.Gopalakrishna Executive Director


Divergence in NPA accounts

- ▶ **Guidelines issued to banks**
 - ▶ Banks had been advised to move to system based identification of NPA accounts.
 - ▶ With CBS it is easy to implement system based identification of NPAs.
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Concerns on rising NPAs

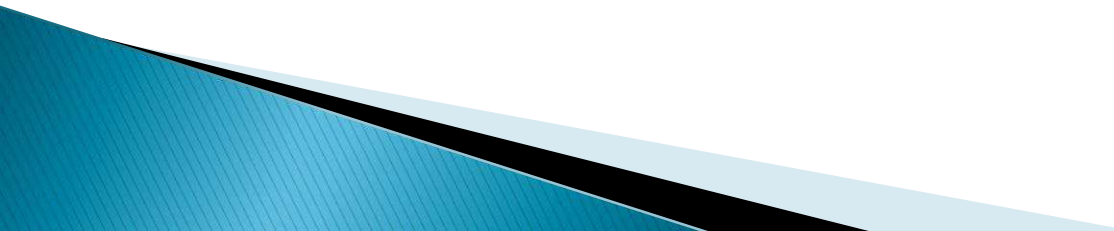
- ▶ The gross and net NPAs of SCBs, in absolute terms, recorded an increase from Rs.94,121 crore as on March 2011 to Rs Rs.137,102 crore as on March 2012 and further to Rs. 153,235 crore as on June 2012
- ▶ The gross NPA ratio of the system crossed 3% and stood at 3.25 % at end June 2012 as compared to 2.94% at end Mar 12 and 2.36% at end Mar-11
- ▶ The net NPAs of the system increased from Rs.36,756 crore as on March 2011 to Rs.56,881 crore on March 2012 and further to Rs. 67,316 crore at end June 2012

Issues in compliance

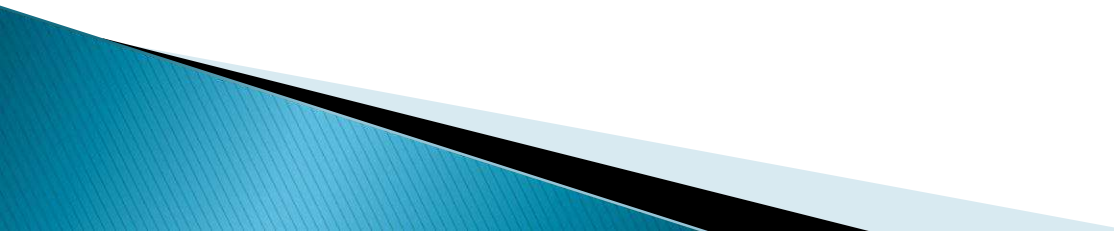
- ▶ Post AFI discussions with Top Management of a bank a Monitorable Action Plan(MAP) is given
 - ▶ Some banks do not give immediate effect to AFI findings, including MAP points, especially those which may adversely impact the financials of the banks.
 - ▶ Banks directed vide our circular dated September 7,2012 to make full provisions as per AFI finds and submit SCAs certificate.
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Role of ACB-containing NPAs


Following are cause of concern my require periodical review by ACB:

- > Stock audit to ensure availability of primary security
 - > stengthening field/unit visit to ensure existence of security
 - > Identifying transfer of funds form bank to another to service interest/instalments
 - > Periodical recovery on due dates
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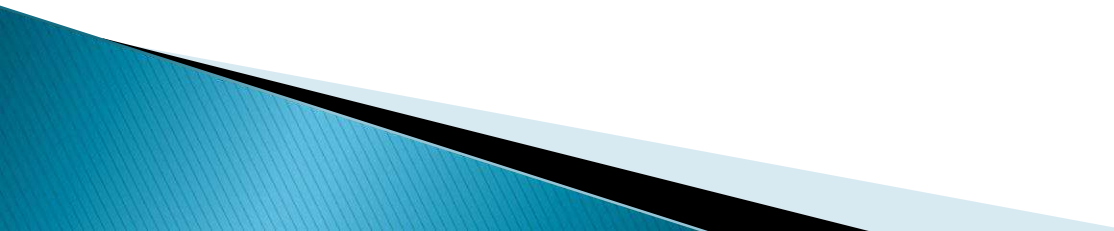
Role of ACB

- ▶ proper analysis of exchange of information between banks
 - ▶ Critical analysis of the financial statement of the borrowers
 - ▶ Frequent roll over of loans / packing credits / foreign bills
 - ▶ Buyer's / trade credit beyond a reasonable period
 - ▶ High leverage of debts
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Role of ACB

- ▶ Identification of quick/early mortality cases
 - ▶ Sanction of credit facilities beyond delegated powers at various levels
 - ▶ Taken over accounts
 - ▶ Frequent returning of cheques of Rs.100 lakh and above in borrowal accounts
 - ▶ Risk rating migration analysis
 - ▶ Restructured accounts
 - ▶ Deficiencies in the security/loan documents
 - ▶ Project under implementation–financial and physical progress thereof
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Way forward

- ▶ Move to Risk based Supervision
 - ▶ SREP –Banks' balance sheets,risk management practices and risks in portfolios to be subject to more intense scrutiny–impact on capital requirements
 - ▶ ACB's role to be more critical in the emerging challenges.
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Thank You

