Bank Branch Audit

Account Monitoring and Non-Performing Assets (NPA)

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Applicable Regulatory Guidelines

Name of the Circular	Date of Issue	Applicable to
Master Directions - Income Recognition and Asset Classification and Provisioning pertaining to advances	November 28, 2025	All Commercial banks

Non-Performing Assets (NPAs)

Non-Performing Asset (NPA)

Term Loan	Interest / Instalment of Principal overdue for > 90 days
Bills Purchased & Discounted	The bill remains overdue for > 90 days
Cash Credit / Overdraft	The account remains 'Out of Order' for a period of more than 90 days A CC / OD Account shall be treated as Out of Order if: • The balance in the account is in excess of the SL / DP for = 90 days; or • No credits continuously for 90 days; or • Credits are not enough to cover the interest debited during the previous 90 days period.
Crop Loans	The instalment of principal / interest remains overdue for one / two crop seasons for long / short duration crops respectively

Previous 90 days period' shall be inclusive of the day for which the day-end process is being run

Non-Performing Assets (NPAs)

In addition to the above-mentioned conditions, an account may also be classified as NPA in terms of certain specific provisions i.e., erosion of security value, restructuring and other temporary deficiencies.

Erosion in security value	In case the realizable value of security is less than 10% of the balance outstanding, the advance should directly be classified as Loss asset.
Restructuring	In case of restructuring, the accounts classified as 'Standard' shall be immediately downgraded as Non-Performing Assets (NPAs), i.e., 'Sub-Standard' The NPAs, upon restructuring, would continue to have the same asset classification as prior to restructuring.
Temporary deficiencies in working capital accounts	• Limits have not been reviewed / renewed within 180 days from the due date • If the borrower is unable to provide stock statements for 3 consecutive months, then the account is deemed as irregular.

Non-Performing Assets (NPAs)

For project loans, in addition to the normal NPA criteria, the below mentioned points should also be considered:

- **Case where DCCO is extended beyond the stipulated time and non-compliance of conditions with respect to cost overruns**
- **Any changes to the major terms and conditions of the original project loans (i.e. promoters equity contribution, interest rate, etc.) of a borrower with financial difficulties, except changes in the DCCO, consequential parallel shift in repayment schedule and funding of cost overruns, as permitted within the thresholds**
- **Fulfillment of certain conditions like execution of necessary agreements between a lender and the borrower / creation of security charge / perfection of securities as mentioned in the resolution plan and reflection of the new capital structure or changes in the financing agreement in the books of the lender and the borrower before the expiry of 180 days from the end of the review period.**

Non-Performing Assets (NPAs)

Project Loans under Implementation	
Type of the Project	**Project will be classified as NPA in the following case**
Infrastructure Loan	If revised DCCO is more than 3 years from original DCCO
Non infrastructure Loan	If revised DCCO is more than 2 years from original DCCO

Conditions for cost overruns:

- Cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost
- Cost overrun is financed through a Standby Credit Facility specifically sanctioned by the bank at the time of financial closure and which has been renewed continuously without any gap till the draw down under the facility.
- For infrastructure projects, in cases where Standby Credit Facility was not sanctioned at the time of financial closure, or was sanctioned but not renewed subsequently, such additional funding shall be priced at a premium to what would have been applicable on a pre-sanctioned Standby Credit Facility.
- Financial parameters like debt Equity Ratio, external credit rating (if any) remains unchanged as agreed at the time of initial financial closure subsequent to funding cost overruns
- All other terms and conditions of the loan should remain unchanged or enhanced in favor of the lenders.

Conditions for change in scope/size:

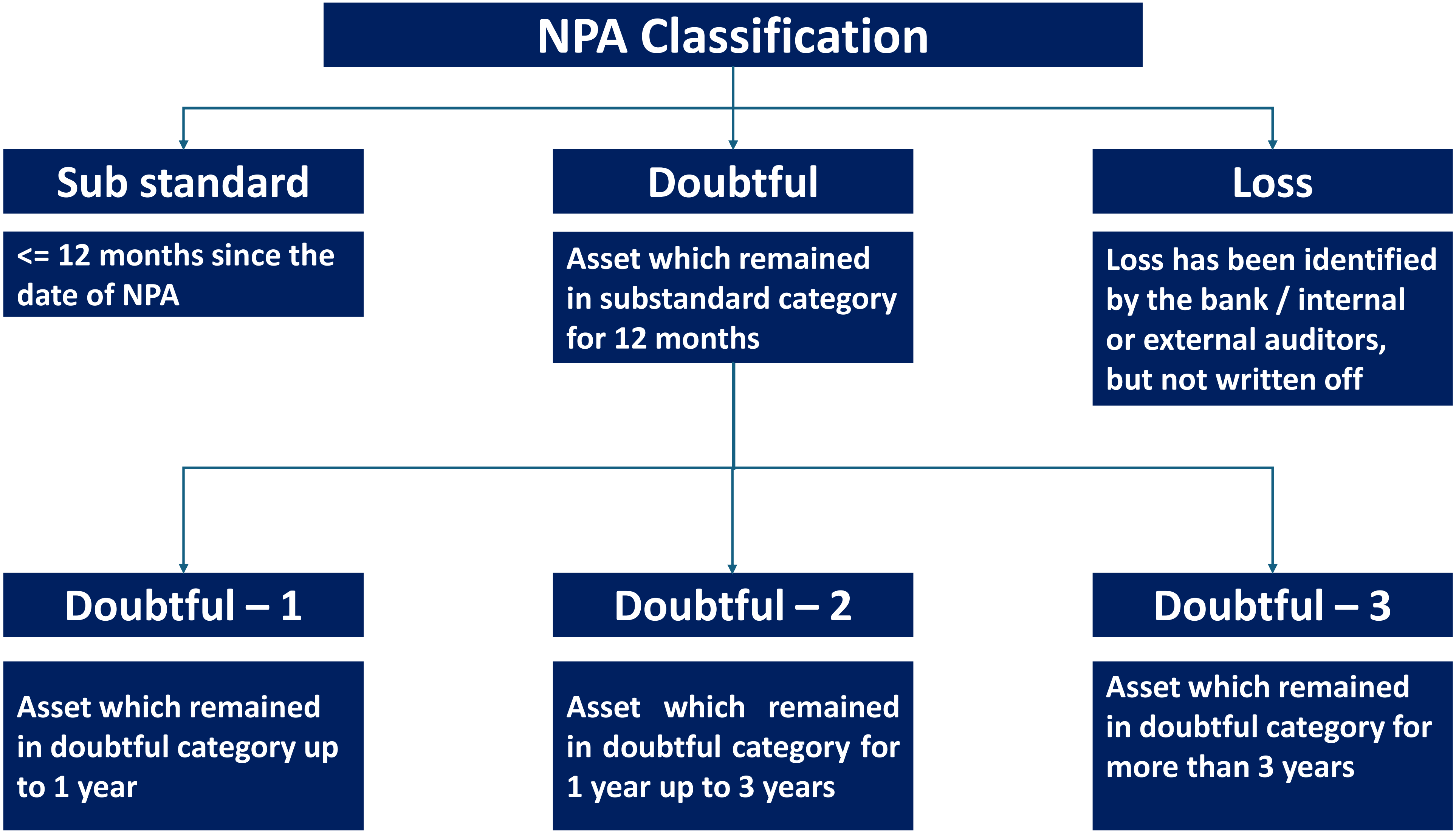
- If the DCCO extension is due to increase in the project size and scope, the account may be classified as standard if the rise in project cost excluding any cost overrun is 25% or more of the original outlay. This benefit shall be allowed only once in a lifetime provided the bank re-asses the viability of the project and its external credit rating does not fall below one notch post the enhancement.

Non-Performing Assets (NPAs)

Asset Classification to be borrower-wise and not facility-wise (Percolation)

Bills discounted under LC should not be classified as NPA, when other facilities are being classified as NPA unless the documents under LC are not accepted on presentation or the payment under LC is not made on the due date by the LC issuing bank

Asset Classification under consortium is based on the recovery of individual member banks and not on the basis of asset classification by Lead bank


NPA Classification
Sub standard
<= 12 months since the date of NPA
Doubtful
Asset which remained in substandard category for 12 months
Loss
Loss has been identified by the bank / internal or external auditors, but not written off
Doubtful – 1
Asset which remained in doubtful category up to 1 year
Doubtful – 2
Asset which remained in doubtful category for 1 year up to 3 years
Doubtful – 3
Asset which remained in doubtful category for more than 3 years

Understanding NPA Classification

Type of facility	Term Loan
Sanctioned Amount	Rs. 1,00,00,000
Date of NPA	08^{th} September 2025
Asset classification	Sub-standard
Date till the account is classified as:	
Sub-Standard	08^{th} September 2026
Doubtful – 1	08^{th} September 2027
Doubtful – 2	08^{th} September 2030
Doubtful – 3	09^{th} September 2030 Onwards

NPA Classification - Exceptions

If the realizable value of security of NPA has eroded for more than 50% from the value assessed during the last inspection, the same should be directly classified as doubtful.

Primary Agricultural Credit Society (PACS) / Farmers Service Society (FSS)	• Only the agricultural advance which has become overdue will be classified as NPA not the entire credit facilities sanctioned. • The advance other than PACS / FSS facility will also be marked as NPA for the member borrower whose advance under PACS / FSS facility has been marked as NPA.
Advances against Term Deposits / NSCs / KVPs	• Not to be marked as NPA unless adequate margin is available
Government Guaranteed Advances	• Central Government backed advances may be treated as NPA only when guarantee is invoked. • This exemption is not applicable for State Government backed advances.

NPA Classification - Exceptions

Post Shipment Supplier Credit	• The amount which has been received from ECGC will not be treated as NPA and for the purpose of provisioning
Export Project Finance	• In case where the importer has paid to the bank abroad but the same could not be remitted due to political reasons, the account will be marked as NPA only if the documentary evidence is not available and one year has passed from the date when the amount was deposited in the bank abroad
Credit Cards	• If the minimum amount due, as mentioned in the statement, is not paid within 90 days from the payment due date

Income Recognition

- The banks should not charge and take to income account, interest on any NPA.

- Fees and commission earned by renegotiations or rescheduling should be recognized on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

- Banks shall recognize income in NPA accounts only on realization i.e., on cash basis and not on accrual basis.

- interest accrued and credited to income account (to the extent unpaid) should be reversed except for the interest capitalized during the moratorium period.

- In case of NPA Accounts, 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.

- Appropriation of recoveries in NPA should be as per the credit / recovery policy of the bank.

Upgradation of NPA’s

The Borrower will be upgraded to standard subject to the borrower clearing all arrears of principal and interest outstanding pertaining to all the credit facilities of the borrower.

Provisioning of Non-Performing Assets (NPAs)

Substandard	Doubtful		Loss
NPA < 12M	NPA > 12M		• 100% to be provided for if remaining in books.
	Secured	Unsecured	
• 15% on total outstanding without allowance for ECGC Cover and available security. • Additional provision of 10% on unsecured exposure* (25% effectively). • 20% on Escrow accounts for infra lending.	Doubtful 1 – 25% Doubtful 2 – 40% Doubtful 3 – 100%	100% to the extent not covered by security value.	

*Exposure where realizable value of security =< 10%.

Provisioning of Non-Performing Assets (NPAs)

Provision can be made at higher than prescribed rates to provide for estimated actual loss given it was approved by BOD and adopted consistently.

Such provision not to be considered as floating.

Such provision may be netted off from GNPA to arrive at NNPA.

Provision on advances against TD, NSC, KVP, gold ornaments, govt. / other securities and life insurance policies made as applicable to their asset classification status.

Amounts held in Interest Suspense Account should not be reckoned as part of provisions.

Provision for country risk shall be in addition to the provisions required according to asset classification status. However, in the case of ‘loss assets’ and ‘doubtful assets’, provision, including provision for country risk, may not exceed 100% of the outstanding.

Technical / Prudential and Actual Writing-off of NPA

- **In Prudential / Technical Write-Off, Banks write-off advances at Head Office level, even though relative advances are outstanding in branch books.**

- **However, it is necessary that provision is made as per the classification accorded to the respective accounts.**

- **Banks should disclose full details of write offs, including separate details about technical write offs, in their annual financial statements as per the format prescribed.**

Case Study #1

Repayment Schedule	EMI of Rs. 50,000 on the first of every month			
Demand Date	**Demand type**	**Demand Amount**	**Repayment Amount**	**Repayment date**
01-03-2025	Principal	45,000	45,000	18-03-2025
01-03-2025	Interest	5,000	5,000	18-03-2025
01-04-2025	Principal	45,000	45,000	25-04-2025
01-04-2025	Interest	5,000	5,000	25-04-2025
01-05-2025	Principal	45,000		
01-05-2025	Interest	5,000		
01-06-2025	Principal	45,000		
01-06-2025	Interest	5,000		

Based on the above extract of repayment schedule, should the account be marked as NPA as on June 30, 2025?

The account would not be marked as NPA as of June 30, 2025, since the oldest instalment outstanding is of May 01, 2025, and 90 days have not elapsed since the due date.

Case Study #1

What would your answer be, if Rs. 35,000 would have been repaid on April 25, 2025?

The instalment of Rs. 50,000 is partially overdue even after the payment of Rs. 35,000 and hence, the account would be marked as NPA as of June 30, 2025, since the oldest instalment outstanding is of April 01, 2025, and 90 days have elapsed since the due date.

What would happen to CC facility maintained by proprietorship concern of Mr. A?

In case of Proprietorship Concern, even though the Customer ID of the account might be different for individual accounts of Mr. A and the proprietorship concern of Mr. A, the PAN of both these customers would be same and hence the CC facility of proprietorship concern of Mr. A would also be marked as NPA to effect borrower-wise marking of NPA.

Case Study #2

Type of facility	Cash Credit
Sanctioned Amount	Rs. 1,45,00,000
Drawing Power	Rs. 1,76,00,000
Last stock statement submitted	May 2025
Review / Renewal pending since	April 06, 2025

20-04-2025	Account Maintainence Charges	162.26		1,47,32,356.04
22-04-2025	Interest Charged	1,21,606.00		1,48,53,962.04
24-04-2025	Bill Payment of Vetting of Documents	1,500.00		1,48,55,462.04
22-05-2025	Interest Charged	1,20,267.00		1,49,75,729.04
29-05-2025	Transfer of Savings Account		1,50,000.00	1,48,25,729.04
07-06-2025	Transfer of Savings Account		1,40,000.00	1,46,85,729.04
08-06-2025	Penal Charges for CCOD	11,300.21		1,46,97,029.25
08-06-2025	Penal Charges for CCOD	34.27		1,46,97,063.52
12-06-2025	Transfer of Savings Account		2,00,000.00	1,44,97,063.52
12-06-2025	Transfer of Savings Account	2,00,000.00		1,46,97,063.52
22-06-2025	Interest Charged	1,24,007.00		1,48,21,070.52

Case Study #2

Does the account fulfill any of the conditions of marking the Cash credit facility as NPA ?

Since, the Balance outstanding in the account is continuously in excess of the Sanctioned Limit of Rs. 1,45,00,000, the account would be marked as NPA.

With reference, to the account statement attached in the previous slide, identify the other deficiency observed in this account statement

Based on the attached statement of account, there is a credit of Rs. 2,00,000 through transfer from savings account because of which the outstanding balance of the account has come within the sanctioned limit. However, the said credit has been again reversed on the very same day to the said savings account and the EOD balance was overdrawn. Hence, if the said credit is ignored, the credits in the account are not sufficient to cover the interest debited in the past 90 days period.

In case the account is not reviewed within the stipulated timeline, should the account be marked as NPA. If yes, then what will be the date of NPA?

If the account is not renewed within the stipulated timeline, the account would be marked as NPA on October 01, 2025, i.e., after 180 days from the due date of renewal i.e. April 05, 2025.

Case Study #3

Name of the borrower	Imandar Traders
Type of facility	Bill discounting
Amount of bill purchased	Rs. 26,00,000
Date of purchase	March 03, 2025
Due date of bill	May 15, 2025

Based on the above facts, will the account become NPA till September 30, 2025? If yes, what will be the date of NPA?

If the bill remains unpaid till August 12, 2025, the account would be marked as NPA.

At what date will the account be classified in Doubtful-2 category?

The account would be classified in Doubtful – 2 Category after 48 months / 2 years from the date of NPA i.e., on August 12, 2027 onwards.

In addition to the above facts, if amount of bill is paid before the account has turned NPA through another term loan disbursement, then in such case, what will be the asset classification of the bill and the term loan?

If the repayment is sourced from a term loan disbursement, the said credit would be ignored, and the bill and the term loan would be marked as NPA.

Case Study #4

Monthly Principal Demand	Rs. 45,000
Monthly Interest Demand	Rs. 5,000
Overdue Since	December 15, 2025
Date of NPA	March 15, 2026

Assuming that there is no repayment since December 15, 2025 in the account, what would be the amount of Interest reversed as at the date of NPA?

If there is no repayment in the account, the interest debited for 3 months i.e. for the months of December to February of Rs. 15,000 would be reversed.

If the Borrower is approaching the Bank on August 15, 2025, what would be the amount of Uncharged Interest charged to the Loan Account?

If there is no repayment in the account, the interest for 6 months i.e. for the months of March to August of Rs. 30,000 would be charged to the account.

Case Study #5

Name of the Borrower	Mr. Baburao Apte
Type of Facility	Term Loan
Outstanding Amount	1,15,00,000.00
Security Value	1,50,00,000.00
Date of NPA	08-08-2022

Since the amount outstanding is less than the realizable value of security, the entire amount is fully secured.

Asset Classification	Date	SCB	
		Rate	Amount (Rs.)
Date on which the account is classsified as substandard	08-08-2022	15%	17,25,000.00
Date on which the account is classsified as doubtful-1	08-08-2023	25%	28,75,000.00
Date on which the account is classsified as doubtful-2	08-08-2024	40%	46,00,000.00
Date on which the account will be classified as doubtful-3	09-08-2027	100%	1,15,00,000.00

Case Study #6

Name of the Borrower	Mr. Baburao Apte
Type of Facility	Term Loan
Outstanding Amount	1,15,00,000.00
Security Value	80,00,000.00
Date of NPA	08-08-2022

Asset Classification	Date	SCB				
		Secured		Unsecured		Total Provision
		Rate	Amount (Rs.)	Rate	Amount (Rs.)	
Date on which the account is classsified as substandard	08-08-2022	15%	17,25,000.00	25%	-	17,25,000.00
Date on which the account is classsified as doubtful-1	08-08-2023	25%	20,00,000.00	100%	35,00,000.00	55,00,000.00
Date on which the account is classsified as doubtful-2	08-08-2024	40%	32,00,000.00	100%	35,00,000.00	67,00,000.00
Date on which the account will be classified as doubtful-3	09-08-2027	100%	80,00,000.00	100%	35,00,000.00	1,15,00,000.00

Case Study #7

Outstanding Balance	1,00,00,000
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 2 years remained doubtful
Value of Security held	25,00,000

Advances classified as doubtful and guaranteed by ECGC, provision should be made only for the balance in excess of the amount guaranteed by the Corporation

Outstanding Balance	1,00,00,000
Less: Value of Security	-25,00,000
Unsecured Portion	75,00,000
Less: ECGC Cover	-37,50,000
Net Unsecured Portion	37,50,000

Provision for Unsecured Portion (100%)	37,50,000
Provision for Secured Portion (40%)	10,00,000
Total Provision Required	47,50,000

Case Study #8

In case of Advances covered by existing or future schemes/guarantees launched by CGTMSE, CRGFTLIH and NCGTC, no provision needs to be made towards the guaranteed portion on becoming NPA.

Outstanding Balance	60,00,000
CGTMSE Cover	Lower of 75% / 75% of the unsecured amount / Rs. 37.50 lakhs
Period for which the advance has remained doubtful	More than 2 years remained doubtful
Value of Security held	15,00,000

Outstanding Balance	60,00,000
Less: Value of Security	-15,00,000
Unsecured Portion	45,00,000
Less: CGTMSE Cover	-33,75,000
Net Unsecured Portion	11,25,000

Provision for Unsecured Portion (100%)	11,25,000
Provision for Secured Portion (40%)	6,00,000
Total Provision Required	17,25,000

Provision Coverage Ratio $= \dfrac{\text{Provision Maintained}}{\text{Gross NPA}} \times 100 = \dfrac{17{,}25{,}000}{60{,}00{,}000} \times 100 = 28.75\%$

Case Study #9

Type of Facility	Cash Credit
Sanctioned Amount	Rs. 1,45,00,000
Drawing Power	Rs. 1,76,00,000
Value of Stock as per Stock Statement as at March 31, 2025	Rs. 2,10,00,000
Value of Stock as per Audited Financial Statements as at March 31, 2025	Rs. 1,15,00,000

What procedure the Bank must ideally follow based on the above data?

After observing the difference in value of stocks as per the submitted stock statement and the audited financial statements of the entity, the Bank shall assess that whether such difference is exceeding the threshold of the Bank. If yes, then the Bank shall ask for a clarification from the Borrower with respect to the difference in value of the stocks. If the clarification given by the Borrower is not satisfactory, the Bank may conduct Stock Audit or cover this during the annual inspection of the Borrower. The said point of difference in value of stocks should also be captured in the appraisal note for the renewal of the CC Account of the Borrower. The observations of such inspection / stock audit shall be considered while calculating the Drawing Power during the current year.

Case Study #9

Will the account be marked as NPA and what would be the reason for the same?

If, the Drawing Power calculated based on the updated Stock Statement is less than the sanctioned limit, the such drawing power shall be compared with the Sanctioned Limit and the lower of the two would be compared with the balance outstanding in the CC Account. If the balance outstanding is exceeding such drawing power for continuous period of more than 90 days, the account would be marked as NPA.

Case Study #10

Type of Facility	Cash Credit
Sanctioned Amount	Rs. 6,50,00,000
Outstanding Amount	Rs. 6,67,00,000
Asset Classification	Doubtful – 1
Value of Security (Stock)	Rs. 9,25,00,000
Provision Maintained	Rs. 1,66,75,000
Date of Last Stock Statement	February 29, 2025
Date of Last Stock Audit	January 31, 2023

Is the provision maintained by the bank as of March 31, 2025, accurate? If not, what will be the required provision to be maintained and reason for reassessing the provision?

To enhance the reliability of the stock valuation, in NPAs with balance outstanding of Rs. 5 Crores and above, stock audit by external agencies appointed by the Bank is to be conducted at an annual intervals. Hence in the given case, even though the Stock Statement submitted is the latest one i.e. of February 29, 2025, the Stock Audit was not conducted after January 31, 2023 and hence, the valuation of the stock as mentioned in the Stock statement would not have been reliable. Hence, the value of the Security (Stock) is to be considered as 'NIL' and the advance should be treated as unsecured. Since the account is in Doubtful – 1 category, 100% provision i.e. would be made on such advance.

Case Study #11

Mr. Suresh has taken a gold loan of Rs. 5,00,000 on pledge of gold chain (GLN/1) which is due to be paid on March 26, 2025. Before the account turning NPA on June 26, 2025, the loan demand was paid off by disbursement of another gold loan opened in the name of Mr. Suresh on a pledge of gold bracelet (GLN/2).

Will this recovery be considered as genuine for not marking the account as NPA? What will be the classification of account if the new gold loan disbursed to Mr. Suresh was backed with the same gold (collateral)?

The recovery made from disbursement of another gold loan shall be considered genuine since the same is against new / additional gold ornaments (gold bracelet) and hence, the account of Mr. Suresh shall not be marked NPA. However, if the new gold loan being utilized for repayment of existing loan is against the same gold shall not be considered genuine as the lien marking made on the gold provided as security is only released when the loan has been fully repaid.

Whether your answer would be different if GLN/2 was disbursed to the Savings account and GLN/1 was closed from the said savings account?

In case the new gold loan (GLN/2) is disbursed to the savings account, and if, the balance of the savings account just before this disbursement would have been more than the amount demanded of existing gold loan (GLN/1), then GLN/1 would not have been marked as NPA. However, if there is inadequate balance in the savings account of Mr. Suresh, and the demand amount transferred to GLN/1 is funded purely out of the disbursement proceeds of GLN/2, then GLN/1 would be marked as NPA.

Case Study #11

What would be your answer if GLN/2 was disbursed to the Savings Account of Mr. Suresh, cash is withdrawn from the Savings Account and demand of GLN/1 is paid by Cash Deposit, all on same day.

Due to fungible nature of cash, it is difficult to prove that the account is closed with the cash that has been withdrawn out of the savings account and hence GLN/1 would not be marked as NPA.

Case Study #12

M. N. Constructions (P) Ltd. and A. D. Cements (P) Ltd. are group concerns. Both the companies have cash credit facilities with Vijaya Bank. The accounts of both the companies have never been out of order. While monitoring these accounts, it was observed that the turnover in the CC accounts were sufficient. On checking the credits in these accounts, it was observed that the credits in both the accounts of group concerns were through each other only. There were very few business credit transactions except for credits through related parties and group concerns. As an auditor, what would be your stand on such group transactions?

The biggest challenge in verifying the credits from related parties of the Borrower is to ascertain the genuineness of the transaction for which such credit in the account has been made. In case of such intra-group transactions, the contract / agreement of the underlying transaction along with necessary invoices must be verified to ascertain the genuineness of the credit into the account.

Hence, if the transactions between the M. N. Constructions (P) Ltd. and A. D. Cements (P) Ltd. are genuine and backed by any contract / agreement, then the account would not be marked as NPA.

In case, the credits made through the group concerns into each other’s CC accounts are not genuine, then such credits shall not be considered as business credits and thus not included in the calculation of total credits for NPA marking. The account shall be seen post eliminating such credits to ascertain if the remaining credits are enough to cover the interest debited during the past 3 months and whether the account is not fulfilling any condition of marking a CC Account as NPA. If any of the condition for marking the account as NPA is satisfied, the account shall be marked as NPA.

In the given case, it is mentioned that there were very few business credit transactions except for credits through related parties and group concerns and hence, the accounts would be marked as NPA.

Case Study #13

M/s Grow Medicals having a term loan of Rs. 56,00,000 and a Cash credit of Rs. 92,00,000. The term loan account has always been flagged in the overdue report as SMA-2 but never marked as NPA. On verification and monitoring of the account, it was observed that the borrower repays the loan 3 days before the probable date of NPA. On verifying the genuineness of the source of recovery, it was observed that the credits in the term loan account is through the cash credit facility of M/s Grow Medicals. However, the same credits in CC facility is from the savings account of Mr. Madhav (Proprietor of M/s Grow Medicals). On back tracing the savings account, it comes to our notice that the credit in savings account is through drawdown of overdraft which is backed fully by Fixed Deposits in name of Mr. Madhav.

As an auditor, what would be your call with respect to the asset classification of this account?

Since the amount for credits emerges from an overdraft facility which is backed by an FD in the name of the proprietor, the CC account shall not be marked as NPA as the source of credit is a Loan against FD which can not be marked as NPA unless there is inadequate margin.

What would the account classification be if the credits in the savings account were through personal loan disbursement?

However, in case the source of credits was a personal / consumption loan, the said cash credit facility and the personal loan would be marked as NPA.

Case Study #14

Type of Facility	Term Loan
Outstanding Amount	Rs. 1,27,00,000
Date of NPA	December 24, 2025
Date of Upgradation	March 22, 2026
Date of earliest Instalment overdue	April 15, 2026
Asset Classification as at June 30, 2025	Standard; SMA – 2

Can the account be marked as NPA as at June 30, 2026?

Since the account does not satisfy the NPA Classification criteria for term loan as on the reporting date, it may not be marked NPA.

Whether any other prudent measure to be undertaken as an auditor of a bank?

In view of the past experience, the auditor may recommend the Bank to maintain 100% standard asset provision for the said Term Loan.

Case Study #15

An NBFC – Nimrit Finance Ltd. approaches Dena Bank for sanctioning of Rs. 100 crores for further lending to the MSME sector. A borrower named Mr. Ritesh obtained a loan for his micro enterprise from Nimrit Finance and has another term loan from Dena Bank. However, after some time, the borrower was marked as NPA by the NBFC.

Will the borrower be also marked as NPA in Dena Bank?

No, the borrower shall not be marked as NPA in Dena Bank even though it has been marked NPA in the NBFC since banks have to take a call of marking the account as NPA based on their own record of recovery. However, if the borrower defaults in the repayment of his loan with Dena Bank, the entire exposure of such borrower would be marked NPA.

What would have been your answer if loan from Mr. Ritesh was turned NPA after the same had been taken over during Pool Buy Out from Nimrit Finance Ltd.?

In case if the said account would have been bought by Dena Bank through Pool Buy Out from Nimrit Finance Ltd., Mr. Ritesh would no longer be a borrower with Nimrit Finance Ltd. and would be a borrower of Dena Bank. In case if the said loan of Mr. Ritesh would have turned NPA, then to give effect of borrower – wise marking of NPA, the loan with Dena Bank would also be marked as NPA.

Case Study #16

Priya Chemicals having a term loan facility which has always been reflected in overdue status report but never been marked as NPA. On monitoring the account closely, it was observed that the credits in the account was through an office account of the bank. On verifying the said office account, it was observed that credits in this internal office account is through other office account. On verification, it comes to the notice that the credit in internal office account is through a loan disbursement and while back tracing the loan disbursement, it was noticed that the loan disbursement in the office (parking) account is through the same term loan for which repayment is being made. The said issue is persisting since the past 8 months.

What would your opinion be on such accounts if you were an auditor of the said bank?

The said term loan account should be marked as NPA as there is no real repayment in the account since the past 8 months. Apart from marking the term loan as NPA, a thorough analysis of office accounts should be done to ascertain whether any debit entry is outstanding for more than 6 months. If yes, a provision of 100% should be maintained in terms of RBI Letter dated July 17, 2019, on Un-authorized Operation of Internal / Office Account.

What reporting requirements would you, as an auditor would consider in the above example?

As an auditor, the following reporting requirements would be considered:

- Communication with those charged with governance (Presentation to the Audit Committee)
- Commenting in the Long Form Audit Report (LFAR)
- Qualification of the Audit Report (if the quantification of the said issue is material)
- Qualification of the Report on Internal Controls over Financial Reporting (if the quantification of the said issue is material)
- Qualification in the annual certificate on “Unauthorized Operation of Internal-Office Accounts”

Case Study #17

A borrower had multiple facilities with OBC Bank Ltd. which have been marked as NPA. One of the account of the borrower has been classified as Doubtful – 2 and the other one has been classified has been substandard.

Whether the same is permissible that different accounts of the same borrower be classified under different NPA categories?

No, as the NPA marking is borrower – wise i.e., if one facility of the borrower is marked as NPA on a specific date, all other facilities of the same borrower will be marked as NPA on the same date and under the same class of NPA.

What will be the NPA classification of the borrower and the rate of provision?

If an account of a borrower is classified as Doubtful – 2 and another account is classified under Loss Asset, then, for the purpose of provision calculation, the worst asset classification shall be considered i.e., Loss Asset and the provision shall be calculated at the rate of 100%.

Case Study #18

Mr. Sandeep has obtained Smart Home Loan of Rs. 60,00,000 where in the interest is demanded monthly on the basis of the outstanding amount in the account. The EMI of the account is Rs. 25,000/- The drawing power of the account reduces every month.

Date	Drawing Power	Outstanding
31/01/2025	59,75,000	59,00,000
28/02/2025	59,50,000	59,63,000
31/03/2025	59,25,000	59,22,000
30/04/2025	59,00,000	59,22,000
31/05/2025	58,75,000	58,89,000
30/06/2025	58,50,000	58,67,000

What will be the conditions for monitoring such loans and for classifying the advance in standard or substandard?

In case of such smart home loans, the monitoring process applied is that the amount outstanding in the account should not be greater than the drawing power for continuous period 90 days.

Case Study #19

A SPV (Special Purpose Vehicle) of Mumbai Infrastructure for building an underground metro from Colaba to BKC has been formed which had started the construction by taking loan from SBI amounting to Rs. 100 Crores on July 07, 2025, against the corporate guarantee provided by Mumbai Infrastructure to the Banks. However, the SPV defaulted on payments and the same became a quick mortality account on January 24, 2026 and subsequently the corporate guarantee was invoked.

In case Mumbai Infrastructure has an exposure with SBI, will the parent company's exposure also be downgraded?

The parent company's exposure cannot be downgraded with respect to SPV becoming NPA as both SPV and Parent are separate legal entities.

What would be your opinion if the entire case has been reversed wherein the Parent company (Mumbai Infrastructure) has become NPA but its SPV has always been regular and never defaulted on the payments, will then the SPV's exposure also be downgraded?

The SPV's exposure cannot be downgraded with respect to parent company becoming NPA as both SPV and Parent are separate legal entities.

Case Study #20

The OD against Property of Mr. Sam was marked NPA on June 04, 2024. The market value of the property was Rs. 40,00,00,000; realizable value being 38,50,00,000 and distress value being Rs. 29,00,00,000. Now on June 30, 2025, which amount of the aforesaid values should be considered as security value for calculating provision?

The realizable value of the property of Rs. 38,50,00,000 should be considered as security value for provision calculation

Case Study #21

Ram Enterprises Ltd. maintains a CC account with Allahabad Bank and a Term Loan with Axis Bank. The CC with Allahabad Bank had shown signs of stress and on further investigation it was observed in the CRILC Report of the borrower that the Axis Bank Term Loan was marked as NPA.

Now should the CC with Indian Bank be marked as NPA?

No. The account shall not be marked NPA in Indian Bank if the dues are being serviced regularly. However, the account must be closely monitored as it has shown the signs of stress.

What steps should be taken by Indian Bank, if instead of NPA, the Axis Bank Term Loan is mentioned as RFA?

Red Flagging of the account should be done, and bank must conduct an internal investigation or appoint a forensic auditor to proceed with removal of the red flag. In addition, the Bank may make 100% provision for such account.

Case Study #22

Ms. Daisy was sanctioned a Term Loan of Rs. 15,00,000 to finance the purchase of a car worth Rs. 18,00,000 which was being offered as security. During annual inspection of the security, it was noticed that the vehicle was non – traceable. However, the loan EMIs were being served from time to time.

Should the TL be marked NPA?

The vehicle loan would be marked as NPA as the non – traceability of the car will be treated as erosion in the value of security. The non – traceability leads to erosion in the security by more than 90% of the actual amount outstanding and the standard account should be downgraded and classified directly as loss asset.

Case Study #23

The CC of Mr. Shyam was classified in Loss category (Date of NPA: February 23, 2024). On part repayment of the overdue amount the account was upgraded into Doubtful-2 as at March 31, 2026.

Is the aforesaid classification in line with the IRAC norms?

As mentioned in the IRAC Norms on upgradation of the account, an account should only be upgraded to standard after repayment of all the dues. Hence, the upgradation of CC account of Mr. Shyam from Loss to Doubtful – 2 category is not in line with the IRAC Norms.

What would be your answer if Borrower is in D2 category fully provided because of zero security value without security and now he had introduced any security (For e.g., an immovable property).

If Mr. Shyam would have introduced a property as a security (primary or collateral), the said upgradation would have been in line with the IRAC norms since the account would no longer be a loss asset. In the said scenario, the account should be upgraded to the NPA category based on the ageing of the NPA. In the given case study, the account would have been classified into Doubtful – 2 category based on the NPA Date.

Case Study #24

Shetron Ltd. had a packing credit with outstanding balance of Rs. 80,00,000 and security value of Rs. 35,00,000 covered by ECGC Cover of 50%. The said account was declared NPA as on March 31, 2023. Due to non – compliance of stipulated conditions, ECGC cover was rejected by the Authority.

Now what will be the consequences of such cancellation and how should the term loan be provided for as at March 31, 2026?

The required amount of provision would be Rs. 59,00,000 (40% on secured portion of Rs. 35,00,000 and 100% unsecured portion of Rs. 45,00,000).

Case Study #25

The loan of Bharat Earth Movers was made NPA on September 27, 2021. No recovery has been made against the packing credit since. The loan was covered by CGTMSE cover for which the first tranche was released within 6 months of NPA marking and considered in the provisioning accordingly. However no further amount was received from CGTMSE up to the reporting date of March 31, 2026.

What audit procedures would be considered necessary in the given case?

The auditor could go through the files of Bharat Earth Movers to determine whether any notice of rejection of the claim is on record. Additionally, the auditor may, with the help of the Bank, input the CGPAN of the Borrower on the CGTMSE website to ascertain the status of the balance claim amount.

Whether any effect would be considered during the calculation of provision required?

If the claim is rejected, 100% provision to be made after appropriating the 1st tranche. In case, the claim is found to be defective and even the 1st tranche is to be refunded back, then 100% provision would be required without appropriating any amount.

Case Study #26

A – One Steel Ltd had a Bill of Rs. 2,00,000 which was overdue for more than 85 days. A – One Steel Ltd had another term loan of Rs. 2,50,00,000 and Packing Credit of Rs. 50,00,000 which are being serviced regularly. Now, if the said bill is marked as NPA, should the Term loan and Packing Credit would also be marked NPA just due to a minimal bill amounting to Rs. 2,00,000 being marked as NPA?

Yes, all the facilities of the borrower should be marked as NPA even when the very minimal amount of overdue is observed in any of the accounts of the borrower.

Whether your answer would change if there is a balance of Rs. 5,00,000 in Current Account of A – One Steel Ltd. and the Bank is contesting that they would recover the overdue amount without any instructions from the borrower from the said current account to avoid marking of the borrower as NPA.

The Bank has a General lien on the Savings and Current Accounts of the Borrower. As per the general conditions mentioned in the loan agreement, the Bank has a right of set – off in which, any overdue amount would be recovered from the savings account and current account of the borrower. Hence, even without any consent from the Borrower, the bank may collect any amount overdue from the current account of A – One Steel Ltd. and avoid NPA marking of the borrower.

Case Study #27

Axis bank had subscribed corporate bonds of ASHA Ltd. viz. 8% Corp Bond 2025 of Rs. 7,00,00,000 for 10 years with quarterly interest payments. Due to unforeseen external circumstances, Asha Ltd. was unable to serve the interest due on December 31, 2025 and was marked as NPI on March 31, 2026. Apart from investments in Asha Ltd., Axis Bank also had sanctioned a working capital limit of Rs. 5,00,00,00,000 to Asha Ltd.

The question appears that in case of investment becoming non-performing, whether the credit facilities would also be downgraded?

Yes, to give effect of the borrower – wise marking of NPA, the other credit limits would also be downgraded to NPA from standard.

Case Study #28

Mr. Tom availed a credit card from Allahabad Bank. The minimum amount due on February 03, 2026, was Rs. 7,500 whereas the actual amount due was Rs, 37,250/-. Due to non-payment of the minimum due the credit card was marked as NPA. Is this classification of the credit card facility appropriate? Also, whether other credit limits, if any, sanctioned to Mr. Tom also be downgraded?

Since, the borrower has failed to pay the minimum amount due, as per the IRAC norms, the account would be classified as NPA. Yes, if there are any credit facilities availed from Allahabad Bank, the same would be marked as NPA.

Case Study #29

Purva Ltd. has a term loan of Rs. 1,00,00,000 with Bank of New York (Subsidiary) and a cash credit limit of Rs. 2,00,00,00,000 with Bank of India (Parent). On non-payment of EMI demands, the term loan in Bank of New York has been marked as NPA on March 03, 2026.

Whether the cash credit limit with Bank of India will also be downgraded while auditing the financial statements of Bank of India?

The Cash Credit facility with Bank of India would not be marked as NPA.

If instead of the foreign subsidiary, if it would have been New York branch of Bank of India, what would be your answer?

The Cash Credit facility with Bank of India would be marked as NPA.


Q&A
questions
ask
help
answers
investigation
inquiry
confused
problem
info
query


THANK YOU!