Tamilnad Mercantile Bank Ltd

Be a step ahead of life

[ **_Credit Audit Monitoring Policy : 2022-'23_** ]

Version 6.0

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**TAMILNAD MERCANTILE BANK LTD., HEAD OFFICE, THOOTHUKUDI**

**CREDIT AUDIT MONITORING DEPARTMENT**

**CREDIT AUDIT MONITORING POLICY: 2022-'23**

## 1. Preamble:

The Bank has in place a loan policy covering the credit appraisal standards, exposure level, credit risk assessment, loan pricing etc. In continuation to the loan policy, the Bank has the following policies for effective management.

i. **Stock Audit Policy**
ii. **Credit Audit Policy**
iii. **Potential NPA Policy**

In accordance with the observations made by Reserve Bank of India vide their letter DBS.CO.PP.D.B.C.10/11.01.005/16-17 dated 19.04.2017, the Credit Monitoring Policy was framed in the Bank. A department exclusively for Credit Audit Monitoring (CAM), which is functioning from 07th November 2005, looks after the following areas of Credit as a measure of having a Systematic / Committed approach in Credit Administration in Post sanction level. At, present, CAM Department is functioning under the control of General Manager (CAM) and assisted by supporting team.

### 1.1. Organizational Set up:

| |
|---|
| **GENERAL MANAGER** |
| **DEPUTY/ ASSISTANT GENERAL MANAGER** |
| **CHIEF MANAGER** |
| **OFFICERS** |
| **CLERKS** |

### 1.2. Need for the Policy Revamp:

It has been observed in some instances that the borrowers had diverted funds by creating fictitious suppliers, debtors etc., with consequential misrepresentation of stock position/book debts to the banks. Such practices were not detected due to,

i. the deficient monitoring of stock statements
ii. absence of periodic field visits and
iii. inadequacy of other processes for ensuring availability / adequacy of the stocks.

Hence Reserve Bank of India advised all banks to revise / formulate Credit Monitoring Policy incorporating few additional measures with the approval of the Board. Effective implementation of the policy should be overseen by the Board / Board level Committees and specifically examined and commented upon by internal auditors.

The following practices are already in use to monitor end use of funds and are detailed in Credit Policy:

i. The Sanctioning Authorities stipulating conditions in their sanction letters to get the opinion report on suppliers of machinery / equipment and verification of their existence done by the branches before disbursal in case of Term loans and direct disbursement made to the suppliers are followed by immediate verification of assets by the branch officials.

ii. The field level checking authorities like Regional Office official to verify the stage wise disbursement of branches for the housing loans by spot visits, stage wise photographs taken and based on the stage completion certificates of the Panel Engineers and to verify the disbursement on a random visit to check the deployment.

iii. Since the Chartered Accounts do not possess the required technical expertise to certify the end uses, certificates from technical experts such as machinery valuers are made mandatory for the term loans involving high value capital assets and this has to be incorporated in the sanction conditions by the Regional Offices and Credit Department.

iv. In case of non co-operating customers with Internal Inspectors / Stock Auditors / Concurrent Auditors, stringent application of financial disincentives such as pricing adjustment as penalty and non-financial disincentives like freezing / non renewal of limits are suggested and to be used case to case basis by the sanctioning authorities.

v. For meaningful control of the large advances, the funds are to be deployed through the branch nearby the concerned business place or with a nearby big branch in necessary cases. The Regional Offices has to decide the branch while accepting the proposal itself.

vi. In respect of Consortium /Multiple Banking Advances, the check points are to be aggregated at the industry level and should be compared with the borrower's financial statements and meaningful conclusions are to be arrived by the Credit Department.

vii. Bills purchased and discounted, returned unpaid on the same day are being followed by the Regions through statements received from the branches and also through direct options available in the system. Subsequent followup and escalations are made by the CAM Department.

### 1.3. This Document:

This document, termed as “Credit Audit Monitoring Policy”, is placed in addition to the existing policies such as 1.Stock Audit Policy and 2.Potential NPA Policy under purview of the Department. This policy has incorporated with all amendments, clarifications and new interventions that have been received in the interregnum.

### 1.4. Authority for issuance of Policy:

The Credit Audit Monitoring Department is responsible for drafting of Credit Audit Monitoring policy and also for periodical review of the related policy.

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## 2. Objectives of the Policy:

The key objective of the Policy describes the two major types of functions like 1.Credit Audit and 2.Credit Monitoring.

### 2.1 Credit Audit:

Credit Audit examines compliance with extant sanction and post-sanction processes / procedures laid down by the bank from time to time.

**a. Objectives of Credit Audit:**

i. Improvement in the quality of credit portfolio.
ii. Reviewing the sanction process and compliance status of large loans.
iii. Feedback on regulatory compliance.
iv. Pick-up Early Warning Signals and suggests remedial measures.

**b. Functions of Credit Audit Department:**

i. To process Credit Audit Reports.
ii. To analyze Credit Audit findings and advise the department / functionaries concerned
iii. To follow up with Regional Offices.
iv. To apprise the Top Management.

**c. Scope and Coverage:**

The focus of credit audit needs to be broadened from the account level to look at the overall portfolio and the credit process being followed. The important areas are:

**c.1 Portfolio Review:**

Examine the quality of Credit & Investment (Quasi Credit) Portfolio and suggest measures for improvement, including reduction of concentrations in certain sectors to levels indicated in the Loan Policy and Prudential Limits suggested by RBI.

**c.2 Loan Review:**

GRID Committee of Executives formed at Head Office level evaluate the Fresh/ existing Credit Proposals for the credit limits of ₹10.00 Crores and above for Working Capital / Term Loan (both fund based and non-fund based limits) coming under the powers of Managing Director/ Management Committee of Board/Board. The detailed function of GRID Committee is available in the Loan Policy of the Bank.

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c.2(i) **Pre-disbursement Audit:**

The purpose of pre-disbursement Audit is to ensure the delivery of credit after complying the pre-disbursement terms and conditions.

Pre-disbursement Audit for all credit proposal of ₹5.00 crores and above, sanctioned/ enhanced/ sanctioned of additional limits should be done by the Chief Manager/ Senior Manager at Regional Office after sanction but before disbursement. In case of necessity, the pre-disbursement audit work can also be assigned to the nearby Branch Head of the equal branch cadre. The compliance of the following precautions should be confirmed before disbursement and submit the report to the Regional Manager. Any, adverse features pointed out in the Pre-disbursement Audit should be submitted to the General Manager (Credit Department) and General Manager (Credit Audit Monitoring Department) for perusal. The major areas to be covered are:

- Compliance to the Terms and Conditions stipulated in Loan Policy.
- Compliance to the Sanction Terms and Conditions stipulated in the sanction letter.
- Compliance of pre-disbursement conditions stipulated in the sanction letter.
- Legal Opinion to the effect that the bank has acquired the legal valid title over the property offered as security.
- **Legal Audit should be conducted for account with aggregate limit of ₹3.00 crores and above. The credit facilities should be released only after getting satisfactory opinion.**
- Confirm the availability of List of document as per Legal Opinion.
- Availability of prescribed loan documents as per Loan Policy.
- In case of Term Loan, Confirm the availability of margin money brought in by the borrower.
- Public domain reports such as CIBIL/ other Credit Information Companies, CERSAI, ROC etc., to ensure no adverse feature.
- Pre sanction visit report/ Due diligence report.
- Engineer Valuation/ Manager Independent Valuation Report for the properties.
- Availability of necessary documents for creation of MODTD.
- In case of Export, notification of limit with ECGC.
- Ascertaining the availability of Drawing Power before disbursement of Loan Amount.
- Conducting Stock Audit as a part of pre-disbursement audit for takeover working capital limit of ₹3.00 crores and above.

The loan should be disbursed after getting permission from the Regional Manager based on the Pre-disbursement Audit Report. The disbursement of loan should be rechecked by the same person after 7 working days but before 30 days from the date of disbursement to confirm the following:

- Registration of MODTD, CERSAI, ROC etc.,
- Execution of documents/ Availability of original documents duly signed.
- Payment of STAMP DUTY as per the State Stamp Act applicable to the respective States/ Union Territory.
- Compliance of the post disbursement sanction terms and condition.

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- Enduse of funds.
- Insurance for Primary and Collateral Securities.
- Unit visit/ Assets verification and its remarks, if any.
- Recovery of charges.
- Submission of LDR/CCR to Regional Office and CAM Department.
- Reflection of our Bank’s name in EC after MODTD registration.
- Verification of compliance for adverse features, if any, observed/ pointed out by Credit Department / Credit Audit Monitoring Department.
- Compliance of Takeover norms after disbursement.
- Capturing all the required details about the Collateral Security in the Asset Management System.
- Verifying the V-code details in Finacle.

Non compliance of the features pointed out during the Pre-disbursement Audit and adverse features, if any, found during disbursement should be reported to the General Manager (Credit Department) and General Manager (Credit Audit Monitoring Department) for perusal.

c.3 **Action Points for Review:**

i. Verify compliance of bank's laid down policies and regulatory compliance with regard to sanction.
ii. Examine adequacy of documentation.
iii. Conduct the credit risk assessment.
iv. Examine conduct of account and follow up looked at by line functionaries.
v. Oversee action taken by line functionaries in respect of serious irregularities.
vi. Detect Early Warning Signals and suggest remedial measures thereof.

## 2.2 Credit Monitoring:

Credit monitoring activities are to monitor the borrowal accounts on off-site basis to ensure that the asset quality of each borrowal account and that of the Credit Portfolio as a whole is kept under “Standard” category at all points of time. Credit Audit Monitoring activity commences immediately after the disbursement of advances of fresh, renewal, additional and enhancement of the limits. Symptoms of sickness, weakness and deterioration of asset quality are recognized in advance and acted upon promptly through effective monitoring to capture the Early Warning Signal which would minimize the influx of NPAs. Early Warning Signals of a serious nature should be reported to the Audit Committee of Board.

### a. Strategies:

The Bank will endeavor to meet all the anticipated risks arise due to the deviations/ violations of the operating personnel and mitigate the possible loss to the Bank.

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**b. Coverage of the Policy:**

a) Monitoring of borrowal accounts of ₹25.00 crores and above:
b) Snap Audit on Disbursement of Loan.
c) Scrutinizing of Loan Disbursal Report (LDR) & Conditions Compliance Report (CCR).
d) Monthly Monitoring of Borrowal Accounts with Credit Limit Of ₹3.00 Crores and above.
e) Scrutiny of Credit Audit report
f) Scrutiny of Stock Audit Report
g) Monitoring of Special Mention Accounts
h) Off-site surveillance on random basis of exposure ₹1.00 crores and above.
i) Monitoring of non-renewal of Working Capital Limits.
j) Monitoring Of Large Value Borrowal Accounts

Reporting information of SMA accounts
Reporting of Non-Cooperative borrowers to CRILC
Early Warning Signals (EWS)/ Red Flagged Accounts (RFA)

k) Opening of Current Accounts by Banks – Need for Discipline.
l) Loan Review Mechanism (LRM)
m) Takeover of accounts from other banks
n) Coverage of Unit Verification
o) High Value Transactions
p) Scrutinization of Overdue Bills

**3. <u>Functions of CAM Department:</u>**

Credit Audit Monitoring Department is looking after the following key areas of credit at the post sanction level as a measure of having systematic management of Credit. The deficiencies observed are communicated to Branches, Regional Office and Credit Department if necessary. One Chief Manager/ Senior Manager at the Regional Office will monitor the branches under their control on these key areas and report to CAM Department.

**3.1 Monitoring of borrowal accounts of ₹25.00 crores and above:**

A dedicated team at CAM Department shall monitor the borrowal accounts of ₹25.00 crores and above headed by the Assistant General Manager (CAM) comprising of Chief Manager, Senior Manager and Managers of CAM Department.

The daily transactions of the borrowal accounts of ₹25.00 crores and above should be scrutinized by them. Deficiencies observed, if any, should be communicated to the Branch, Regional Manager with a copy to the Sanctioning Authority immediately and General Manager once in a week. The compliance for the deficiencies should be obtained within 7 days from the date of letter.

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**3.2 Snap Audit on Disbursement of Loan:**

Monitoring the disbursement of loans of a borrowers with credit exposure of ₹1.00 crore and above on the next date of disbursement by CAM Department to identify that the loan has been disbursed as per systems and procedures of the Bank. Deficiencies observed, if any, should be communicated to the Branches and Regional Manager with a copy to the Sanctioning Authority. If necessary, a note is placed to Credit Monitoring Group (CMG)/ Audit Committee of Executives (ACE). The compliance for the deficiencies should be obtained within 7 days from the date of letter.

**3.3 Scrutinizing of Loan Disbursal Report (LDR) & Conditions Compliance Report (CCR):**

As per the bank's Loan Policy and Head Office Circular No.HO.GM.CRAM.GEN.0017/2018-19 dt.05.03.2019, the branches have to submit the Loan Disbursement Report (LDR) and Conditions Compliance Report (CCR) to CAM Department for the credit limits of ₹1.00 crore and above on the date of disbursement. Such received Reports are to be scrutinized by CAM Department and non compliance of sanction conditions if any, are to be taken up with the branches for compliance with a copy to their respective Regional Office. The compliance for the deficiencies observed should be obtained within 7 days from the date of letter.

**3.4 Monthly Monitoring of Borrowal Accounts with Credit Limit Of ₹3.00 Crores and above:**

The branches have to submit the Monthly Monitoring Reports for the borrowal accounts having credit limit of ₹3.00 Crores and above, excluding NPA & Suit Filed accounts, in a structured format as on the last Friday of every month to CAM department and scrutinizing to be done for any deviation. The compliance for the deficiencies communicated should be obtained within 7 days from the date of letter.

**a. Areas of Scrutiny:**

i. Renewal of working capital limits and execution of documentation.
ii. Insurance made for primary/collateral securities.
iii. Submission of Stock / Book Debts statements
iv. Monthly verification of Stock / Book Debts by Branch Officials every month.
v. Timely recovery of interest and / or installment.
vi. Turnover made in working capital accounts and Current / AWB Account of the borrower in tune with limit size.
vii. Cheques / Bills purchased to the borrower and returned.
viii. Return of cheques issued by the borrower.
ix. Operations in export credit limits & overdue export Bill if any.
x. Meeting of commitments under BG / LC/ DPG.
xi. Progress in rectification of supervisory reports such as Stock Audit Report, Concurrent Audit Report, E-Audit Report, Legal Audit Report and Statutory Audit Report etc.
xii. Registration of MODTD, CERSAI, ROC etc.,
xiii. Capturing all the required details about the Collateral Security in the Asset Management System.
xiv. Linking the operative account with the loan account inorder to reduce the SMA accounts.

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### 3.5 Credit Audit :

Inspection Department of the Bank is conducting Credit Audit for the eligible borrowal accounts (both fund based and non fund based, excluding NPA accounts) having credit limit of ₹3.00 Crores and above.

**Credit Audit should include examination of areas such as quality of credit appraisal, adherence to terms and conditions of sanction, post sanction monitoring, end use of funds, infusion of capital, margin build up etc. A separate Policy for the Credit Audit was framed by the Inspection Department of the Bank.**

**a. Scrutiny of Credit Audit Reports :**

The reports are generated through e-Audit – Credit Audit Module (eTHIC Software). The rectification of features pointed out in the Credit Audit report is followed up by the respective Regions.

The Credit Audit Monitoring Department should scrutinize the reports and features should be taken up with the respective branches with a copy to their Region. The concerned Regional Office should verify the full compliance and obtain Final Certificate from the respective Branches and submit the same to Credit Audit Monitoring Department. The entire process till the obtention of the Final Certificate from the respective Regional Office should be monitored at the Credit Audit Monitoring Department.

On submission of Final Certificate for Credit Audit Reports, the compliance submitted by branches to Regional Offices is to be vetted by CAM Department. Deficiencies, if any, should be reported to Audit Committee of Executives.

The major deficiencies observed should be placed before the Audit Committee of the Board after placing the same before the Audit Committee of Executives and the Status report of submission of Final Rectification Certificates (FRCs) should be placed before the Audit Committee of the Board.

### 3.6 Stock Audit :

The Stock Audit system was first introduced in the Bank in October 2002 to monitor the available Drawing power in relation to the balance outstanding of borrowal accounts enjoying working capital limits of ₹3.00 Crores & above (Both Fund and Non-fund based).
At present, Bank’s Loan policy stipulates as hereunder:

“Stock Audit should be conducted once in a year by appointing Chartered Accountants, who are in the banks’ panel as Stock Auditors, for Working Capital Limits of ₹3.00 Crores & above (both Fund based and Non Fund based Limits) inclusive of NPA where the primary security of stock and/ or Book Debts are available”. **Suit filed accounts & HOT accounts do not come under the purview of Stock Audit.**

In order to have uniform procedure and practice and to regulate the system of stock audit process, a Policy document on Stock Audit was considered necessary and first such Policy was drafted and adopted in the Bank in the year 2007. The detailed procedures are available in the Stock Audit Policy.

As per the guidelines given by Reserve Bank of India, CAM Department identifies the eligible borrowal accounts having Working Capital exposure of both Fund based and Non Fund based credit facilities of ₹3.00 crores and above by engaging the services of External Stock Auditors to conduct the Stock Audit every year.

The External Stock Auditors are instructed to institute receivables audit for large borrowal accounts to check the position of book debts with the invoices, bills raised, book debt and age of book debts in relation to normal credit period. Book debts under dispute, periodic confirmations from debtors, credit reports of high value outstanding buyers of the borrower obtained in the Forensic reports. In case of small borrowers, the Internal Inspectors and in case of medium borrowers the external stock auditors and Credit Audit Supervisors designated by the Internal Inspection Department are instructed to verify the above and to ensure the drawing power permitted by the branch.

**3.7 Monitoring of Special Mention Accounts:**

Potential NPA policy was framed and placed in the Bank to improve the credit portfolio not only in speedy recovery of NPAs but also on the prevention of assets from falling into NPA category. **The detailed procedures are available in POTENTIAL NPAs - POLICY AND PROCEDURES.**

**a)Standard Assets: (i) All Regular Accounts.**
**(ii) Irregular Accounts (SMA Accounts)**

**The basis of classification of Special Mention Accounts are given below:**

| SMA categories | Basis for classification |
|---|---|
| SMA-0 | 1-30 days |
| SMA-1 | 31-60 days |
| SMA-2 | 61-90 days |

**In the case of revolving credit facilities (Working Capital Limits) like Cash Credit, Overdraft, Running Packing Credit etc., the SMA sub-categories will be as follows:**

| SMA Sub-categories | Basis for classification |
|---|---|
| SMA-1 | 31-60 days |
| SMA-2 | 61-90 days |

**b) Sub-Standard Assets: Slipped below standard assets by being irregular for above 90 days.**

**a. Potential NPA Accounts above ₹1.00 crore:**
Branches of the Bank are preparing the potential NPA report through Core Banking system. The CAM department is taking report of SMA0 & SMA1 on fortnightly basis and submitting the same to the Committee of Executives and submitting the report of SMA0, SMA1 & SMA2 to our Board on monthly basis.

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The CAM department will undertake the following responsibilities:

i. Prepare a statement of such potential NPAs as done by the Regional Monitoring Committee (RMC) and also meet, as mentioned for the RMC.

ii. Form a Head Office Monitoring Committee with GM Credit, GM Inspection, GM Recovery & their DGMs/AGMs, with a quorum of three persons.

iii. This Committee will study each unit, suggest remedial measures and prepare resolving/rehabilitating packages for each unit.

The Regional Manager will monitor the progress and report to the CAM. In addition to the exposure of ₹1.00 crore and above, CAM department is also intimating the overdue amounts of SMA2 accounts having limit of ₹25.00 lakhs and above to the branches once in a month with instruction to recover the overdue amount with copy to Regional Office.

The stressed accounts are identified and being closely monitored by Credit Audit Monitoring Department and the accounts which remain continuously under stressed assets are to be placed before the COE of the Bank by the Credit Audit Monitoring Department. The CAM Department will take the responsibility to follow with the branches for linking the operative account with the loan account inorder to reduce the SMA accounts.

The permission should be obtained by the branches from Credit Department for doing the following transactions in SMA2 accounts:

- The accounts of the borrower reported as SMA2 as per the report of other Bank/ CRILC should be immediately frozen and any debit operations of the account exceeding ₹5.00 crores should be done with the permission of Credit Department.

- For opening of LC of a SMA2 reported account, prior permission should be obtained from Credit Department.

### 3.8 Off-Site Surveillance:

CAM Department has to carry out off-site surveillance on an ongoing basis to monitor the operation of large borrowal accounts with the exposure of ₹1.00 crore and above on random basis to identify the deficiencies, if any, through Core Banking System and communicate the deficiencies to the concerned Branches / Regional Offices / Credit Department to take appropriate / corrective measures in time to avoid the recurrence of such deficiencies and keep the accounts as regular and standard always. The Rectification Report should be submitted by the branches to CAM Department within one week from the date of the Report with a copy to Regional Office.

**a. Reporting of Off-Site Surveillance:**

i. Special note has to be submitted to the Credit Monitoring Group (CMG) or MD & CEO or Audit Committee of the Board (ACB) based on the seriousness of the features and on case to case basis.

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ii. CAM Department has to place an off-site surveillance report to Audit Committee of Executive reporting the status of accounts sanctioned by Board of Directors/ MCB once in a quarter.

**iii. The progress of Offsite surveillance is reported to General Manager, CAM once in a quarter.**

iv. The area covered under Off-site Surveillance Audit has been segregated into critical and non-critical features and communicated to Branches with a copy to Regional Office for better monitoring.

**b. The areas covered under off-site surveillance:**

1. Routing of entire business transactions in the principal borrowal account.
2. Analysis of account turnover.
3. Funds transfer, if any, i)to Sister Concern's / Partner's / Director's personal accounts, ii)funds to the borrower's accounts maintained with other Banks through RTGS, NEFT & Clearing and iii) transfer of funds to the beneficiaries who are not related to the business / trade.
4. Frequent / huge Cash withdrawals in the borrowal account.
5. Passing of cheques favouring other Financial Institutions/ Banks.
6. Return of cheques issued by the borrower for want of funds in the borrowal account.
7. Verifying the availability of drawing power for the balance outstanding.
8. Ensuring the reason for creation of Temporary OD in Finacle system.
9. Delay, if any, in submission of Stock / Book Debts statements.
10. Wrongly entering the date of receipt of Stock / Book Debts statements in the Finacle system.
11. Servicing of periodical interest in Working Capital limit accounts and principal with interest in case of Term Loan accounts.
12. Reviewing / renewing the working capital limits promptly.
13. Execution of loan documents for renewal of limits.
14. Verifying Unique Customers ID for all the accounts of a single borrower.
15. Position of realization of Cheque / DD, Inland/Foreign bills drawn under ILC/FLC purchased.
16. Ensuring the adequacy of insurance cover for both primary and collateral securities.
17. Registration of the bank charges with ROC.
18. Verifying the entry of particulars of securities, insurance and inspection in the SRM menu in Finacle system.
19. Verifying the personal details entered in the ACM menu with CUMM menu.
20. Advising the branches to instruct the Cash Credit / Overdraft borrowers who are also maintaining separate anywhere current account, to change the Cash Credit / Overdraft account as Anywhere CC/OD account by closing the existing anywhere current account.
21. Purification of MIS details.
22. Verifying the details of Immovable Asset / Other Asset which are obtained as Collateral in Asset Management System.

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23. **Same value of Stock/Book Debt entered in the SRM menu & Book Debt statements not obtained but the value entered as Rs.1 in SRM menu.**
24. **Verifying that Borrowers/ Guarantors account is linked with the loan account.**
25. **Verifying that Term loan account is linked with operative account.**
26. **Advising the branches to update the Group ID for the Group Concern Accounts.**
27. **EWS triggers generated in the borrowal accounts (5 crore & above).**
28. **Limit Node Details (LNM)**
29. **Verifying Rating Expired , Rate of Interest Details, V' code details**
30. **Crystallization of ILC/FLC Bills & Invoked Bank Guarantee**
31. **Scrutinizing the CRILIC Report of the borrower.**
32. **Followup for obtaining FC and compliance for various audit reports.**

### 3.9 Monitoring of Non Renewal Of Working Capital Limits:

The Department shall submit a Note to Management Committee of Board every month regarding the Non Renewal of **Working Capital limits of all the Branches with break-up particulars of non renewal of borrowal accounts having credit limits of ₹1.00 Crore and above.**

The Department has to assist the branches in the following ways to reduce the non renewal of working capital limits:-

a. In the beginning of every quarter, the list of Working capital accounts for which the due date is going to expire within 3 months period is to be generated and sent to all the branches with a copy to Regional Office with instructions to renew the limits within the due date.

b. Identifying the non renewal of working capital accounts through Credit Audit Report, Offsite Surveillance, Monthly Monitoring Reports of ₹3.00 crores & above and advising the concerned branches to renew those accounts immediately.

c. Sending letters to Regional Managers every month by comparing the positions of Non renewal accounts with advise to achieve the Bank's Corporate Goal of 'NIL' Timelag accounts position.

d. E-mail and SMS alert messages are sent to the borrowers whose working capital accounts (₹10.00 lakhs and above) are going to expire within 30 days.

e. Chennai CPC is sending Renewal Notice to borrowers on monthly basis 3 months in advance for the working capital facitlity/ies of ₹10.00 lakhs and above.

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### 3.10 Monitoring Of Large Value Borrowal Accounts :

The Reserve Bank of India has given various guidelines on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy". These guidelines will also be applicable for lending under Consortium and Multiple Banking Arrangements. **The detailed procedures are available in POTENTIAL NPAs - POLICY AND PROCEDURES**.

**a. Reporting information of SMA accounts:**

- The Borrowers having aggregate fund-based and non-fund based exposure of ₹5.00 crores and above with the Bank have come under the purview of monitoring and mandatory reporting to RBI.

- RBI has formed Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to Banks.

i. All borrowal accounts having aggregate exposure of ₹5.00 crores and above are to be reported to CRILC on monthly basis with effective from 01.04.2018.
ii. All defaulted borrowers (SMA-0, SMA-1, SMA-2) having aggregate exposure of ₹5.00 crores and above are to be reported to RBI on weekly basis on every Friday with effective from 23.02.2018.
iii. Borrowers moving out of default are also to be reported to RBI on weekly basis on every Friday with effective from 23.02.2018.

**b. Reporting of Non-Cooperative borrowers to CRILC :**

CAM is reporting information of the Non-Cooperative borrowers quarterly within 21 days from the close of the relevant quarter to CRILC after getting permission from Committee of Executives. **The detailed procedures are available in POTENTIAL NPAs - POLICY AND PROCEDURES**.

**c. Early Warning Signals (EWS)/ Red Flagged Accounts (RFA):**

Early Warning Signals are the indicative of potential problems in the accounts. It enables to identify the borrower accounts which show signs of credit deterioration and needs remedial action. **The detailed procedures are available in POTENTIAL NPAs - POLICY AND PROCEDURES.**

**c.1 A Red Flagged Account (RFA):**

A Red Flagged Account (RFA) is one where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS). These signals in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent. The bank must use EWS as a trigger to launch a detailed investigation into a RFA.

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**c.2 Committees for classification of Red Flag Accounts (RFA):**

As per the guidance of RBI, the following groups have been formed in the Bank for this purpose represented by Top Executives of the Bank.

**Credit Risk Management Group (CRMG) – Headed by General Manager (CAM) comprising Deputy/ Assistant General Manager, Chief/ Senior Manager, Manager, Assistant Manager of CAM Department.**

**Credit Monitoring Group (CMG) – Headed by General Manager (PD & RM) comprising of General Manager (Credit), General Manager (CAM), DGM/ AGM (CAM Department), DGM (Risk Department) as convenor and Chief Manager (CAM) as co-ordinator.**

**c.3 Threshold limit for identifying Early Warning Signals (EWS):**

The RBI suggested threshold for EWS and RFA is an exposure of ₹50.00 crores. Further, the RBI has advised the banks, fixing the threshold limit below ₹50.00 crores for monitoring of loan frauds is left to the discretion of the banks. **Accordingly, Bank is monitoring the loans/advances with exposure of ₹5.00 crores and above since 01.09.2020.**

**c.4 EWS Statement -Scrutinizing and Reporting:**

- **On generation of triggers, CRMG shall scrutinize and submit the details of accounts with Decision Matrix Score above 50% are submitted before the Credit Monitoring Group (CMG). In addition, a consolidation report on borrowal accounts with Decision Matrix Score upto 50%. The directions from CMG shall be communicated to branches & Regions and Sanctioning Authority for rectification.**

- The CMG shall classify the account as RFA and the details of RFA accounts shall be put up to MD & CEO on every month. If any Red Flagged account is identified as Fraud account, the same will be reported to Disciplinary and Fraud Management Cell of the Bank for their further follow up, reporting and action.

- An action taken report on the RFA accounts shall be put up to the Audit Committee of Board with the Synopsis of the remedial action taken together with their current status.

**c.5 Reporting of Red Flag Accounts (RFA) to CRILC:**

If any account is classified as RFA/ Fraud, the status of such RFA/ Fraud account must be reported to CRILC platform, so that other Banks will get alerted. Within 15 days, the bank shall approach the consortium leader under consortium advance or the largest lender under MBA as the case may be for a JLF meeting for a coordinated legal action.

At the end of the time line, which cannot be more than six months, banks should either lift the RFA status or classify the account as a Fraud.

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### 3.11 Followup of Irregular Advances:

Prevention is better than cure. Hence, the **followup system for SMA 0 accounts (Principal/interest payment not overdue for more than 30 days** but account showing signs of incipient stress) apart from the regular follow up of SMA1 and SMA2 accounts was implemented in the Bank.

When the demand raised is satisfied within 30 days, the recovery system becomes healthy and stabilized. It also educates the borrowers in the right way ensuing the healthy operations.

Hence, Branches are generating the irregular statement of advances upto 30 days (borrowerwise) as on last friday of every month for all the Term Loans and Working Capital Loan accounts. Branches should submit the completed monthly irregular statement to the respective Regional Office within next 3 working days.

After receipt of the statement of irregular advances, the Regional Office should scrutinize the statement within 3 days and give suitable directions to the branches and follow the recovery process taken by the branches. All the Regions should submit a certificate to the Recovery department on the first week of the succeeding month confirming the obtention and scrutiny of the Statement of irregular advances.

### 3.12 Opening of Current Accounts by Banks – Need for Discipline:

**To curb bad loans due to diversion of funds/ siphoning off funds,** RBI has prescribed certain criteria for maintaining/ opening of current accounts. The criteria are as follows:

1. **Current accounts may be opened for borrowers who have availed credit facilities in the form of cash credit (CC)/ overdraft (OD) from the banking system as per the provisions below:**

   a. **Borrowers where exposure of the banking system is less than Rs.5.00 crores:**
      - **No restriction on opening of current accounts or on provision of CC/OD facility by banks, subject to obtaining an undertaking letter from such borrowers that they shall inform the bank, as and when the credit facilities availed by them from the banking system reaches Rs.5.00 crore or more.**

   b. **Borrowers where exposure of the banking system is Rs.5.00 crores or more:**

      - **Borrower can maintain current accounts with any one of the banks with which it has CC/OD facility, provided that the bank has at least 10 per cent of the exposure of the banking system to that borrower.**

      - **Other lending banks may open only collection accounts subject to the condition that funds deposited in such collection accounts will be remitted within two working days of receiving such funds, to the CC/OD account maintained with the above-mentioned bank maintaining current accounts for the borrower.**

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- **In case none of the lenders has at least 10% exposure of the banking system to the borrower, the bank having the highest exposure may open current accounts.**

- **Non-lending banks are not permitted to open current accounts.**

2. Moreover, if the customers who have not availed CC/OD facility from any bank, then banks may open current accounts as under:

   a. **Borrowers where exposure of the banking system is less than ₹5.00 crores:**

      - Banks may open current accounts subject to obtaining an undertaking from the customers to the effect that customers should inform the bank(s), if and when the credit facilities availed by them from the banking system becomes ₹5.00 crores or more.

   b. **Borrowers where exposure of the banking system is ₹5.00 crores or more but less than ₹50.00 crores:**

      - There is no restriction on opening of current accounts by the lending banks.

      - Non-lending banks may open only collection accounts subject to the condition that funds deposited in such collection accounts will be remitted to the said escrow account at the frequency agreed between the bank and the borrower.

   c. **Borrowers where exposure of the banking system is ₹50.00 crores and above:**

      - Current accounts of the borrowers can only be opened/ maintained by the escrow managing bank under escrow mechanism.

      - There is no restriction on opening of 'collection accounts' by lending banks subject to the condition that funds will be remitted from these accounts to the said escrow account at the frequency agreed between the bank and the borrower.

      - The balances in such collection accounts should not be used as margin for availing any non-fund based credit facilities.

      - There is no prohibition on amount or number of credits in 'collection accounts', whereas debits in these accounts should be limited to the purpose of remitting the proceeds to the said escrow account.

      - Non-lending banks shall not open any current account for such borrowers.

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3. **RBI has also permitted banks to open specific current accounts which are stipulated under** various statutes and instructions of other regulators/ regulatory departments. An indicative list of such accounts is as given below:

   - Accounts for real estate projects mandated under Section 4 (2) l (D) of the Real Estate (Regulation and Development) Act, 2016 for the purpose of maintaining 70% of advance payments collected from the home buyers.
   - Nodal or escrow accounts of payment aggregators/prepaid payment instrument issuers for specific activities as permitted by Department of Payments and Settlement Systems (DPSS), Reserve Bank of India under Payment and Settlement Systems Act, 2007.
   - Accounts for settlement of dues related to debit card/ATM card/credit card issuers/acquirers.
   - Accounts permitted under FEMA, 1999.
   - Accounts for the purpose of IPO / NFO /FPO/ share buyback /dividend payment / issuance of commercial papers/allotment of debentures/gratuity, etc. which are mandated by respective statutes or regulators and are meant for specific/limited transactions only.
   - Accounts for payment of taxes, duties, statutory dues, etc. opened with banks authorized to collect the same, for borrowers of such banks which are not authorized to collect such taxes, duties, statutory dues, etc.
   - Accounts of White Label ATM Operators and their agents for sourcing of currency.
   - **Inter-bank accounts.**
   - **Accounts of All India Financial Institutions (AIFIs), viz., EXIM Bank, NABARD, NHB, and SIDBI.**
   - **Accounts opened under specific instructions of Central Government and State Governments.**
   - **Accounts attached by orders of Central or State governments/regulatory body/Courts/investigating agencies etc. wherein the customer cannot undertake any discretionary debits.**

4. In case, if the customer approaches for CC/OD facility, the CC/OD account can be opened in line with the following criteria:

   a. **Where a bank's exposure to a borrower is 10% and more in the total exposure of the banking system to the borrower:**

      - Cash Credit/ Overdraft facility can be provided as hitherto.

**b. Where a bank's exposure to a borrower is less than 10% of the exposure of the banking system to that borrower:**

- Credits are freely permitted.
- Debits to the CC/OD account can only be for credit to the CC/OD account of that borrower with a bank that has 10% or more of the exposure of the banking system to that borrower.
- Funds should be remitted from these accounts to the said transferee CC/OD account at the frequency agreed between the bank and the borrower.
- The credit balances in the accounts shall not be used as margin for availing any non-fund based credit facilities.
- Banks with exposure to the borrower of less than 10% of the exposure of the banking system can offer working capital demand loan (WCDL) / working capital term loan (WCTL) facility to the borrower.

**Note:** In case if there is more than one bank having 10% or more of the exposure of the banking system to that borrower, the bank to which the funds are to be remitted should be decided mutually between the borrower and the banks.

**Permission should be obtained from our Credit Audit Monitoring Department or Credit Department through their Regional Offices concerned, to maintain/ open the current accounts.**

The list of borrowers of our bank, maintaining Current Account with other banks where they are not enjoying credit facilities available in CRILC based on the CRILC-Main returns submitted by banks with credit exposure of ₹5.00 crores and above should be used.

The list of current account customer having OD/CC account with our Bank or Other Bank(s) based on CIBIL report made available in MIS-Dashboards & Forms should also be used.

CAM Department shall monitor all current accounts regularly, at least on a quarterly basis, specifically with respect to the exposure of the banking system to the borrower so as to ensure compliance with these instructions.

### 3.13 Loan Review Mechanism (LRM):

LRM is an effective tool for constantly evaluating the quality of loan and to bring about qualitative improvements in credit administration and for evaluating the performance of the borrowal accounts vis-à-vis projections and indicates the direction of the risk migration.

**a. Scope of Review:**

i. The main objectives of the review under LRM is to pick up warning signals and suggest remedial measures besides providing the top management with information in credit administration including credit sanction process, risk evaluation and post sanction follow up.

ii. It is to be carried out with risk perception and emphasis on possible movement of risk factors under management, financial, industry and Government Policy.

iii. As per RBI direction, 40% of our Standard Advances portfolio should be subjected to LRM review once in a year. It has been decided that Loan Review Mechanism (LRM) Committee is to be conducted once in a quarter to have an effective monitoring.

**iv. Loan Review Management Committee:**

As a measure of implementing of Loan Review Mechanism, a Loan Review Management Committee is set up to undertake review of borrowal accounts:-

**i. With the credit limits of ₹5.00 Crores and above inclusive of Non-fund based advances:-**

For credit limits of ₹5.00 Crores and above inclusive of non-fund based advances will be reviewed at Head Office by the Committee consisting of the following members:-

| | |
|---|---|
| **Committee President** | General Manager (CAM) |
| **Convener** | Assistant General Manager (CAM) |
| **Committee Members** | General Manager ( Credit )<br>Deputy General Manger (Credit)<br>Deputy General Manger (Compliance)<br>Chief Manager (CAM)<br>Chief Manager (Credit) |

**ii. With credit limits of above ₹1.00 Crore and below ₹5.00 Crores inclusive of non-fund based advances:-**

For credit limits of above ₹1.00 Crore and below ₹5.00 Crores inclusive of non-fund based advances will be reviewed at Regional Office by the Committee consists of the following members:-

| | |
|---|---|
| **Committee President** | Regional Manager |
| **Committee Members** | Chief Manager |
| | Senior Manager/Manager |

**Committee of Loan Review Mechanism ( LRM ) at Regional Office should conduct meeting once in a quarter to review advances with credit exposure of ₹1.00 crore and above and below ₹5.00 crores (inclusive of non fund based) based on position as on 31st March every year. On summation, the committee should have reviewed 40% of the standard advance of the given threshold limit in a year.**

**The minutes of the meeting along with the adverse feature noticed, if any, should be reported to General Manager (CAM)/ General Manager (Credit) within the succeeding month of the quarter ended.** Based on the number of accounts, the frequency of the meeting will be decided so as to complete the review of all eligible accounts.

### 3.14 Takeover of accounts from other banks:

Due to deregulation of interest rate and other guidelines by RBI, different banks offer different interest rates to the loan products which have resulted in movement of borrowers from one bank to another bank with ease. Bank/ Branches will be very selective in taking over accounts from other banks in view of the inherent risks involved.

**a. Review of taken over accounts:**

**Regional Office should review taken over accounts within 3 months from the date of disbursement of taken over. The review reports of all the taken over accounts of a quarter should be submitted to the Credit Audit Monitoring Department on or before the end of the next month of the quarter with a copy to Credit Department. Credit Audit Monitoring Department shall place a note before the Audit Committee of Executives (ACE) or Credit Monitoring Group (CMG) based on the adverse features observed in the taken over review report on case to case basis.**

**Regional Office should also submit a consolidated report on movement in asset quality, noncompliance of material sanction covenants, review of quick mortality cases etc of the takeover accounts during the first year of disbursement of takeover to Credit Audit Monitoring Department with a copy to Credit Department within one month period of the end financial year. A note on consolidated review report shall be placed before Audit Committee of Board (ACB) for information.**

**Branch should submit the review reports for the taken over accounts with credit limits of ₹10.00 lakhs and above (including non-fund based limits) to the Regional Office once in a quarter during the first year of take over.**

### 3.15 Coverage of Unit Verification:

The unit visit is one of the foremost requirements of credit monitoring to ensure that the borrower

- is running his business smoothly.
- is maintaining adequate stock/ book debts towards the drawing power in the Cash Credit/Overdraft/Key Loan/PCL/FLC/ILC etc. and to cover our exposure adequately.
- With regard to financing for acquisition of fixed assets such as plant & machineries, other equipments etc., it should be ensured that the assets purchased out of bank finance are purchased, installed and utilized for the purpose for which it is intended.

**a. Periodicity of Unit Verification:**

Verification of stocks should be done once a month by Branch Officials on turn basis and the Branch Head shall also undertake unit visit and verification of stock at least once in a quarter without any omission.

The excess drawings if any noticed during unit verification should be recorded in the Godown Verification Register and reported to Regional Office, such excess drawings should be recovered immediately.

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**b. Submission of Unit Verification Report:**

The unit verification statement should be submitted by Branch to their respective Regional Office **within 7th of the succeeding month**. Adverse features if any, noticed should be taken up with the branch immediately by the Regional Office for remedial action.

The consolidated unit verification statement should be submitted by Regional Office for credit limits of ₹3.00 crores and above to the Credit Audit Monitoring Department on or before **15th of the succeeding month** along with the Regional Manager's remarks.

**3.16 High Value Transactions:**

The high value inward cheques of ₹10.00 lakhs & above received in favour of individuals & other banks / associate concern/ FIs/ unrelated parties/ partner or proprietor personal accounts escalated by Service Branch, Chennai through e-mail shall be scrutinized by CAM Department to confirm the genuineness of the cheque issued. Further, CAM Department shall follow up with branches and get confirmation about the genuineness of the transaction.

Moreover, data on daily debit/ credit transactions of ₹50.00 lakh and above posted in MIS Portal is to be scrutinized every day by CAM Department for its genuineness. In case of doubt, a trigger should be escalated in MIS Portal to concerned Branch Head and in turn Branch Head has to attend triggers so escalated for genuineness confirmation and CAM Department should ensure and follow up with the Branch Head in this regard till closure of triggers.

**3.17 Scrutinization of Overdue Bills:**

Bills which are not closed on due date should be scrutinized on daily basis. Deficiencies, if any, should be reported to the branches for immediate rectification. The details of the overdue bills should be reported to General Manager (CAM) on daily basis.

**4. Review:**

This policy is placed before the board for review and approval for the year 2022-'23. **This policy will be in force upto March 2023** and will be reviewed thereafter, with fresh guidelines of RBI and/or as desired by the Board/Management, being incorporated.