

National Conference on Statutory Bank Branch Audit

CASE STUDIES ON NPA

Organised by IASB and Hosted By
Pune Branch

of

WIRC of ICAI

21st March, 2026

CA Prashant P. Tidke

Disclaimers

- These are personal views of speakers and can not be construed to be the views of the ICAI.
- These views do not and shall not be considered as professional advice.

Coverage

- Objective
- Identification of Account as NPA
- Exceptions / Clarifications
- Asset Classification and Provisioning
- Case Studies on NPA

RBI Circulars Reference

- Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification, and Provisioning) Directions, 2025 dated 28th November, 2025 (Updated up to 01-01-2026)
- Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Directions, 2025 also dated 28th November, 2025.
- Reserve Bank of India (Commercial Banks – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025 dt. 28th November, 2025.

RBI CIRCULARS REFERENCE

- Reserve bank of india (Commercial Banks – Credit Facilities) Directions, 2025. (for definition of CRE Sector) also dated 28th November, 2025.
- Credit flow to Micro, Small and Medium Enterprises Sector dated 2nd July, 2020. (for definition of SME's)

RBI CIRCULARS REFERENCE

- Reserve Bank of India (Commercial Banks - Financial Statements: Presentation and Disclosures) Directions, 2025 dated 28th November, 2025.
- Reserve Bank of India (Commercial Banks - Transfer and Distribution of Credit Risk) Directions, 2025 dated 28th November, 2025.

Objective

- The classification of assets of banks has to be done on the basis of objective criteria, which would ensure a uniform and consistent application of the norms.
- The provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof.

Asset Types

Comparison :

Standard Assets Performing Assets (PA)	Non-Performing Assets (NPAs)
Not Non-Performing	Ceases to generate income
Do not carry risk more than normal banking risk	Higher risk than normal banking risk
Exempted categories to retain status as PA	NPA as per various criteria defined

Criteria for NPA

Loans or Advance	<ul style="list-style-type: none">▪ Interest and/or installment remains overdue for a period of more than 90 days in respect of a term loan.▪ Treatment for advance installments received and various banking practices▪ Exception:<ul style="list-style-type: none">▪ Loans with moratorium for payment of interest▪ Housing Loan or similar advance to staff
Overdue definition	If an amount due to bank under any credit facility is not paid on the <u>due date fixed by the bank.</u>

Criteria for NPA

Bills Purchased and discounted	Bill remains overdue for a Discounted period of more than 90 days.
Agricultural Advances	Interest or installment remains overdue for two crop seasons for short duration crop, one crop season for long duration crop.
	<i>*Definitions</i> <i>crop season – ‘period up to harvesting of crops raised’ as determined by SLBC</i> <i>Long duration crop – Crops wherein crop season is more than 12 months</i>

Criteria for NPA

Agricultural Advances	Banks have <u>discretion of rescheduling</u> the agricultural advances <u>in case of natural calamities</u> , which impair repaying capacity
Reference Circulars of Reserve Bank of India	FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015 FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015 Master Direction dated July 01, 2016, July 03, 2017, October 17, 2018
FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015	Defines 'Farm Credit'

Criteria for NPA

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

Guidelines for relief measures by banks in areas affected
by natural calamity

Natural
Calamity

12 types of natural calamities are defined

Institutional
framework

The Banks to have blueprint of action plan with adequate delegation of powers with discretionary powers granted to Divisional / Zonal Managers, to ensure assistance provided without loss of time.

Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity	
Meeting of SLBC / District Consultative Committee	<p><i>Immediate conveying of meeting by:</i></p> <p>If calamity covers entire state SLBC</p> <p>If small part of the state District Consultative Committee</p>
Declaration of natural calamity	<p>Domain of Sovereign (Central / State Government)</p> <p><u>Assessed Crop loss should be 33% or more</u></p>
Restructuring / rescheduling of existing loans	<p>Agricultural Loans</p> <ul style="list-style-type: none"> - Short Term - Long Term <p>Other Loans</p>

Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Short Term Agricultural Loans

Eligibility: Loan should not be overdue at the time of occurrence of natural calamity

<i>Crop Loss</i>	<i>Maximum repayment period extension (incl. of moratorium period)</i>
<i>33% to 50%</i>	<i>2 Years</i>
<i>50% or more</i>	<i>5 Years</i>

- Moratorium period – at least 1 year
- Principal and interest due in the year of natural calamity to be converted into Term Loan
- Additional collateral security not to be insisted upon

Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Long Term Agricultural Loans

Only Crop for that year is damaged and not the productive assets

- Reschedule installment during the year of natural calamity and extension of loan period by one year
- Willful defaulted installments not eligible for rescheduling
- Payment of interest may be postponed

Productive Assets are damaged (partially / totally)

Repayment period can be restructured provided generally it shouldn't exceed 5 years

Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Asset Classification	<ul style="list-style-type: none">- Restructured portion to be considered as current dues- Un-restructured portion to be governed by original terms and conditions- Additional finance to be treated as 'Standard Asset'- Second restructuring would not be considered as 'repeated restructuring'
Insurance Proceeds	To be adjusted against restructured loans wherein fresh loans are granted

Criteria for NPA

Derivative Transaction	Overdue receivables representing positive mark to market value of a derivative contract remaining unpaid for a period of 90 days from specified due date.
Liquidity facility	Remains outstanding for more than 90 days in respect of Securitisation transaction.
Credit Card dues	The minimum amount payable is not paid within 90 days from the next statement date. <i>The reporting to Credit Information Companies (CICs) & levying of penal charges only after 3 days from due date.</i>

Criteria for NPA

Cash
Accounts

Credit

If the account is 'out of order'

Conditions for out of order status

- Outstanding Balance remains continuously in excess of sanctioned limit / drawing power for 90 days
- No credit continuously for 90 days or
- Credits in the account are not sufficient to cover interest debited during the same period

Vital points w.r.t. IRAC Master Circular

Automation of IRAC

A] Appropriate internal systems for proper and timely identification of NPAs (Ref. Circular dated 14.Sep.2020 on automation of IRAC and provisioning process)

B] Classification of SMA and NPA

Accounts to be flagged as a part of day-end process

C] Challenges in automation and inherent limitations (LCBD / Income recognition logic – Reversal of income & unrealized interest / Overdue logic / Availability of granular data)

Vital points w.r.t. IRAC Master Circular

Clarifications issued by RBI from time to time

- A] Definition of 'out of order' – concept of moving 90 days
- B] Upgradation of accounts classified as NPA (cust-id level)
Only when 'entire arrears on interest and principal' are paid by borrower.
Clarity about 'partial recoveries' and 'subsequent recoveries'
- C] Applicability of 'out of order' to all loan products offered as Overdraft including those not meant for business
- D] Concept of 'previous 90 days' for determination of 'out of order' status to include the day on which EoD process is run

Vital points w.r.t. IRAC Master Circular

Clarifications issued by RBI from time to time

E] Income recognition policy for loans with moratorium on payment of interest

Recognition of interest when moratorium of repayment of interest is granted

Sanctioned interest capitalization thus won't affect reversal of interest after NPA as its nature is considered as capital portion

Criteria for NPA

Accounts with Temporary Deficiencies

Outstanding Balance in account based on the drawing power calculated from stock statements older than 3 months would be deemed as irregular & if such irregular drawing are permitted for a period of 90 days, account needs to be classified as NPA

Note: The leverage is applicable only for large borrowers

Non-renewal/ Non-regularisation of regular / adhoc limit within 180 days from the due date

Criteria for NPA

Exceptions / Clarifications

- Advances against term deposits, NSCs, IVPs, KVPs and Life Insurance Policies need not be treated as NPAs, till security cover is sufficient to cover outstanding balance.
- Income to be recognised subject to availability of margin

Advance against Gold Ornaments / Government Securities not exempt

Central Government guaranteed advance to be classified as NPA only if Government repudiates the guarantee when invoked.

Criteria for NPA

Exceptions / Clarifications

Classification Qua Borrower

All facilities granted to a borrower shall be treated as NPA & not only that facility which has become irregular

Exception

- (i) Credit facility to Primary Agricultural Credit Society (PACS) and Farmers Service Societies (FSS) under on lending arrangement;
- (ii) Bill Discounted against accepted LC

Criteria for NPA

Exceptions / Clarifications

Consortium Advances

- Member banks shall classify the accounts according to their own record of recovery.
- Bank needs to arrange to get their share of recovery or obtain an express consent from the Lead Bank otherwise the account in such deprived banks might be treated as NPA for non-servicing.

Criteria for NPA

Exceptions / Clarifications

Straightaway Classification (Potential threat of recovery)

- Erosion in Value Where realisable value of security is less than 50% of the value assessed (*by bank or value accepted in last RBI Inspection*), account to be straightaway classified as **Doubtful Asset..**
- Where realisable value (*as assessed by Bank / Valuer / RBI Inspector*) of security is less than 10% of outstanding balance, account to be straightaway classified as **Loss Asset.**

Criteria for NPA

Exceptions / Clarifications

Straightaway Classification (Potential threat of recovery)

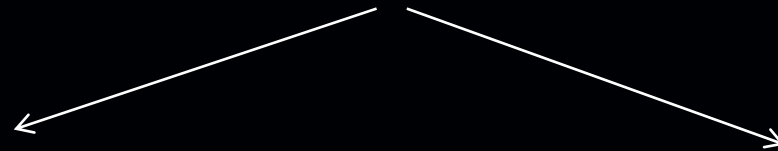
- Fraud
- 100% to be provided irrespective of security spread over 4 quarters commencing from the quarter in which fraud has been detected, provided the unprovided provision is debited to 'Other Reserves'
- If not reported to RBI within timeframe, 100% to be provided instantly

Criteria for NPA

Exceptions / Clarifications

Solitary or few credit entries recorded before Balance Sheet to regularise the account

Whether the account is having inherent weakness?



Yes

No

Mark the account as NPA

The bank to evidence the auditors about manner of regularisation of account

Criteria for NPA

Mandatory Valuation of Securities

Applicable only if balance in NPA is Rs. 5 crores & above

- Annual Stock Audit by external agencies
- Immovable Properties – Valuation to be carried out once in three years by approve valuer

Income Recognition

For NPA accounts income should be recognised on realisation basis.

When an account becomes non-performing, unrealised interest / fees / commission of the previous periods should be reversed or provided.

Interest income on additional finance in NPA account should be recognised on cash basis.

In project loan, funding of interest in respect of NPA if recognised as income, should be fully provided.

If interest due is converted into (unlisted) equity or any other instrument, income recognised should be fully provided (if listed, income recognised to the extent of MV)

Income Recognition

Order of Recovery

Suggested though not mandatory

Unrealised Expenses

Unrealised Interest

Principal Outstanding

Clarification vide Master Circular - in the absence of clear agreement between the Bank and the Borrower, an appropriate policy to be followed in uniform and consistent manner.

Classification Norms

- **Standard Asset**

The account is not non-performing.

- **Sub-Standard Asset**

A sub-standard Asset is one which has remained NPA for a period of less than or equal to 12 months.

- **Loss Assets**

These are accounts, identified by the bank or internal or external auditors or by RBI Inspectors as wholly irrecoverable but the amount for which has not been written off.

Classification Norms

- Doubtful Asset - Three Categories

Category

Period

Doubtful - I

Up to One Year

Doubtful – II

One to Three Years

Doubtful - III

More than Three Years

Provisioning Norms

Primary Responsibility is of the Bank Management and Auditors

Standard Asset

▪Agricultural and SMEs Sectors	0.25%
▪Commercial Real Estate (CRE) Section	1.00%
▪CRE – Residential Housing Project	0.75%
▪Others	0.40%
▪Housing Loan during teaser rate period	2.00%

Provisioning Norms

Sub-standard Asset

- 15% of total outstanding
- 25% of total outstanding if loan is unsecured
- 20% of total outstanding if infrastructure loan provided its backed by escrow facility with first charge

Definition of Secured Loan:

If security is not less than 10% of exposure (funded & non-funded) ab initio

Provisioning Norms

Doubtful Assets:

<u>Period Provision</u>	<u>(Secured + Unsecured)</u>		
Up to 1 year	25%	+	100%
1 to 3 years	40%	+	100%
More than 3 years	100%	+	100%
Loss Asset	100% should be provided for		

Intangible Security: Considered only if backed by legally enforceable and recoverable right over collection and rest of intangibles like rights, licenses, etc. are considered as 'Unsecured'

Provisioning Norms

Provisions under Special Circumstances

Advances guaranteed by CGTMSE / CRGFTLIH / ECGC, Provision should be made only for balance in excess of the amount guaranteed by these corporations

CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises

CRGFTLIH: Credit Risk Guarantee Fund Trust for Low Income Housing

Take Out Finance

Transactions that involve prior commitments shall be governed by the circular DBOD.No.BP.BC.144/21.04.048-2000 dated February 29, 2000 on “Income Recognition, Asset Classification, Provisioning and other related matters and Capital Adequacy Standards – Takeout Finance”.

Other Aspects

Post Shipment Suppliers' Credit

Exim Bank has introduced Guarantee-cum-Refinance Scheme
(Guarantee to settle claim within period of 30 days)

Export Project Finance

The lending bank needs establish through documentary evidence that importer has cleared the dues in full in the bank abroad when account is PA
~~ further period of 1 year available

CASE STUDY # 1

- Mr. X is Sanctioned limit Of Rs 3 Cr. , Bank had assessed the DP Limit throughout the year 3 cr . During the audit we observe that while doing the DP assessment bank had not taken into consideration for debtors cover period & debtors margin as per sanction note.
- If we apply the margin and cover as per Sanction note , DP Limit assessment work out to 2.50 cr only or less throughout the last 3 months stock statements submitted by Mr. X. As on 31/03/2026 O/s balance is 2.85 cr.
- Comment on NPA status as on 31/03/2026.

CASE STUDY # 2

- Mr. A is having Cash Credit Limit of Rs 150 Lac & TL of 250 Lac . EMI of Term Loan is Of Rs 250000/-. Bank is having System of Recovering TL EMI from Cash Credit Account on Regular Basis.
- As on 31/12/2025 CC Balance of Rs 150 Lac . Since the Account is Fully utilized bank had not recovered the EMI of November & December of Rs 500000 in the account. EMI are overdue since then .
- Bank debited the EMI in CC Account on 20/02/2026 even though the CC is overdrawn Position.
- Comment On NPA Status as on 31/03/2026.

CASE STUDY # 3

- Raja Company is Having Cash Credit Facility of 1 Crore & also having LC of Rs 20 Lac .
- As on 31/12/2025 Outstanding CC Balance – Rs 95 Lac. & During the Period 1/1/2025 to 31/03/2026 the Balance is within 90 Lac to 95 Lac Only & Interest Duly Served by the Borrower along with other credits and debits .
- During Audit , we observe the LC of Rs 20 lac was devolved on 20/12/2025 & Bank had kept the same n LC Devolved account Separately & till 31.03.2026 the Account is not Repaid .
- Comment on NPA as on 31st March, 2026.

CASE STUDY # 4

- Yogesh & Company is Having Cash Credit Facility of 1 Crore renewal due on 30/06/2025. But Borrower had not submitted the Financials & other Documents .
- Meanwhile Based on the Documents available Bank had made Short Term review of the Account for the period 01/07/2025 to 30/09/2025. Again at the Request of Borrower bank had Reviewed the account Second time for the period 01/10/2025 to 31/12/2025 on ad-hoc basis. Thereafter no activity for Review / renewal is Done by the Bank .
- Comment On 1. NPA Status as on 31/03/2026 for CC

CASE STUDY # 5

- Ideal Company is taken Consortium Loan from Banks . Lead Bank is SBI & Our Bank is CBI . Borrower is under stress and unable to serve the debt on time with all the banks in Consortium but managing to pay dues of certain banks only.
- As on 31/12/2025 , SBI (Lead Bank) Made the account as NPA . Also some of other bank also made NPA Account . But CBI bank Continued the Account as Performing Mentioning that all dues of Borrower are duly recovered by us & no Dues are Pending against the Borrower .
- Comment On CBI Bank Contention for NPA Status as on 31/03/2026

CASE STUDY # 6

Ideal Company is taken Consortium Loan from Banks . Lead Bank is SBI & Our auditee Bank is CBI . Borrower is under stress and unable to serve the debt on time with all the banks in Consortium but managing to pay dues of certain banks only.

- As per MOU , Borrower had paid All EMI to the SBI Till 31.03.2026 but SBI Failed to Remit the Members Bank Share from November 2025 due to some internal Miscommunication or whatever reasons.
- As on 31/03/2026 - Account with SBI Bank and CBI – What will be the Status for IRAC Norms ??

CASE STUDY # 07

Mr. A is Having Cash Credit Limit of Rs 1 Lac . As on 10/12/2025 balance is of Rs 10000 (Credit) , He had continued the Balance till 15/01/2026. After that he withdraws Rs 50000/- . So outstanding Balance as on 15/01/2026 is Rs 40000/-

Interest Debited –

Jan 26 – 2000/-

Feb 26- 4000/-

March 26 – Rs 4500/-

O/s as on 31/03/2026 – Rs 50500/-

During the Quarter no credits in the Borrower Accounts but the account is within Sanctioned Limit and Drawing Power Limit .

Comment NPA Status & Interest Reversal ??

CASE STUDY # 8

- Problematic Co Ltd is Having Cash Credit Limit of Rs 30 Lac . Borrower is not operating in the account routinely .
- Only at the Quarter end depositing the Interest Amount in full for the Quarter
- As on 31/03/2026 O/s Balance is Rs 30,00,000. Means No Overdue ?? Question 1:- NPA Status as on 31/03/2026.
- Question 2 : If Whole Year Interest is Credited as on 30/03/2026, As on 31/03/2026 O/s Balance is Rs 30,00,000. Means No Overdue
- Comment NPA Status as on 31/03/2026 .

CASE STUDY # 9

- ABC ltd is Having Cash Credit Limit of Rs 5 Cr.
- As on 31/12/2025 Balance O/s is Rs 5.05 Cr. & No Credit there after till 31/03/2026.
- Balance O/s as on 5.20 Cr as on 31/03/2026.
- Company had made the repayment of all overdue as on 10/04/2026. Balance as on 10/04/2026 is Rs 4.98 Cr.
- Question : Comment NPA Status as on 31/03/2026 ??

CASE STUDY # 10

- A Term Loan account has 5 EMI's overdues as on October 2025 and subsequently there is a partial recovery in the account, however, one installments have always remained overdue for the rest of the period till March 2026.
- Would this account be required to be classified as NPA as at March 2026 end?

CASE STUDY #11

- In case of Term loan account,
- Loan Sanctioned on 01/04/2024 of Rs 50,00,000 /- with EMI of Rs 50,000/- due on 7th of Each Month . Borrower is Regular in Repaying EMI.
- . All EMI are Duly paid till May 2025. Borrower Paid 10 months EMI in advance in the month of June 25 and subsequently has not paid any amount to the credit of Term Loan.
- Would that account be required to be classified as NPA as on 31/03/2026 due to non servicing of interest ?

CASE STUDY # 12

- Akshay had availed Cash Credit Limit of Rs 50 Lac and Term Loan of Rs 50 Lac having EMI of Rs 50,000 per Month .
- . Account is Due for Renewal on 30/06/2025. But due to certain Issues Borrower is not able to provide the relevant documents hence bank had not renewed the Limits .
- Borrower is regularly paying the Interest in CC Limits as and when due as well as EMI of Term Loan on time. But EMI for Term Loan was not paid for the Month of Feb 2026 & March 2026.
- Bank had Classified the Both Accounts as NPA due to non renewal of CC Limits on 27/12/2025. Borrower provided the documents on 31st March 2026 & Bank Renewed the Limits after credit appraisal . Decide the asset classification as on 31.03.2026 of Both Limits CC and Term Loan ??

CASE STUDY # 13

Mr Z, Reputed Businessman having net worth of Rs 5 crores has availed a Housing loan for purchase of House of Rs 200 lakhs for purchase of house of Rs 500 lakhs on 01/04/2010.

As on 31/03/2026 , Outstanding Balance in the Account is 45,00,000/-, but during audit verification we observed 4 EMI are not paid . Bank Manager represented that the Party is well reputed HNI businessman and Only 45 lac is Outstanding against the security value of Rs 500 lakh which is merely below 10% of Security Value and he can repay debt at any time but we were insisting the party for not to close the account .

Decide the asset classification as on 31.03.2026.

CASE STUDY # 14

- ABC Bank extended a loan of Rs 10 crores to XYZ Ltd., a manufacturing company, for establishment of a new plant. The loan was secured against the company's plant and machinery, which was valued at Rs 12 cores during the last inspection by Bank approved valuers.
- Company was regular in repaying EMI. But during a subsequent revaluation of the collateral, it was found that the value of Plant and machinery had significantly eroded due to poor maintenance, market depreciation. The bank assessed the new realizable value at Rs 5.5 crores.
- The account showed an outstanding balance of Rs 8 crores. As on 31-03-2026 no EMI is overdue. Decided the asset classification as on 31-03-2026 ?

CASE STUDY # 15

- XYZ Bank, a leading financial institution, identified a significant fraud in one of its loan accounts in the **second quarter of FY 2025-26**. The fraud involved a borrower, XYZ Enterprises, who had misrepresented financial records to obtain a loan of ₹100 crore.
- Upon investigation, it was confirmed that the loan amount was having tangible security worth Rs 40 crores and Rs 15 Crores as Fixed Deposit of our Bank only and remaining is unrecoverable.
- Decide the Consequences as on 31.03.2026.

CASE STUDY # 16

In case of term loan account of Rs 10 Lac ,Emi Due of Last Day of Each Month , a borrower has prepaid 03 months EMI,s in the month of October 2025 along with EMI of October Month and subsequently has not paid any amount to the credit of Term Loan, would that account be required to be classified as NPA as on 31/03/2026 due to non servicing of interest ?

Loan Amount – Rs 10 lac , Emi Due on Last Day of Each Month -

30/11/2025 -Interest – Rs 10000

31/12/2025 – Interest – Rs 10000

31/01/2026 – Interest – Rs 10000

28/02/2026 – Interest – Rs 10000

31/03/2026 – Interest – Rs 10000

30/04/2026 – Interest – Rs 10000

(January – 31 , February – 28 , March – 31 , April -30 Days)

When Account will become NPA and Amount Of Interest Reversal ??

CASE STUDY # 17

- Mr A is having Cash Credit Limit of Rs 5 Crore with XYZ Bank Ltd. Borrower had submitted the Last Stock Statement for the Month of September 2025 , Specifying the Details of Stock as on 05/10/2025. Stock Statement is Submitted to the bank as on 07/10/2025.
- Qu. 1. Comment On NPA Status as on 31/03/2026.
- Qu. 2. What will be your answer , if Limit availed by Mr. A is of Rs 5 lac only ??

CASE STUDY # 18

Mr A & Mr B are the Managing Partners in the Partnership Firm AB & Co is having Cash Credit Limit of Rs 5 Crore with XYZ Bank Ltd.

AB & Co , CC limit is Out of the order for the period 100 days hence bank had classified CC Limits as NPA as on 31/03/2026. Partners A & B are also having Housing Loans , All EMI are duly paid by the partners from their source of income but the House is also given as Collateral security for CC Limits .

Qu. 1. Comment On NPA Status of Housing Loan of Partners A & B as on 31/03/2026.

Qu. 2. What will be your answer , if AB & Co is Pvt Ltd and A & B are directors .

CASE STUDY # 19

- A & Co , is having TL , EMI are Overdue since Feb 24 to till March 25. EMI is due on Next day of Month . i.e Jan 25 EMI due on 01/02/25. January EMI is Collected.
- Account Statement Reveals following information –
 - 31/01/2025 – Rs 10 Lac (After EMI Collection Of Jan 25) Interest for Feb & March – Rs 20000/-
 - 31/03/2025 – Rs 10.20 Lac
 - Interest for the Year – 25-26 – Rs 1.20 Lac
 - Insurance Charges – Rs 15,000
 - O/s Balance 31/3/26 - 11.55 Lac
- Qu. 1. Comment On NPA Date & Reversal in NPA Account ??

CASE STUDY # 20

- Mr A took an Agriculture Term Loan of Rs. 10 lakh in the year 2022 for the purchase of a tractor. By the end of 2026, the outstanding balance on the loan was Rs. 11.50 lakh, including Rs. 1.50 lakh in accrued interest. The bank classified the account as **Sub-Standard** during the year 2025-26 and made a provision on the outstanding balance of Rs. 11.50 lakh. The bank's management explained that the account had already been classified as NPA (Non-Performing Asset) during the year. Therefore, no further action was needed, and the Junior Auditor should not review this account any further. The Junior Auditor, after checking the status and seeing the NPA classification, decided to ignore the Account .
- Question : Your Comments on Jr Auditors Review .

CASE STUDY # 21

XYZ Ltd. is a borrower from ABC Bank with a Cash Credit (CC) limit of ₹7 Crore, which is secured against stock and book debts. In the financial year 2023-24, XYZ Ltd.'s account was classified as a Non-Performing Asset (NPA) due to the company's inability to repay the outstanding balance. Despite this classification, the bank has been conducting regular stock audits for this account, which are crucial for maintaining the accuracy of collateral values of securities stock and book debts . However, the stock audit for the financial year 2025-26 has not been conducted.

How to deal with such situation at the time of statutory audit of bank .

CASE STUDY # 22

- XYZ Ltd. is a borrower from ABC Bank with a Cash Credit (CC) limit of ₹7 Crore, which is secured with mortgage of Land and Building worth rs 5 crores . In the financial year 2025-26, XYZ Ltd.'s account was classified as a Non-Performing Asset (NPA) in Sub standard Asset Category due to the company's inability to repay the outstanding balance.
- Auditor Computed the Provision Requirement as -
 - 7 Crores - 5 Crores Secured – 15 % - 75 Lac
 - 2 Crores Unsecured – 25 % - 50 Lac
 - 125 Lac
- While Bank had done Provision amount of Rs 105 lakhs only (i.e 15% on 7 crores)
- Comments : Whether Auditor is right or Bank had computed Correctly ??

CASE STUDY # 23

Mr X is a borrower from ABC Bank with a TL limit of ₹7 Crore. EMI is Due on 31/03/2026 – EMI Amount Rs 7,00,000 – EMI is not recovered on 31/03/2026 . Comments : SMA Classification NPA Date .

SMA Sub-Categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	Up to 30 days – (From 31-03-2026 to 29-4-2026)
SMA-1	More than 30 days and up to 60 days (30-04-2026 to 29/05/2026)
SMA-2	More than 60 days and up to 90 days (30/05/2026 to 28/06/2026)
NPA	29 /06 /2026 (91st Day)

Computation Will be as – March -01 April – 30 Days , May 31 Days , June – 29 Days

CASE STUDY # 24

- Mr X is a borrower from ABC Bank with a CC limit of ₹7 Crore. Due Date is on 31/03/2026 but dues are not fully recovered.
- Comments : SMA Classification NPA Date .
- SMA-1 - 30-04-2026 - (31 to 60 days)
- SMA-2 - 30-05-2026 - (61 to 90 days)
- NPA - 28-06-2026 - (90th Day)

SMA Sub-categories	Basis for classification - Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

NPA Case Study – 25 : Advances Covered by ECGC Guarantee

In the case of advances guaranteed by the Export Credit Guarantee Corporation (ECGC), the bank should make provision only for the balance in excess of the amount guaranteed by ECGC and the value of the security held. The provisioning should be done on the uncovered portion of the advance.

Example:

Outstanding Balance	Rs. 4 lakhs
ECGC Cover	50 percent
Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2026)
Value of security held	Rs. 1.50 lakhs

NPA Case Study – 26 : Advances Covered by Credit Guarantee Schemes

- In the case of advances covered by Credit Guarantee Schemes such as:
- Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
- Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH)
- National Credit Guarantee Trustee Company Ltd. (NCGTC)
- The bank should not make any provision for the guaranteed portion of the advance. Provisioning should be made only for the balance amount that exceeds the guaranteed portion.
- Example:
- Outstanding Balance - Rs 10 lacs

1.SE/CRGFTLIH Cover- 75% of the outstanding balance or 75% of unsecured portion or Rs 37.50 lacs whichever is less.

Period for which advance has remained doubtful – 2 years as on 31-03-26.

Value of security – Rs 2 lacs.

Provision amount ??

CASE STUDY # 27

ABC Bank had given CC Limits to PQR Ltd on the Basis of Stock & Book Debt as Security . Bank is Computing the DP Limit regularly , While Computing the Limits Branch Officers had not reduced the Creditors Amount from Stock & Book debts Amounts, During the Audit it was observed that Creditors are more than Stock and Book debts . Bank had given Explanations that the Creditors are Below Accepted levels of Creditors as Specified at the time of CMA hence same are not Reduced .

Qu. 1. Comment On Bank Explanations as seen from NPA Working .

CASE STUDY # 28

- Mr. ABC has three loan accounts at the Branch of XYZ Bank as on 31-03-2026:
- - Cash credit – O/s – Rs 1.00 cr – Standard
- - Term Loan – O/S – Rs. 2.00 cr – sub standard.
- How Prudential norms will be applied?
- Whether CC account continue to be a Standard account ?

CASE STUDY #29

- M/s. ABC Limited had taken a term loan from XYZ Bank which has been taken over by MNO Bank .
- The Loan was taken on 10th April, 2025 and at the time of take over it was a SMA-2 account where 2 EMI were unpaid but it was a Standard Account. Date of take-over was 10th January, 2026 in the new Bank.
- ABC Limited paid only a single EMI after the date of take over on 31st January, 2026.
- What will be asset classification of the account with MNO Bank as it is appearing in its books of accounts on 10th January, 2026.

CASE STUDY#30

- XYZ Company Limited had CC and TL facilities with the Bank. As on 31st March, 2026 CC account was within limit and was not 'out of order' as per prudential norms though interest was serviced but no other turnover in the account and it continuously remained in SMA-2 category (60-90 days delinquency)
- Similarly Term Loan account always remained under SMA2 and just near to 90 days delinquency , credits would come to avoid the account slipping into NPA.
- On further probe it was observed that sources of these solitary entries was not from business but out of transfer of funds from sister concerns and /or unexplained sources.
- In the opinion of the Statutory auditors this account showed 'Inherent weakness'
- Status of Classification of account as on 31st March, 2026 ?

Points to Ponder

- Divergences in NPA observed by RBI AFI
- Verification Parameters in CBS vis-à-vis RBI Circular
- Purity of Master Data in CBS
- Reversal of un-serviced Interest of NPA
- Availability of valuation of security for advances below 5 crores
- Authenticity and regularity of stock statements
- Date of NPA – current and prior year of newly identified NPAs
- Unique Customer-id of borrower accounts
- Accounts upgraded during the year
- Regularization of account subsequent to balance sheet date

Points to Ponder

Accounts other than Advances accounts including Sundries / Suspense Accounts

Accounts transferred to other branches – control over identification / classification of accounts

Income leakages identified and resulting in overdrawing of accounts

Recalculation of Drawing Power

Early/Quick Mortality Cases

Ever-greening of accounts

MOCs vis-à-vis Main Audit Report vis-à-vis LFAR

SEMINAR ON BANK BRANCH AUDIT

Thank you!

Prashant P. Tidke

9890634915

prashant.tidke@pgjco.com