**CHAPTER 1.**

**Introduction**

Non-performing assets (NPAs) are a key concern for banks in India. They are the best indicator of the health of the banking industry. The increase in NPAs shows the necessity of provisions, which bring down the overall profitability of banks. Therefore to improve the efficiency and profitability of banks, NPAs need to be reduced and controlled. A high degree of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks.

The NPA lifecycle of banks has three main stages: Identification of stressed assets and NPAs, investigation by measurement and obtaining insight and lastly, resolution through crisis management and revitalization of stressed assets. The Reserve Bank of India has taken a number of steps which are pushing banks in India to be more proactive in recognition of stress and to take remedial steps so as to preserve the economic value of assets. As a part of such efforts, special mention accounts (SMAs) classification has been recently introduced coupled with defining a time bound procedure towards deciding the course and nature of remedial actions.

A close look at the way the banks and financial institutions declare the accounts as NPA shows that the very fundamental principles as envisaged by RBI in their preamble are being overlooked which states, “the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts.”

Further, RBI also expects, **“**The policy of income recognition should be **objective and based on record of recovery rather than on any subjective considerations.** Likewise, 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.”**RBI again exhorts the banks and financial institutions**, “**Banks are urged to ensure that while granting loans and advances, **realistic repayment schedules may be fixed on the basis of cash flows with borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in advances.”**Thus it is evident that the crux of the problems of recovery of loans in the banks and financial institutions lay on the aforesaid facts as stated by RBI in their guidelines.

**Topic Chosen for the Study**

**“Case based Analysis of Non-performing Assets at State Bank of Mysore”**

Financial stability is considered as sine qua non of sustained and rapid economic progress. Among various indicators of financial stability, banks’ non-performing loan assumes critical importance since it reflects on the asset quality, credit risk and efficiency in the allocation of resources to productive sectors.

Table no. 1.1

|  |  |  |
| --- | --- | --- |
| **Sr.No** | **Reasons for Selection of Topic** | **Summary** |
| **1** | Causes of Non-Performing Assets | The topic of Non-Performing assets in Banks is getting wider attention at this time. An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. Non-Performing Assets is one of the important factors, which affect not only the efficiency of financial stability but it also affects the asset quality, credit risk etc. NPA’s reduce the earning capacity of the assets and as a result of this return on assets get affected. NPA’s carry risk weight of 100% (to the extent it is uncovered). For overall financial stability of Banks, prevention of Non-Performing assets has vital importance. |
| **2** | Impact of Non-Performing Assets on banking industry and India Economy |
| **3** | To understand various Steps and procedures for Reducing NPAs |
| **4** | To estimate the Gross NPAs and Net NPAs for calculation of credit risks and thereby improving quality of assets. |

**Need for the Study**

Analysis on Non-performing assets and Capital Adequacy are properly planned and administered; they will usually produce a number of important key points, both general and specific. The following are the aspects;

Table no. 1.2

|  |  |  |
| --- | --- | --- |
| **Sr.No** | **Need for the Study** | **Summary** |
| **1** | To study different types of Non-performing Assets and Provisions made by the Bank. | Banks are required to classify NPAs are classified into Standard, Substandard, Doubtful and Loss assets.  Statistics shows that the NPA level is ever increasing and the introduction of the aforesaid acts have not served their purpose fully. There are primarily two reasons, the fist being their attitude and approach towards financing and recovery particularly of SMEs and the second are the lack of full knowledge about the law and practice of banking and the violations of RBI directives through their circulars which are mandatory to be followed by the banks and the financial institutions. |
| **2** | To discover the causes of Non-Performing assetsproblems, such as Non-repayment of Loans, low turnover of Banks and poor asset quality. |
| **3** | Impact of NPAs on the performances of Banks. NPAs are the primary indicators of credit risk. |
| **4** | The different methods for recovery of NPAs. |

**Statement of the Problem**

What prevents the banks and financial institutions to implement an effective process to recover their dues? Key points on tackling burgeoning NPAs issue in Banks.

Table No.1.3

|  |  |  |
| --- | --- | --- |
| Sr. No. | Problems identified in the study | Summary |
|  | Credit risk in lending business | Arises from the failure of borrower to fulfill its contractual obligations either during the course of a transaction or on a future obligation. |
| 2. | The failure of the banking sector may have an adverse impact on other sectors. |  |
| 3. | NPAs reflect the performance of banks | A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. |

**Objectives of the Study**

Table No. 1.4

|  |  |  |
| --- | --- | --- |
| **Sr.No** | **Objectives** | **Benefit to the Organization and Research** |
| **1** | To study the concept of Non-Performing Assets and classification of NPAs*.* | The Basic objective of the Study of Non-performing assets is to understand the concept clearly and classification. |
| **2** | To study the impact of NPAs and preventive measures of NPAs in State Bank of Mysore | Non-performing assets (NPAs) are a key concern for banks in India. They are the best indicator of the health of the banking industry. The increase in NPAs shows the necessity of provisions, which bring down the overall profitability of banks. Therefore to improve the efficiency and profitability of banks, NPAs need to be reduced and controlled. |
| **3** | To evaluate and Analyze Gross NPAs and Net NPAs of State Bank of Mysore | Calculation and analysis of NPAs of Banks helps in quick decision making and future forecasting. |
| **4** | To analyze financial performance of the Bank at different levels of NPA | The study of Annual reports and other financial reports of Bank with the Time- Period of the Paper: 5year’s Aggregate data from 2010 to 2014 is used for the study. |

**Scope of the Study**

The present study on Non-performing assets in State Bank of Mysore includes the following aspects under the scope of the study, they are as under;

Table No. 1.5

|  |  |  |
| --- | --- | --- |
|  | Factors to be considered under the study | Summary |
| 1. | Analysing and comparing of Annual reports. | Time Period of Annual Reports of State bank of Mysore- 5 years period used |
| 2. | Study of case studies and customer’s portfolios on structure of loans and Non-performing assets. | Case based analysis on occurrence of Nonperforming assets on different types of lending. |

**Methodology of Study**

The study collects data from two sources those are primary and secondary, the details are as under;

Table No. 1.6

|  |  |  |  |
| --- | --- | --- | --- |
| **Source** | **Details** | | |
| **Primary Data** | The data is collected from primary data through following source | | |
| **Interview** | | |
|  | **Aspects covered in the interview** | **Level of Organization** |
| **1** | Views on causes and impacts of Non-performing Assets. | Senior level Managers |
| **2** | Different methods and innovative ideas on prevention of NPAs in Bank. | Middle Level Managers |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Source** | **Details** | | | |
| **Secondary Data** | The data is collected from secondary data through following source | | | |
| **Journals and Magazines** | | | |
|  | **Aspects covered** | |  |
|  | Study of trends of NPAs, literature review | |  |
|  | Issues, causes and remedial solutions | |  |
| **Other Secondary Sources** | | | |
|  | **Aspects covered** | **Type of Data Collection** | |
| **1** | Concept of NPAs | [www.rbi.org.in](http://www.rbi.org.in)  (Reserve Bank of India website) | |
| **2** | Annual reports and other financial reports of Bank | Time- Period of the Financial report: 5 year’s Aggregate data from 2010 to 2014 is used for the study | |
| **3** | Structure and restructuring of loans | Loan Portfolios of customers | |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **4** | Company profile and updates | State Bank of Mysore website |

**Literature Review**

The present study is an attempt to find out the extent of NPAs in The Banking Industry of India.

* Kunal Kundu

**Bankruptcy law: key to tackling the burgeoning NPA issue**

Reforms in bankruptcy laws can play a crucial role in economic growth and financial stability. The Reserve Bank of India (RBI) started a process whereby all new restructured loans are classified as bad loans. Effective 1 April 2015, all restructured loans have to be classified as non-performing assets (NPAs), with provisioning of 15% of the outstanding versus the earlier requirement of 5% for restructured loans.

The idea is to disincentivise banks from opting to restructure loans on the slightest pretext to prevent them from qualifying as NPAs. The new rule is expected to force banks to recall loans, take early recovery action or sell NPAs to asset restructuring companies. However, after the new provisioning norms were introduced, no new case was referred for restructuring in either the June or September quarter. This is a surprise given that the weak economic conditions have not improved materially. While it is difficult to arrive at a meaningful conclusion, there is a sense that there could be under-reporting to prevent bloating.

* **Non-Performing Assets (NPA‟s) are one of the major areas of concern for the Indian - Mayur Rao and Ankita Patel**

Banking industry. Non-Performing Assets are like a double edged sword. They do not generate any Income, whereas, the bank is required to make provisions such as assets. (Olekar and Talawar, 2012). NPAs do not just reflect badly in a bank’s account books, they adversely impact the national Economy. There are many research conducted on the topic of Non- Performing Assets (NPA) Management, concerning particular bank, comparative study of public and private banks etc. This Paper considers the aggregate data of public sector, private sector and foreign banks and attempts to Compare analyze and interpret the NPA management from the year 2009 -2013. On the conceptual Side, it gives an overview of NPA, Types of NPA, causes and on the calculation side, it covers Various NPA related ratios, use of Least square method for estimating Gross NPAs in the year 2014, And also application of ANOVA test to judge the presence of any significant difference between ratio Of Gross NPA to Gross Advances. The findings reveal the percentage of Gross NPA to Gross Advances is increasing for public banks, ratio of Loss Advances to Gross Advances are higher in

* Geetu Moza and Raj Kumar Ray

**Indian banks’ NPA pain hides deeper wounds in capital base**

Indian banking sector's pain over non-performing assets (NPAs) is hurting investor sentiments. What is more worrisome, the NPA pain hides the deeper wounds in the capital base of lenders. Some of the state-owned banks are now jostling with stressed assets that are more than their net worth! The government is trying to recapitalize PSU banks heavily—Rs. 1 lakh crore is likely to be budgeted till FY19, as reported by Bloomberg TV India on January 25—as part of the Indradhanush banking reforms. Banks will raise another Rs. 1.1 lakh crore or so from the market taking the total capital rising to Rs. 2 lakh crore for cleaning their books and adhere to the tough Basel-III norms. Private lenders too are in the fray to raise more capital to meet the Basel-III norms. Yet, even this may fall short to clean up the banking sector.

* **Bankruptcy law: key to tackling the burgeoning NPA issue**

**- Kunal Kundu**

Available evidence suggests that India’s NPA situation is likely to worsen further before it starts to improve. While the economy has bottomed out, the process of recovery will be slow. With a more proactive RBI now, the situation is likely to improve. Banks have started to convert their loans to equity, especially of the wilful defaulters. The key to success of this programme lies in the banks’ ability to dispose the newly acquired businesses within a reasonable time-frame, failing which they would be saddled with businesses that they don’t have the management competency to run.

* **NPAs: Rising Trends and Preventive Measures in Indian Banking Sectors**

**Dr. Sushama Yadav**

NPAs has emerged since over a decade as an upsetting intimidation to the banking sector in our country sending disappointing signals on the sustainability and insurability of the affected banks. NPAs point out the credit risk of the banks. Operational effectiveness of the banks is affected by the quality of advances which in turn has an impact on the profitability, liquidity and solvency position of the banks. In this paper the author has tried to show the recent trends and its preventive measures to control NPAs in Indian banking sectors in present scenario on the basis of secondary data sources.

* **Non-Performing Assets of Indian Commercial Banks: A Critical Evaluation**

Mohammed Arif Pasha & T. Srivenkataramana

After the merger of New Bank of India with Punjab National Bank during the era of Financial Sector Reforms, the number of Public Sector Banks (PSBs) became 27. This is reflected in the market valuation. While the bonus for this change lies mainly with bank managements, an enabling policy and regulatory framework will also be critical to their success. Comparisons of bank performance based on financial ratios suffers from the limitation that ratios might overstate performance because of inaccurate reporting of NPAs or because NPAs trend to be lower in the initial years in the case of newly established banks.

* **Rise in NPA, provisions hurt private banks; pressure likely to continue**

[Nupur Anand](http://www.business-standard.com/author/search/keyword/nupur-anand)

Private sector banks continued to outpace system growth in terms of credit and deposit growth in the October-December quarter; but the rise in bad loans for some lenders emerged as the biggest worry. It is because of the increase in provisions with the surge in bad loans that profits for these lenders also came in lower than the previous quarters.

* **MANAGEMENT OF NON-PERFORMING ASSETS A STUDY OF INDIAN PUBLIC SECTOR BANKS**

Dr. Namita Rajput Anu Priya Arora Baljeet Kaur

A mounting level of NPA's in the banking sector can severely affect the economy in many ways. If NPA's are not properly managed, it can cause financial and economic degradation which in turn signals an adverse investment climate. This study highlight on management of nonperforming assets in the perspective/viewpoint of the Indian public sector banks under stringent asset classification norms, use of latest technological platform based on Core Banking Solution (CBS), recovery procedures and other bank specific indicators in the perspective of stringent regulatory framework of the Reserve Bank of India. Non-performing Asset is an important constraint in the study of financial performance of a bank as it results in declining margin and higher provisioning requirement for doubtful debts. Various banks from different categories together provide advances to different sectors like SSI, agricultural, priority sector, public sector & others.

* **27 PSU banks write off Rs 1.14 lakh cr bad debts during 2012-15**

PSU banks have been witnessing a continuous surge in bad loans. As on September 2015, the gross NPAs of PSBs have increased to Rs. 3,00,743 crore as against Rs. 2.67 lakh crore in March 2015. Concerned over mounting bad loans, RBI in consultation with the government is working on methodologies to clean up balance sheet of state-owned banks by March 2017. RBI Governor Raghuram Rajan recently announced a March 2017 deadline for banks to clean up their balance sheets which are plagued by high incidence of bad assets. While Rajan had assured that enough capital is available for public sector banks, he cautioned that some of the banks may witness erosion of profitability in the short run due to cleaning of books.

**Limitations of the Study**

* Though the bank provided 12 different cases of non-performing assets with different places and different amount. Out of 12 cases only 5 cases are selected due to lack of reliable data.
* Majority of Non-performing assets are found in loans for Small and Medium Enterprises and Agricultural loans. NPAs were not detected other types of loans such as personal loans and retail loans.

**CHAPTER 2.**

**Industry Profile and Company Profile**

**Industry Profile-Banking Sector in India**

* The Indian banking system consists of 26 public sector banks, 20 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions.
* Indian banks are increasingly focusing on adopting integrated approach to risk management. Banks have already embraced the international banking supervision accord of Basel II. According to RBI, majority of the banks already meet capital requirements of Basel III, which has a deadline of March 31, 2019. Most of the banks have put in place the framework for asset-liability match, credit and derivatives risk management
* Rising incomes are expected to enhance the need for banking services in rural areas and therefore drive the growth of the sector; programmes like MNREGA have helped in increasing rural income aided by the recent Jan Dhan Yojana.
* The Reserve Bank of India (RBI) has relaxed its branch licensing policy, thereby allowing banks (which meet certain financial parameters) to set-up new branches in tier-2 to tier-6 centers, without prior approval from RBI. It has emphasised the need to focus on spreading the reach of banking services to the un-banked population of India.
* Overall, the current financial health of banks in Asia’s third largest economy is a mixed bag. While credit growth across the banking sector has been inching higher, profits are moderating. Much of this can be attributed to the rise in non-performing assets, which has been repeatedly flagged by RBI Governor Raghuram Rajan as a significant risk.

**Company Profile – State Bank of Mysore**

State Bank of Mysore is a nationalized bank in India, with headquarters at Bengaluru. It is one of the five associate banks of State Bank of India.State Bank of Mysore was established in the year 1913 as The Bank of Mysore Ltd. under the patronage of then Maharaja Krishna Raja Wadiyar IV of erstwhile Govt. of Mysore, at the instance of the banking committee headed by the great Engineer-Statesman, Bharat Ratna Sir M.Visvesvaraya. During 1953, "Mysore Bank" was appointed as an agent of Reserve Bank of India to undertake Government business and treasury operations, and in March 1960, it became a subsidiary of the State Bank of India under the State Bank of India (subsidiary Banks) Act 1959. Now the bank is an Associate Bank under State Bank Group and the State Bank of India holds 92.33% of shares.

Promoters

Managing Director Mr. Sharad Sharma

Chairperson Arundhati Bhattarcharya

Shareholder Director S Ramasubramanian

Nominee Director B Ramesh Babu

Nominee Director Ramesh Chandra Srivastava

Nominee Director Murli Radhakrishnan

Nominee Director S Selvakumar

Workmen Director R Raghavendra

Nominee Director V G Kannan

Nominee Director A Prabhakara

Nominee Director K Gururaj Acharya

Vision

 “To be the most trusted and preferred finance service provider worldwide.”

Mission

A premier commercial Bank in Karnataka, with all India presence, committed to provide consistently superior and personalised customer service backed by employee pride and will to excel, earn progressively high returns for its shareholders and be a responsible corporate citizen contributing to the well-being of the society.

**Product / Services**

State Bank of Mysore is an associate bank of State Bank of India, offering a range of financial products and services to its customers across the nation.

* Different types of deposits are offered such as Saral Savings Bank Account, SBM Tax Saver Scheme, Multi Option Deposit Scheme, Savings Bank Account, Term Deposits, Reinvestment Deposits, Power Money, Recurring Deposits and Harsha Deposit.
* Personal Banking Schemes

Personal Loan, Mortgage Loan, Housing Loans, Happy Home, Gnanamitra Education Loan,

Loan for purchase of residential site / plot

Table No. 2.1

|  |  |
| --- | --- |
| MYBANK ADHYAPAK - MYBANK | Personal loan scheme to teachers |
| ARAKSHAK - | Personal loan scheme to police personnel |
| MYBANK UTSAV - | Personal loan scheme to celebrate Festivals |
| SBM Car Loan Scheme - SANJEEVINI - product scheme for high cost treatment, | For purchase of new and used cars |
| MYBANK SAMACHAR - | personal loan scheme for Journalists |
| GAGAN MITRA - | New personal loan for Pilot & Air hostess training |
| Mybank Udyogi Gnanamitra - | New personal segment advance for employed persons to undertake higher studies. |

* Commercial & Industrial Banking Schemes

Scheme for Trades -Liberalised Trade Finance, Handy Loans Scheme, Corporate Loan,

Current Account Plus, Rent Plus, SBM Paryatan Plus, SBM School Plus,

Fair Practices Code for lenders, Terms and Conditions letter for industrial advances

* Agricultural Banking Schemes

Kisan Gold Card Scheme, Kisan Credit Card Scheme, Gramin Bhandaran Yojana (GBY),

Scheme for Combined Harvesters, Kisan Chakra Scheme, Agriclinics and Agri business cente` (ABC 10 dated 30.08.01),

Solar Photo Voltaic Pumpsets (SPV) for Irrigations, Scheme for purchase of land for agricultural purposes, Scheme for development of Vanilla, Establishment of Bio-Fertiliser Units (Model Scheme),

Produce Marketing Loan (PML), Drip Irrigation, Sprinkler Irrigation,

Farm Mechanisation- SBM Agri Farm Scheme, Swarna Mitra Scheme,

My Krishigen, Scheme for cultivation of Gherkins,

Scheme for financing LPG connection in rural areas, Scheme for financing to tenant farmers & Oral Lessees,

Rain water harvesting scheme for SC/ST farmers,

Scheme for financing of Jatropha plantation, Scheme for financing to cultivation of patchouli,

General Credit Card

* Micro and Small Enterprises Schemes (MSE)

Credit Guarantee Fund Trust Scheme for Micro, Small & Medium Enterprises (MSEs),

Loans to Micro and Small Enterprises (MSEs), Retail Trade- Advances to Retail Traders,

MSEs- Service Sector (Small Business Enterprises), Professionals & Self-Employed persons,

Transport Operators, Laghu Udyami Credit Card Scheme,

Stree Shakthi package for Women entrepreneurs, MyBank Sanchari Suvidha, Annapurna,

Mybank Doctor, Flexi (SSI) Term Loan, SME Credit Plus, Green Auto, Swarojgar Credit Card scheme,

Mybank Professional Plus, Artisans Credit card (ACC),

Stand-by-line of Credit (Term Loan) for SSI and C&I Borrowers,

Reimbursement Facility under Term Loans: (SIB and C&I Segment borrowers),

"Sooryadeepa": Scheme for Financing Solar Home-lighting system

* Forex Services

SBM offers the following forex services to NRIs:

NRI Deposits, Money Transfer to India through Western Union, Remittance facility through State Bank of India, New York Branch, Remittance to India -Global Link Service (GLS)

* Cross-Selling

State Bank of Mysore, following Bancassurance model, has entered into tie-ups with companies like SBI Life Insurance Company etc. It is also a Corporate Agent of National Insurance Company.

State Bank of Mysore cross-sells the following products:

1. SBI Life
2. SBI Mutual Funds
3. SBI Cards
4. Dhanvanthari Bima Policy

State Bank of Mysore personal loans cover a wide spectrum. Some loan products available under this head are described below:

1. IPO Financing, Mybank Adhyapak, Gagan Mitra,
2. Mybank Arakshak, Mybank Samachar,
3. Mybank Utsav,
4. Sanjeevini

Areas of operation

* State Bank of Mysore has 976 branches in India and 9 extension counters, the Bank has 772 branches in Karnataka State. The bank has regional offices in Bengaluru, Mysore, Mangalore, Mandya, Hassan, Shivamogga, Davangere, Ballari, Tumakuru, Kolar, Chennai, Coimbatore, Hyderabad, Mumbai and New Delhi.
* 4 Industrial Finance branches, 3 Corporate Accounts Branches, 4 specialised Personal Banking Branches, 10 Agricultural Development Branches, 3 Treasury branches, 1 Asset Recovery Branch and 7 Service Branches, offering wide range of services to the customers.

**Infrastructure of the Company**

* I.T Infrastructure:

The Bank has 1361 ATMs and all are networked. State Bank of Mysore ATMs are part of over 53900 ATMs of the State Bank Group as on 30.09.2015.

1. Internet Banking Services: The Internet banking portal of State Bank of Mysore, enables both retail banking and corporate banking customers to operate their accounts across India, removing the restrictions imposed by geography and time. It's a platform that enables the customers to carry out their banking activities from their desktop, aided by the power and convenience of the Internet.
2. Mobile Banking Services: Immediate Payment Services (IMPS) IMPS offer an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS facilitate customers to use mobile instruments as a channel for accessing their bank accounts and put interbank fund transfers in a secured manner with immediate confirmation features.
3. Cash Deposit Machines: Cash Deposit Machine (CDM) is self-service machine which enables the ATM/Debit card holder to deposit cash without any intervention of the branch staff.
4. You do not need to fill in deposit slips and stand in long queues at the cash counter of the branch. Deposit your cash via CDM and get instant credit in your account. To use the CDM, you need to be State Bank of Mysore account holder having an ATM Card.
5. Cash Recycler: Cash Recycler is an ATM like machine that performs dual function of Cash withdrawal and deposit. As on date State Bank of Mysore has installed 13 Cash Recyclers

**Competitors Analysis**

* Private banks such as

ICICI Bank, Axis Bank, HDFC Bank

* Other public sector banks such as

Punjab National Bank, Bank of India, Syndicate Bank, Dena Bank, Bank of Baroda

* Regional rural banks in Karnataka

Kaveri Grameena Bank

Karnataka Vikas Grameena Bank

**SWOT Analysis of State Bank of Mysore**

|  |  |
| --- | --- |
| **Strength**   * Policy makers have made some notable changes in policy and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system. * Increasing competition which is helping for adding up more quality in terms of products and offer. * Wide expansion of branch network even in rural areas reaching more people. | **Weakness**   * Bad loans to shrinking profitability in the last few years. * The rise in non-performing assets, which has been repeatedly flagged. * State Bank of Mysore needs to fundamentally strengthen institutional skill levels especially in sales and marketing, service operations, risk management and strengthen human capital |
| **Opportunity**   * Most of the country’s macroeconomic indicators have outperformed this year, with GDP growth, at nearly 7.5%, standing out amongst peers. India definitely deserves the praise of being a “bright spot in an otherwise gloomy global economy. * The government has approved the setting up of the Monetary Policy Committee (MPC) which will have representation from both RBI and the finance ministry. * This year, RBI is expected to usher in a revised framework for calculating bank lending rates based on marginal rather than the average cost of funds. This will not only enhance transmission and transparency, but it will also help result in better Asset Liability Management (ALM) outcomes and generate a lending curve for the banking system. * Lastly, the advent of the Jan-Dhan-Aadhaar-Mobile (JAM) trinity is a silent revolution that will transform the country in the coming years. While the Pradhan Mantri Jan-Dhan Yojana (PMJDY) will further the objective of financial inclusion, the Aadhaar platform will furnish the much-needed basic digital intelligence and mobile phones will leverage this through innovative payment system like the Immediate Payment Service (IMPS). As the JAM mobilises further mass in 2016, the market for e-finance will provide one of the biggest opportunities for the banking and financial system. | **Threats**   * ferocity of cyberattacks will only go up in 2016, as economic progress invariably attracts more such predators * External economic threats- the sector remains a key target for criminals and asset misappropriation is still the primary type of reported economic crime. Cybercrime, bribery and corruption appear to be increasingly common in the sector. * Credit risks- The risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. * Operation risk- The risk of loss resulting from inadequate or failed processes, people and systems or from external events. Operation risk includes legal risk, but excludes strategic and reputational risk. * External risks- Generally something that is uncontrollable by the first party. |

**Future Growth and Prospects**

* The bank is not planning to move on rates in the next three months. Also, it has no merger plans in the foreseeable future.
* The bank is looking at gross NPA of around 4 percent in future as there has been a steady reduction in slippages over last three quarters.
* Decline in provision coverage ratio of restructured loans and further improvement in asset quality.

**Financial Statement**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance Sheet - State Bank Of Mysore** | | | | | |
| Rs. (in Crores) | | | | | |
| **Particulars** | **Mar'15** | **Mar'14** | **Mar'13** | **Mar'12** | **Mar'11** |
| **Liabilities** | **12 Months** | **12 Months** | **12 Months** | **12 Months** | **12 Months** |
| Share Capital | 48.01 | 48.01 | 46.80 | 46.80 | 46.80 |
| Reserves & Surplus | 4313.58 | 3940.86 | 4280.05 | 3935.97 | 3630.68 |
| **Net Worth** | **4932.37** | **4548.60** | **4332.53** | **3988.53** | **3683.31** |
| Secured Loan | 5688.35 | 5473.97 | 3854.20 | 4425.59 | 3307.95 |
| Unsecured Loan | 66063.76 | 61560.32 | 56969.04 | 50186.30 | 43225.47 |
| **TOTAL LIABILITIES** | **76684.48** | **71582.89** | **65155.78** | **58600.41** | **50216.74** |
| **Assets** | | | | | |
| Gross Block | 936.59 | 860.32 | 824.28 | 749.41 | 725.00 |
| (-) Acc. Depreciation | .00 | .00 | .00 | .00 | .00 |
| **Net Block** | **365.81** | **300.60** | **818.60** | **743.66** | **719.16** |
| Capital Work in Progress | .00 | .00 | .00 | .00 | .00 |
| Investments | 20565.66 | 19190.20 | 16774.58 | 14732.70 | 12927.14 |
| Inventories | .00 | .00 | .00 | .00 | .00 |
| Sundry Debtors | .00 | .00 | .00 | .00 | .00 |
| Cash and Bank | 4256.19 | 2941.22 | 3504.76 | 3362.71 | 2940.29 |
| Loans and Advances | 53710.48 | 50984.60 | 46129.14 | 41558.74 | 35440.04 |
| **Total Current Assets** | **57966.67** | **53925.83** | **49633.90** | **44921.45** | **38380.33** |
| Current Liabilities | 2784.45 | 2393.46 | 2076.98 | 1803.15 | 1815.72 |
| Provisions | .00 | .00 | .00 | .00 | .00 |
| **Total Current Liabilities** | **2784.45** | **2393.46** | **2076.98** | **1803.15** | **1815.72** |
| **NET CURRENT ASSETS** | **55182.22** | **51532.37** | **47556.92** | **43118.30** | **36564.60** |
| Misc. Expenses | .00 | .00 | .00 | .00 | .00 |
| **TOTAL ASSETS** | **76684.48** | **71582.89** | **65155.78** | **58600.41** | **50216.74** |

Rs. (in Crores)

**CHAPTER 3.**

**Theoretical Background of the Study**

* **Concept of Non-performing Assets (NPA) and Classification of Assets as Non-Performing**

An asset becomes Non-performing when it ceases to generate income for the Bank. Earlier an asset was considered as Non-performing asset (NPA) based on the concept of 'Past Due'. A 'Non-performing asset' (NPA) was defined as credit in respect of which interest and / or installment of principal has remained 'past due' for a specific period of time.

With a view to moving towards international best practices and to ensure greater transparency, '90 days' overdue norms for identification of NPAs have been made applicable from the year ended March 31, 2004. As such, with effect from March 31, 2004, a non-performing asset shall be a loan or an advance where:

1. Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.
2. The account remains 'Out of order' for a period of more than 90 days, in respect of an Overdraft / Cash Credit.
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
4. In the case of direct agricultural advances as listed, the overdue norm specified would be applicable. In respect of agricultural loans, other than those specified, identification of NPAs would be done on the same basis as non-agricultural advances.
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

 "An account should be treated as **'out of order**' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'".

* **Non-performing assets** **Agricultural Advance**

With effect from September 30, 2004 the following revised norms are applicable to all direct agricultural advances:

1. A loan granted for short duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons.
2. A loan granted for long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for one crop season.

 Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him. In respect of agricultural loans, other than those specified  and term loans given to non-agriculturists, identification of NPAs would be done on the same basis as non-agricultural advances, which, at present, is the 90 days delinquency norm.

Banks should ensure that while granting loans and advances, realistic repayment schedules are fixed on the basis of cash flows / fluidity with the borrowers.

* **Identification of Assets as NPAs should be done on an ongoing basis**

1. The system should ensure that identification of NPAs is done on an on-going basis and doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per prescribed norms.
2. Banks should also make provisions for NPAs as at the end of each calendar quarter i.e as at the end of March / June / September / December, so that the income and expenditure account for the respective quarters as well as the P&L account and balance sheet for the year end reflects the provision made for NPAs.

* **Treatment of Accounts as NPAs** - **Record of Recovery**

1. The treatment of an asset as NPA should be based on the record of recovery. Banks should not treat an advance as NPA merely due to existence of some deficiencies which are of temporary in nature such as non-availability of adequate drawing power, balance outstanding exceeding the limit, non-submission of stock statements and the non-renewal of the limits on the due date, etc.
2. Where there is a threat of loss, or the recoverability of the advances is in doubt, the asset should be treated as NPA.
3. A credit facility should be treated as NPA as per norms. However, where the accounts of the borrowers have been regularized by repayment of overdue amounts through genuine sources (not by sanction of additional facilities or transfer of funds between accounts), the accounts need not be treated as NPAs. In such cases, it should, however, be ensured that the accounts remain in order subsequently and a solitary credit entry made in an account on or before the balance sheet date which extinguishes the overdue amount of interest or installment of principal is not reckoned as the sole criteria for treatment of the account as a standard asset.

* **Treatment of NPAs - Borrower-wise and not Facility-wise**

1. In respect of a borrower having more than one facility with a bank, all the facilities granted by the bank will have to be treated as NPA and not the particular facility or part thereof which has become irregular.
2. However, in respect of consortium advances or financing under multiple banking arrangements, each bank may classify the borrower accounts according to its own record of recovery and other aspects having a bearing on the recoverability of the advances.

* **Recognition of Income on Investment Treated as NPAs**

The investments are also subject to the prudential norms on income recognition. Banks should not book income on accrual basis in respect of any security irrespective of the category in which it is included, where the interest / principal is in arrears for more than 90 days.

* **NPA Reporting to Reserve Bank of India**

Banks should report the figures of NPAs to the Regional Office of the Reserve Bank at the end of each year within two months from the close of the year in the prescribed proforma.

* **Asset Classification**

Banks classify their assets into the following broad groups –

1. **Standard Assets**

Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

1. **Sub-standard Assets**

(i) With effect from March 31, 2005 an asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

(ii) An asset where the terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance under the re-negotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of this condition.

1. **Doubtful Assets**

With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. For Tier I banks, the 12-month period of classification of a substandard asset in doubtful category is effective from April 1, 2009. As in the case of sub-standard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

1. **Loss Assets**

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

* **Internal System for Classification of Assets as NPA**

1. Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts. The banks may fix a minimum cut-off point to decide what would constitute a high value account depending upon their respective business levels. The cut-off point should be valid for the entire accounting year.
2. Responsibility and validation levels for ensuring proper asset classification may be fixed by the bank.
3. The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines.
4. RBI would continue to identify the divergences arising due to non-compliance, for fixing accountability. Where there is willful non-compliance by the official responsible for classification and is well documented, RBI would initiate deterrent action including imposition of monetary penalties.

* **Reversal of Income on Accounts Becoming NPAs**

If any advance including bills purchased and discounted becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realized. This will apply to Government guaranteed accounts also. In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

Banks undertaking equipment leasing should follow prudential accounting standards. Lease rentals comprises of two elements - a finance charge (i.e. interest charge) and a charge towards recovery of the cost of the asset. The interest component alone should be taken to income account. Such income taken to income account, before the asset became NPA, and remained unrealized should be reversed or provided for in the current accounting period.

* **Partial Recovery of NPAs**

Interest realized on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh / additional credit facilities sanctioned to the borrower concerned.

**Provisioning Norms**

* **Norms for Provisioning on Loans & Advances**

Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realization of the security and the erosion over time in the value of security charged to the bank, the banks should make provision against loss assets, doubtful assets and sub-standard assets as below:

1. **Loss Assets**

(a) The entire assets should be written off after obtaining necessary approval from the competent authority and as per the provisions of the Co-operative Societies Act / Rules. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.

(b) In respect of an asset identified as a loss asset, full provision at 100 per cent should be made if the expected salvage value of the security is negligible.

1. **Doubtful Assets**

(a) Provision should be for 100 per cent of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse should be made and the realizable value is estimated on a realistic basis.

(b) In regard to the **secured portion**, provision may be made on the following basis, at the rates ranging from 20 per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful:

Table No. 3.1

|  |  |
| --- | --- |
| **Tier I and Tier II Banks** | |
| **Period for which the advance has remained in 'doubtful' category** | **Provision Requirement** |
| Up to one year | 20 per cent |
| One to three years | 30 per cent |
| Advances classified as 'doubtful for more than three years' on or after April 1, 2010 | 1. rcent |

1. **Sub-standard Assets**

A general provision of 10 per cent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

**(iv) Provision on Standard Assets**

(a) From the year ended March 31, 2000, the banks should make a general provision of a minimum of 0.25 per cent on standard assets.

(b) However, Tier II banks (as defined in Circular dated May 6, 2009) will be subjected to higher provisioning norms on standard assets as under:

The general provisioning requirement for all types of 'standard advances' shall be 0.40 per cent. However, direct advances to agricultural and SME sectors which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis.

Further, with effect from Dec 8, 2009, all UCBs (Both Tier I & Tier II) are required to make a provision of 1.00 percent in respect of advances to Commercial Real Estate Sector classified as 'standard assets'.

UCBs were advised to carve out Commercial Real Estate-Residential Housing Sector from existing CRE Sector and were allowed to make lower standard asset provision for loans and advances under this sector.

The standard asset provisioning requirements for all UCBs are summarized as under:

Table No. 3.2

|  |  |  |
| --- | --- | --- |
| **Category of Standard Asset** | **Rate of Provisioning** | |
| **Tier II** | **Tier I** |
| Direct advances to Agriculture and SME sectors | 0.25 % | 0.25% |
| Commercial Real Estate (CRE) sector | 1.00 % | 1.00 % |
| Commercial Real Estate-Residential Housing Sector (CRE-RH) | 0.75% | 0.75% |
| All other loans and advances not included in (a) and (b) above | 0.40% | 0.25% |

(c) The provisions towards "standard assets" need not be netted from gross advances but shown separately as "Contingent Provision against Standard Assets" under "Other Funds and Reserves" {item.2 (viii) of Capital and Liabilities} in the Balance Sheet.

(d) If due to changes in the regulatory requirements on provisions to be maintained by banks, the provisions held by banks exceed what is required to be held by banks, such excess provisions should not be reversed. In future, if by applying the revised provisioning norms, any provisions are required over and above the level of provisions currently held for the standard category assets; these should be duly provided for.

* **Provisioning Pertaining to Fraud Accounts**

1. The entire amount due to the bank(irrespective of quantum of security held against such assets), or for which the bank is liable (including in case of deposit accounts), is to be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected.
2. However, where there has been delay, beyond the prescribed period, in reporting the fraud to Reserve Bank, the entire provisioning is required to be made at once. In addition, Reserve Bank of India may also initiate appropriate supervisory action where there has been delay by the bank in reporting a fraud or provisioning there against.

**Proforma of Gross NPAs and Net NPAs**

Name of the Bank

Category Tier I / Tier II

**Classification of Assets and Provisioning made  
against Non-Performing Assets as on March 31, \_\_\_\_\_\_\_**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (Rs. in lakh) | | | | | | | | | | | | | | |
| **Classification of Assets** | | | | | **No.of A/C** | | **Amount**  **Outstanding** | | **Percentage of Col.3 to total loan outstanding** | **Provision required tobe made % Amt.** | | **Existing provisionat thebegining**  **of the year** | **Provision  made during the year** | **Total provisions as at the end of the year** | | **Re** |
| **1** | | | | | | **2** | | **3** | **4** | **5** | **6** | **7** | **8** | **9** | | **10** |
| Total loans and advances | | | | | |  | |  |  |  |  |  |  |  | |  |
| Of which | | | | | |  | |  |  |  |  |  |  |  | |  |
| A. | Standard Assets | | | | |  | |  |  |  |  |  |  |  | |  |
| B | Non-performing Assets | | | | |  | |  |  |  |  |  |  |  | |  |
| 1 | Sub-standard | | | |  | |  |  |  |  |  |  |  | |  |
| 2 | Doubtful | | | |  | |  |  |  |  |  |  |  | |  |
| i) | Upto 1 year | | |  | |  |  |  |  |  |  |  | |  |
| A | Secured | |  | |  |  |  |  |  |  |  | |  |
| b | Unsecured | |  | |  |  |  |  |  |  |  | |  |
| ii) | Above 1 year & upto 3 years | | |  | |  |  |  |  |  |  |  | |  |
| A | Secured | |  | |  |  |  |  |  |  |  | |  |
| B | Unsecured | |  | |  |  |  |  |  |  |  | |  |
| iii | Above 3 years Secured | | |  | |  |  |  |  |  |  |  | |  |
| A | Outstanding stock of NPAs as on March 31, …. | |  | |  |  |  |  |  |  |  | |  |
| b | Advances classified as‘doubtfulmore than 3 years' on or after April 1, \_\_\_\_\_\_\_ | |  | |  |  |  |  |  |  |  | |  |
| B | Unsecured | |  | |  |  |  |  |  |  |  | |  |
| Total doubtful assets (i+ii+iii) | | | |  | |  |  |  |  |  |  |  | |  |
| a) | Secured | | |  | |  |  |  |  |  |  |  | |  |
| b) | Unsecured | | |  | |  |  |  |  |  |  |  | |  |
| 3 | Loss Assets | | | |  | |  |  |  |  |  |  |  | |  |
| Gross NPAs (B1 + B2 + B3) | | | | | |  | |  |  |  |  |  |  |  | |  |
| Note: Please indicate the manner in which the provision (item 8) has been made / proposed to be made out of the profit of the current year. | | | | | | | | | | | | | | |

**Position of Net Advances / Net NPAs**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (Rupees in lakh) | | | | |
| **Sr. No.** | **Particulars** | | **Current Year** | **Previous Year** |
| 1. | Gross Advances | |  |  |
| 2. | Gross NPAs | |  |  |
| 3. | Gross NPAs as percentage to Gross Advances | |  |  |
| 4. | Deductions | |  |  |
| - | Balance in interest suspense account / OIR\* |  |  |
| - | DICGC / ECGC claims received and held pending adjustment |  |  |
| - | Part payment of NPA accounts received and kept in suspense account |  |  |
| Total Deductions | |  |  |
| 5. | Total NPA provisions held (BDDR, Special BDDR Balance after appropriation) | |  |  |
| 6. | Net Advances (1-4-5) | |  |  |
| 7. | Net NPAs (2-4-5) | |  |  |
| 8. | Net NPAs as percentage of Net Advances | |  |  |
| \* i.e. accrued interest on NPA accounts if included (capitalized) in loans and advances | | | | |

CERTIFIED that the non-performing assets have been worked out as per RBI instructions and provisions made accordingly.

* **Capital Adequacy Norms**

The traditional approach to sufficiency of capital does not capture the risk elements in various types of assets in the balance sheet as well as in the off-balance sheet business and compare the capital to the level of the assets.

The Basel Committee on Banking Supervision had published the first Basel Capital Accord (popularly called as Basel I framework) in July, 1988 prescribing minimum capital adequacy requirements in banks for maintaining the soundness and stability of the International Banking System and to diminish existing source of competitive inequality among international banks. The basic features of the Capital Accord of 1988 are as under:

1. Minimum Capital Requirement of 8% by end of 1992.
2. Tier approach to capital:

* Core Capital: Equity, Disclosed Reserves
* Supplementary Capital: General Loan Loss Reserves, Other Hidden Reserves, Revaluation Reserves, Hybrid Capital Instruments and Subordinate Debts
* 50% of the capital to be reckoned as core capital.

1. Risk Weights for different categories of exposure of banks ranging from 0% to 127.5% depending upon the riskiness of the assets. While commercial loan assets had a risk weight of 100%, inter-bank assets were assigned 20% risk weight. In 2002, maintenance of capital funds as a percentage of risk weighted assets was extended to all UCBs. Since 2005, the minimum Capital to Risk Assets Ratio that is expected to be maintained is 9 percent. Further, vide 1996 amendment to the original Basel Accord; capital charge was prescribed for market related exposures.

* **Writing off of NPAs**

In terms of Section 43(D) of the Income Tax Act 1961, income by way of interest in relation to such categories of bad and doubtful debts as may be prescribed having regard to the guidelines issued by the RBI in relation to such debts, shall be chargeable to tax in the previous year in which it is credited to the bank’s profit and loss account or received, whichever is earlier.

This stipulation is not applicable to provisioning required to be made as indicated above. In other words, amounts set aside for making provision for NPAs as above are not eligible for tax deductions. Therefore, the banks should either make full provision as per the guidelines or write­-off such advances and claim such tax benefits as are applicable, by evolving appropriate methodology in consultation with their auditors/tax consultants. Recoveries made in such accounts should be offered for tax purposes as per the rules.

Write­-off at Head Office Level

Banks may write-­off advances at Head Office level, even though the relative advances are still outstanding in the branch books. However, it is necessary that provision is made as per the classification accorded to the respective accounts. In other words, if an advance is a loss asset, 100 % provision will have to be made therefor.

* **NPA Management – Requirement of Effective Mechanism and Granular Data**
  1. Asset quality of banks is one of the most important indicators of their financial health. Banks should, therefore put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level (asset class, industry, geographic, size, etc.). Such early warning signals should be used for putting in place an effective preventive asset quality management framework, including a transparent restructuring mechanism for viable accounts under distress within the prevailing regulatory framework, for preserving the economic value of those entities in all segments.
  2. The banks' IT and MIS system should be robust and able to generate reliable and quality information with regard to their asset quality for effective decision making. There should be no inconsistencies between information furnished under regulatory / statutory reporting and the banks' own MIS reporting. Banks should also have system generated segment wise information on non-performing assets and restructured assets which may include data on the opening balances, additions, reductions (upgradations, actual recoveries, write-offs etc.), closing balances, provisions held, technical write-offs, etc.

**How to reduce NPA? –**

 Non Performing Assets can be reduced by taking some major steps by the banks. Some steps are as follows by which bank can reduce NPA -

**1. SARFAESI ACT 2002**

**The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002** (SARFAESI) empowers Banks / Financial Institutions to recover their non-performing assets without the intervention of the Court.

The Act provides three alternative methods for recovery of non-performing assets, namely: -

**i.** Securitisation

**ii.** Asset Reconstruction

**iii.** Enforcement of Security without the intervention of the Court.

The provisions of this Act are applicable only for NPA loans with outstanding above Rs. 1.00 lac. NPA loan accounts where the amount is less than 20% of the principal and interest are not eligible to be dealt with under this Act.

Non-performing assets should be backed by securities charged to the Bank by way of hypothecation or mortgage or assignment. Security Interest by way of Lien, pledge, hire purchase and lease not liable for attachment under sec.60 of CPC, are not covered under this Act

**The Act empowers the Bank:**

**(i.)** To issue demand notice to the defaulting borrower and guarantor, calling upon them to discharge their dues in full within 60 days from the date of the notice.

**(ii.)** To give notice to any person who has acquired any of the secured assets from the borrower to surrender the same to the Bank.

**(iii.)** To ask any debtor of the borrower to pay any sum due or becoming due to the borrower.

**(iv.)** Any Security Interest created over Agricultural Land cannot be proceeded with.

If on receipt of demand notice, the borrower makes any representation or raises any objection, authorized officer shall consider such representation or objection carefully and if he comes to the conclusion that such representation or objection is not acceptable or tenable, he shall communicate the reasons for non-acceptance WITHIN ONE WEEK of receipt of such representation or objection.

A borrower / guarantor aggrieved by the action of the Bank can file an appeal with DRT and then with DRAT, but not with any civil court. The borrower / guarantor has to deposit 50% of the dues before an appeal with DRAT.

If the borrower fails to comply with the notice, the Bank may take recourse to one or more of the following measures:

**(i)** Take possession of the security

**(ii)** Sale or lease or assign the right over the security

**(iii)** Manage the same or appoint any person to manage the same

**2. Lok Adalats:**Lok Adalat is for the recovery of small loans. According to RBI guidelines issued in 2001, they cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered.

**3. Compromise Settlement:**It is a scheme which provides a simple mechanism for recovery of NPA. It is applied to advances below Rs. 10 Crores.

**4. Credit Information Bureau:**A Credit Information Bureau help banks by maintaining a data of an individual defaulter and provides this information to all banks so that they may avoid lending to him/her.

**5. DEBT RECOVERY TRIBUNALS:**The debt recovery tribunal act was passed by Indian Parliament in 1993 with the objective of facilitating the banks and financial institutions for speedy recovery of dues in cases where the loan amount is Rs. 10 lakhs and above.