

12

Answer A

CREDIT AND LEGAL AUDIT POLICY

S.No	Subject	Page
1	Policy Framework	01-02
2	Loan Review Mechanism/Credit Audit	02-07
3	Format of Reporting of Credit Audit	08-16
4	Legal Audit in Bank	17-19
5	Format of Reporting of Legal Audit	20-22

CHAPTER-I: POLICY FRAMEWORK

1. Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in credit quality. Credit risk emanates from a bank's dealings with an individual, corporate, bank, financial institution or a sovereign. Credit risk may take the following forms:

- a. in the case of direct lending: principal/and or interest amount may not be repaid;
- b. in the case of guarantees or letters of credit: funds may not be forthcoming from the constituents upon crystallization of the liability;
- c. in the case of treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases;

2. In this backdrop, it is imperative that banks have a robust credit risk management system which is sensitive and responsive to these factors. The effective management of credit risk is a critical component of comprehensive risk management and is essential for the long term success of any banking organisation. Credit risk management encompasses identification, measurement, monitoring and control of the credit risk exposures.

3. The two major component of credit risk management is Loan review mechanism and Legal Audit.

The Need of Credit Audit:

Credit Audit is performed immediately after loan disbursement to ensure due diligence in respect of documentation, disbursement, etc. However, a credit auditor is not to question credit decisions. Credit audit helps in identifying deficiencies, if any, in documentation, disbursement, etc. From the study of credit audit report, early warning signals, if any, in the account shall be noticed. Such signals include deterioration in the quality of credit portfolio of the bank, deficiencies in observing due diligence in credit and regulatory compliances, decline in the quality of credit portfolio, diversion of bank funds, etc. Credit audit report is also expected to comment on deficiencies, if any, observed in the fulfillment of takeover norms such as conduct of pre-inspection, presence of report of regional office and branch on the account to be taken over, rating of the account being satisfactory, in-principle approval by the Board before takeover, no enhancement to take place in credit limit within six months from takeover, etc. A bank shall takeover any borrowal account from another bank by observing norms as stipulated by the RBI.

Management of SMAs: RBI's New Framework for Credit Monitoring mentions that here are several warning signals that shall be noticed by a lender. These may include delay in submission of stock statements/MSOD/QIS or financial statements, delay / non-review of credit facilities based on audited financials, actual sales/ operating profits falling short of projections by 40per cent or more, reduction of drawing power (DP) by 20 per cent or more after stock audit, evidence of diversion of funds for unapproved purposes, drop in internal risk rating, etc. Wherever such one or more warning signals are noticed in advance, it is called as Special Mention Account (SMA), which is a new sub-category in

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the standard assets' category. SMAs should be classified further into three categories: SMA-O, SMA-I and SMA-2. In respect of these SMAs, principal or interest payment is not overdue for more than 30 days, between 31-60 days and between 61-90 days respectively, as amended by RBI from time to time.

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

Reporting of Red Flag Accounts (RFA) to CRILC: If any account is classified as RFA/ Fraud, the status of such RFA/ Fraud account must be reported to CRILC platform, so that other Banks will get alerted. Within 15 days, the bank shall approach the consortium leader under consortium advance or the largest lender under MBA as the case may be for a JLF meeting for a coordinated legal action. At the end of the time line, which cannot be more than six months, banks should either lift the RFA status or classify the account as a Fraud.

CHAPTER 2: LOAN REVIEW MECHANISM/CREDIT AUDIT/STOCK AUDIT/LEGAL AUDIT

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

1 Objectives of Credit Audit

- a. Improvement in the quality of credit portfolio
- b. Review sanction process and compliance status of large loans
- c. Feedback on regulatory compliance
- d. Independent review of Credit Risk Assessment
- e. Pick-up early warning signals and suggest remedial measures
- f. Recommend corrective action to improve credit quality, credit administration and credit skills of staff, etc.

2. Structure of Credit Audit Department

The credit audit / loan review mechanism may be assigned to a specific Department or the Inspection and Audit Department/Loan Department.

3. Functions of Credit Audit Department

- a. To process Credit Audit Reports
- b. To analyse Credit Audit findings and advise the departments/ functionaries concerned
- c. To follow up with controlling authorities
- d. To apprise the Top Management
- e. To process the responses received and arrange for closure of the relative Credit Audit Reports
- f. To maintain database of advances subjected to Credit Audit

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4 Scope and Coverage

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

- a. Portfolio Review: Examine the quality of Credit & Investment (Quasi Credit) Portfolio and suggest measures for improvement, including reduction of concentrations in certain sectors to levels indicated in the Loan Policy and Prudential Limits suggested by RBI
- b. Loan Review: Review of the sanction process and status of post sanction processes/ procedures (not just restricted to large accounts) .
 - i. all fresh proposals and proposals for renewal of limits (within 3 - 6 months from date of sanction) .
 - ii. all existing accounts with sanction limits equal to or above a cut off depending upon the size of activity .
 - iii. randomly selected (say 5-10%) proposals from the rest of the portfolio
 - iv. accounts of sister concerns/group/associate/subsidiaries concerns of above accounts, even if limit is less than the cut off

5. Action Points for Audit :

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

6. Frequency of Credit Audit

- a. The frequency of audit should vary depending on the magnitude of risk but atleast once in two years
- b. Feedback on general regulatory compliance. .
- c. Examine adequacy of policies, procedures and practices. .
- d. Review the Credit Risk Assessment methodology. .
- e. Examine reporting system and exceptions thereof
- f. Recommend corrective action for credit administration and credit skills of staff.
- g. Forecast likely happenings in the near future.

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7. Procedure to be followed for Credit Audit

- a. Credit Audit is conducted on site, i.e. at the branch which has appraised the advance and where the main operative credit limits are made available.
- b. Report on conduct of accounts of allocated limits are to be called from the corresponding branches.
- c. Credit auditors are not required to visit borrowers' factory/ office premises

8. Audit Tools for Credit Monitoring

a. Conducting Credit Audit

Credit Audit to be conducted by the Chartered Accountants approved by Registrar, cooperative societies, Shimla with minimum experience of three years in practice, as may be decided by Inspection Department out of the Internal Auditors panel maintained.

b. Accounts to be covered under credit Audit & Time Line

Category	Limit	Time Line
Standard borrower Account	Rs. 5 Crore and above	Three months
Standard borrower Account	Rs. one crore and above but below Rs. 5 crores	Three months

c. Extent of Coverage under Credit Audit


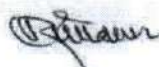
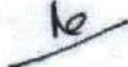

The accounts covered under Loan Review Mechanism (LRM) and Credit Audit put together will not be less than 25% of the Standard non-food credit outstanding as on the previous year-end

d. Fee for conducting Credit Audit

Category	Limit	Professional fees per loan account (Including all expenses) plus GST as applicable.
Standard borrower Account	Rs. 5 Crore and above	Rs. 5000.00 or as decided by bank.
Standard borrower Account	Rs. one crore and above but below Rs.5 crores	Rs. 4000.00 or as decided by bank.

e. Due diligence in credit and preventive action:-

Branch Managers and loan sanctioning officers have to observe due diligence in credit both at pre-sanction and post sanction stages. By doing so, it is possible to notice early warning signals and undertake preventive action. In this respect, a checklist of items of due diligence in credit based on loan policy, RBI and bank-specific guidelines and best practices followed in banks is prepared for the benefit of Sanctioning officers.

Pre-Sanction Stage

- **Compliance of KYC norms:** It should be ensured that all borrower accounts are 100 per cent KYC-compliant.
- **Scrutiny of loan application, credit reports, IT return and other documents submitted by the borrower:** The scrutiny of these documents helps to verify genuineness, authenticity and accuracy of financial data relating to business activity of the borrower and details given in the asset-liability statement of the firm and promoters/ guarantors. This exercise would also help in tracing the assets of borrowers / guarantors, even if not charged, in case the account becomes NPA. To ensure good quality and full scrutiny of the documents as part of credit appraisal, bank should develop a checklist of items to be seen especially for project loans, infrastructure projects, CRE, NBFCs, manufacturing units, etc.
- **Market report:** This assists to ascertain sources of the borrower to bring in margin money and market reputation. In particular, an in-depth analysis of the market report is needed to assess managerial/ technical/ commercial/ economic viability status of government approvals/ clearances, pollution control/ environmental clearances, other business players in the market, global/industry /market scenario, status of securities offered vis-a-vis credit limits applied, confidential report from existing bankers, etc.
- Pre-sanction visit report, search for CIBIL report, willful defaulter list of the RBI, search report from ROC, and pre-sanction visit to the business premise/residence of the borrower is a must to know occupancy status, ownership status, valuation and credit worthiness of the borrower. A search for CIBIL report/willful defaulter list of the RBI confirms whether the borrower is not a defaulter of any other bank or financial institution. It also talks about the status of existing charges, if any, on securities offered to the bank before sanction/ disbursement.
- Legal opinion/index inspection/non-encumbrance certificate (before and after sanction): Enough care has to be taken while considering properties as security to avoid any chance of receiving forged/fake title deeds.
- Valuation report of the property/assets offered as security - frequency and periodicity of valuation: From the valuation report, it should be ensured that inflated values are not considered while accepting property as security and realistic approach with regard to realisable market value is assessed in case a need arises. Branch managers/loan sanctioning authorities should ensure that the value of assets charged to the bank is fairly stated to recover the amount due to the bank. There should be two independent valuation reports for all properties of high value, say Rs 5 crore and above.
- Assessment and bank ability of the proposal: Branch managers/loan sanctioning authorities should ensure compliance with appraisal standard/parameters relating to assessment of funded and non-funded limits, RBI/bank-specific guidelines, credit rating of the borrower, etc. Disposal of loan applications within the time framework: All loan applications are to be dealt on individual merit and disposed off within the prescribed time-frame by the bank. Branch managers must ensure uniformity and transparency while dealing with credit proposals. The role of middlemen and arrangers should be discouraged to ensure quality of lending.
- Pre-disbursement audit: This is done to ensure compliance of sanctioned terms and conditions, including documentation and creation/filing of mortgage. Disbursement should be made only after compliance of the said guidelines.

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Post sanction stage:-

- Acceptance of terms and conditions of sanction: Borrower's written acknowledgement of having accepted terms and conditions of sanction is of vital importance at the time of initiation of recovery proceedings. This must be obtained and kept on record.
- Documentation and legal compliance certificate: The security documents are primary evidence of the grant / release of credit facility to the borrower. Branch managers must ensure that all required documents are executed by the authorized person and accurately filled and all charges are filed / registered with the appropriate authority. Branch managers are required to submit legal compliance certificate with regard to compliance of terms and conditions of the sanction, creation/filing of bank's charge with ROC, etc. Incomplete documents become an obstacle in the recovery of bank dues. It must be ensured that documents don't get time-barred and are kept in a safe place, preferably in the strong room.
- Vetting of security documents: Security documents duly executed must be vetted from the bank's legal counsel and zonal offices as per the bank's guidelines. In addition, in respect of high-value advances, second stage vetting should be done by an independent advocate on the bank's panel, other than the advocate who had done the first vetting.
- End use of funds: Branch managers should ensure that funds are released for the purpose for which the loan has been sanctioned. Else, the borrower may siphon off the bank's funds for other purposes / activities not related to the main business, leading to persisting irregularity in the account and migration of the account to NPA category. Therefore, monitoring of the end use of funds is a must for term loan, working capital finance, etc. Term loan must be disbursed as per schedule approved by the bank and actual progress/implementation of the project. Borrower's contribution must be received as per the terms and conditions of sanction letter. In case of cash credit limits, if sanctioned along with the term loan, it must be disbursed only when the unit starts commercial production. The bank's name must be prominently displayed at the business place of the borrower. Lender's engineer report has to be obtained for project loan where the amount is substantially large, say Rs 10 crore or more or the total cost of project is Rs 25 crore or above, with term loan component not being less than Rs 10 crore. This ensures the end use of funds. Also, a chartered accountant other than that of the borrower company is expected to certify at quarterly intervals that there is no diversion of funds and the borrower has brought in his contribution as per the schedule approved.
- Insurance of securities /assets charged to the bank: The assets charged to the bank need to be adequately insured against all applicable risks to protect the bank's securities and the bank's lien should be duly registered with an insurance company. Renewal of the insurance policy is equally important. Cover should be obtained for the full value of the security. Maintenance of quality of assets charged must be ensured
- Stock audit: Audit to be conducted as per bank policy.
- Regular monitoring of operations in the borrower's account: All high-value debit operations in the account must be verified to see payments related to business activity of the borrower. Similarly, credit operations should be seen to ensure that sale proceeds are routed through the account. It must also be ensured that interest, payment of bills, LC/BG for supply of raw materials, and term loan installments are paid in time.

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- Information system - offsite monitoring: An information system for the purpose of offsite follow-up of advances comprises stock statements, MSOD, QIS, statement of debtors/creditors, cash flow statement, quarterly /half-yearly / yearly financial statements, etc. to monitor the level of production and sales achieved vis-a-vis projections submitted at the time of sanction of credit facility. Segregation between paid and unpaid stock/age-wise break-up of debtors and creditors and also quality of stock in terms of obsolete and new stock must be done to arrive at the exact drawing power.
- Periodical inspection/unit visit report: Onsite inspection assists to verify level of activity, capacity utilisation, present condition of assets charged to the bank, availability of raw material and spares, and power supply or any other issues that may affect the business activity/running of the unit. It must be ensured that goods are properly stored and the warehouse is well maintained. Periodicity of visits should be as per the bank's guidelines. In general, monthly visits are suggested for accounts of trade / industry showing warning signals and classified as sub-standard assets. Quarterly visits may be carried out for standard assets of trade/industry accounts.
- Branches should ensure timely renewal of cash credit limits and revival of securities.

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This format may be reviewed any time as per requirement of bank.

CREDIT PROCESS AUDIT FORMAT			
OVERVIEW OF THE BRANCH			
1.	BRANCH PROFILE:-		
1.1	Name of the Branch		
1.2	Location	District	ZO
1.3	Size (S/M/L/VL/EL)		
1.4	Present Incumbent & Scale		

2. PROFILE OF CREDIT PORTFOLIO		(Rs.in Crores)
2.1	BALANCE SHEET	
2.1.1	Gross Credit	Previous Year
2.1.2	Gross NPA	
2.1.3	% of NPA	
2.2	PROFIT & LOSS	
2.2.1	Interest & Discount Earned	
2.2.2	Non-fund and non-interest income	
2.2.3	Profit/Loss before transfer price	
2.3	KEY RATIOS (%)	
2.3.1	Cost of Deposit	
2.3.2	Yield on advances	
2.4	Reduction in NPA	
2.5	Fresh Slippage	

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LOAN REVIEW MECHANISM
CREDIT PROCESS AUDIT FORMAT FOR INDIVIDUAL ACCOUNT (STANDARD ASSET)
 [Account having an exposure (funded & non-funded) of Rs.One Crores & above]

Name of the Account	
Last Credit Audit	Date:-

1. BORROWER'S PROFILE

1.	Name of the borrower (PAN / UIN No.)	
2.	Registered Address and location of factories	
3.	Constitution	
4.	Year of Incorporation	
5.	Nature of Business / Activity	
6.	Industry Classification	
7.	Group/Promoters	
8.	Proprietor / Partners / Director / Guarantor	

Name	Address	Net Worth as on	PAN /DIN	Mobile No

9.	Shareholding Pattern																									
	Promoters' Holding Group / Associate Concerns	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <th colspan="2">Shareholding Pattern</th> </tr> <tr> <td colspan="2">A. Promoter & Promoter Group</td> </tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr> <td colspan="2">B. Others</td> </tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr> <td colspan="2">Total (A+B)</td> </tr> <tr><td> </td><td> </td></tr> </table>	Shareholding Pattern		A. Promoter & Promoter Group												B. Others						Total (A+B)			
Shareholding Pattern																										
A. Promoter & Promoter Group																										
B. Others																										
Total (A+B)																										

10.	Banking with us since / Credit Facilities availed since	Fresh Sanction
11.	Credit Rating	

A. Internal Rating (Approved on)		Balance Sheet Date 31.03.	
Rating Module	Previous (.....)	Current	
Short Term Borrowing			
Long Term Borrowing			
B. External Rating			
Rating Agency	Previous (.....)	Current (CRISIL.)	
Short Term Borrowing			
Long Term Borrowing			

Manoj Kumar *16*

12 Names of Associate/Group companies and their bankers (Rs.in Crores)

Name	Banker	Credit Limits (FB & NFB)

13 Financing Arrangement of the Borrower: (a) Sole Banking (b) Multiple Banking. In case of (a) & (b), indicate our share banks share.

	% of share	Name of Lead/Major Bank
a.		
b.		

14 Details of credit facilities of the company/ borrower and present O/S'ing as on 31.03. (Rs.in crores)

Facilities	Limit	Outstanding	DP	CTO(FY)
A Fund Based (FB) PC				
A Working Capital				
CC/OD/IBD				
A Total FBWC				
B Short/Long Term Loan				
C Total FB (A+B)				
D Non-Fund Based (NFB) BG etc.				
D Total NFB				
E Total (FB+NFB)(C+D)				

15. Details of Security

Primary:	
Collateral:	

16. Rectification of Irregularities:-

	Date of Inspection	Date of Compliance/ File Closure	If not complied / rectified, reason thereof
HO Inspection			
Statutory Audit			
Concurrent Audit			
NABARD Audit			
Stock Audit			

Munish Kumar *16*

- 11 -
AUDIT SCHEDULE

A	CREDIT PROCESS:- (Maximum Score Allotted:)	Allotted Marks	Remarks (Compliance Status)	Awarded Score
A	Credit Process:-			
(i)	Due diligence, Credit information report, CIBIL Report including banking arrangement of group and associate concern obtained (score ranging from 0 to 5 according to compliance status)	5		
(ii)	In case, if the name of the Company and/or any of its directors had appeared in RBI defaulters' list/Willful defaulters' list/ECGC Caution List, whether the same has been dealt with in the appraisal note as laid down in lending policy (score ranging from 0 to 5 according to compliance status)	5		
(iii)	In case of fresh sanction, various pre-sanction formalities observed (score ranging from 0 to 5 according to compliance status) In case of Review /Renewal/Enhancement various pre & post sanction formalities observed /compliance done (score ranging from 0 to 5 according to compliance status)	5		
(iv)	Working capital requirement (funded & non-funded) has been assessed as per applicable method of lending as per bank's lending policy. (score ranging from 0 to 5 according to compliance status)	5		
(v)	While considering project finance, independent appraisal carried out based on project report and/or appraisal note of FI/Bank (score ranging from 0 to 5 according to compliance status)	5		
(vi)	Analysis of financial data, actual and projections, has been considered in the appraisal note. (score ranging from 0 to 5 according to compliance status)	5		
(vii)	Whether the competent authority has sanctioned/enhanced/renewed the credit facilities within his delegated authority.	5		
(viii)	Are there any adverse comments by the Auditor of the borrower in the Balance Sheet? If so, notes on accounts and adverse qualifications in Audit report have been commented in appraisal note. a. No. adverse qualification-5 b. Minor adverse qualification-3 c. Major adverse qualification-0	5		
(ix)	If the account is restructured, whether progress is as per schedule. (score ranging from 0 to 5 according to compliance status)	5		

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(x)	The sanction has been accorded - Without any deviation - 5 - With deviation- 4	5		
Applicable for Project Funding Above Rs.one Cr				
(xi)	Regulatory clearance / approvals for the project obtained	5		
(xii)	Verification of appropriate forward and backward linkages done	5		
(xiii)	Group balance sheet, cash – flow ring fencing scrutinized	5		
(xiv)	Non – fund and tail risk analysis done	5		
SUB-TOTAL OF A.:			Net Score Awarded	
			Eligible Allotted Score	

B POST SANCTION PROCESS (Max. Score Allotted:)			
B Documentation and Charge Creation: (Total Score Allotted -)		Allotted Marks	Remarks (Compliance Status)
(i)	Acknowledgment of sanction obtained and documentation formalities completed as per terms of sanction. Legal audit/Periodical Legal audit and legal compliance report obtained and complied as per lending policy	5	
(ii)	Before release of funds, per-disbursement formalities carried out as per sanction letter and post-disbursement visit done as laid down including visits (pre & Post sanction)	5	
(iii)	Obtained approval from competent authority through submission for release of funds against incomplete document and/or without compliance of terms of sanction	5	
(iv)	Hypothecation, mortgage or any other charges on primary & collateral security, as applicable, created as per laid down guidelines.	5	
(v)	Charge over security is filed and registered with ROC wherever applicable a. Within in 30 days- 5 marks b. 30 days to 60 days- 3 marks c. Above 60 days- 1 marks d. Not done- 0 marks	5	
(vi)	Charge over security is filed and registered with CERSAI wherever applicable a. Within in 30 days- 5 marks b. Above 30 days- 3 marks c. Not done- 0 marks	5	
(vii)	In respect of all sanction accorded by HO /ZO, whether the branch has sent Post- Sanction Reporting Card to HO/ZO as per Lending Policy.	5	
SUB-TOTAL OF B.:			Net Score Awarded
			Eligible Allotted Score

C Review, Renewal & Reporting (Total Score Allotted:)			
	Allotted Marks	Remarks (Compliance status)	Awarded Score
(i)	Working Capital limit reviewed/ renewed periodically with Audited Financial Statement/CMA	5	

(ii)	In case of Term Loan, whether the account is being conducted as per terms of sanction. In the case of project finance, deviation, if any observed in implementation schedule/promoter's contribution/tie-up of funds leading to financial closure/ End-use of fund/ cost escalation etc. is taken up with the borrower?	5		
(iii)	In case of down gradation of Risk Rating, at the time of review/renewal, the marks will be awarded as under:- a. If it is same or up to AB4 full marks will be awarded. b. If it is same as AB5 & AB6 then 1 mark will be deducted. c. In case of down gradation of rating more than one notch, 1 marks each will be deducted for every notch of down gradating of internal risk rating.	5		
(iv)	Post Sanction – monitoring format sent & uploaded / updated as per lending policy	5		
(v)	Excess drawings/ Overdrawing allowed except due to application of interest In case of TOD/ Adhoc a. No such instances- 5 b. 2 (two) times in FY- 4 c. More than 2 (two) times- 2 d. Else - 0	5		
(vi)	In case of devolvement of invocation of BG reported:- a. No such instances- 5 b. Regularized within 15 days- 4 c. Within 16 to 30 days- 3 d. After 30 days 2 e. Else- 0	5		
(vii)	Ad-hoc/ Temporary limit sanctioned is as per discretionary authority, document executed, Charges with ROC/CERSAI registered/modified and the same is reported through monthly Statement	5		
SUB-TOTAL OF C			Net Score Awarded	
			Eligible Allotted Score	

D	Security Cover (Total Score Allotted:)	Allotted Marks	Remarks (Compliance status)	Awarded Score
(i)	Any guarantee cover obtained as per terms of sanction.	5		
(ii)	Insurance cover on entire stocks and fixed assets, as applicable, obtained/ renewed/ modified as per sanction.	5		
(iii)	Security Visit, Valuation of immovable property carried out as per laid down policy. LIE/CA reports received regularly (in case of project finance).	5		
SUB-TOTAL OF D:			Net Score Awarded	
			Eligible Allotted Score	

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E Supervision & Follow Up: (Total Score allotted:)		Allotted Marks	Remarks (Compliance status)	Awarded Score
(i)	Stock & Book Debt Statement/Cash Budget, as applicable submitted and DP computed and regulated as per terms of sanction. (in case of Consortium account whether DP allocation received from lead bank regularly)	5		
(ii)	Periodical Unit visits/inspection and stock audit carried out (in case of consortium account – by lead bank/ member banks) as per terms of sanction and report submitted. Adverse features observed, if any, taken up with the concerned borrower/ lead bank/ consortium for rectification.	5		
(iii)	Quarterly Information System (QIS) format II & III, in case of Working Capital Limit of Rs.10.00 crores and above, obtained, analyzed and reported	5		
(iv)	Joint Documentation along with proper creation of charge including exchange of letter ceding pari-passu charge/Memorandum of Entry done and charge registered with ROC/CERSAI.	5		
(v)	Position of the account exchanged at monthly intervals among consortium/multiple banks .	5		
(vi)	Interest serviced after charging in the account: a. Within 7 days- 5 b. Within 8 to 14 days- 4 c. Within 15 to 30 days- 3 d. Above 30 days- 2 e. Not serviced- 0	5		
(vii)	Commission & Charge (Processing fees, documentation charges, mortgage charges, supervision charges, upfront fees, lead bank charges, commitment charges etc.) are realized as per sanction terms / circularized instruction without any delay.	5		
SUB-TOTAL OF E			Net Score Awarded	
			Eligible Allotted Score	

F. Early Warning Signals: (Total Allotted Marks:)		Allotted Marks	If Yes, full marks	Awarded Score
(i)	Credit Turnover in the account during last six months is commensurate in relation to limit/ bank's share in limits as compared with the performance in the last year.	5		
(ii)	Whether invoked BG/DPG are funded within a reasonable period from the date of invocation and if not, the invocation is reported to higher authority as per Bank's guidelines	5		
(iii)	There are no overdue with other banks and financial institutions.	4		
(iv)	No statutory dues (undisputed) are pending during last one year.	2		

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(v)	Monthly interest is serviced within an average period of fifteen days.	4		
(vi)	No installment of our term loan is overdue beyond fifteen days from due date.	3		
(vii)	Return of cheques/bills noticed during the last three months are normal in nature	2		
(viii)	Overdrawing/Irregularities in the account never persisted continuously for a period of one month during the last three months	5		
(ix)	If the account moves to PNPA/SMA for:	5		
	a. No such instance-	5		
	b. More than one occasion-	4		
	c. More than 3 occasions-	0		
SUB-TOTAL OF F			Net Score Awarded	
			Eligible Allotted Score	

Note:

- Please put a tick mark at the appropriate box (yes or no) and award score as applicable.
- In case of any of the above item under a particular parameter is found not applicable (NA), no marks should be awarded for the item and maximum marks allotted under the parameter will be reduced to the extent of marks allotted for such NA items and the reduced marks will be the "Eligible Allotted Score" for the purpose of evaluation of credit quality of the account as per Annexure - II.

SCORE SHEET FOR GRADATION OF CREDIT QUALITY

Name of account:

Particulars	Maximum Marks	Eligible Marks	Total Score Awarded	% of score to eligible score	Weights	Adjusted Score
	(1)	(2)	(3)	(4) =3/2 x 100	(5)	(6) =3/2 x 5
Credit Process						
A Credit Process					20	
Credit Scoring & Rating					10	
SUB-TOTAL(A)					30	
B Post Sanction Process						
Documentation & charge creation					15	
C Review, renewal and reporting					5	
D Security Cover					10	
E Supervision & follow up					20	
SUB-TOTAL (B)					50	
F Early Warning Signal					20	
Grand Total (A+B+C)					100	

BENCHMARK FOR CREDIT QUALITY

S. No.	Weight Adjusted Score	Credit Quality (CQ)	Nature of Credit Quality
1	Adjusted Score is 80 and above	A	Very Good
2	Adjusted Score is between 60 to 79	B	Good
3	Adjusted Score is between 40 to 59	C	Average
4	Adjusted Score is less than 40	D	Unsatisfactory

OVERALL QUALITY EVALUATION: CQ: -

COMMENTS OF THE AUDITOR ON THE ACCOUNT:

(Signature of the Audit Official)

Name & Designation:

Date:

Mobile No.:

Luensag *Debraj* *Debraj*

Debraj

Legal Audit

1. Objectives of Legal Audit

Non-performing assets of banks have increased to many folds of their gross advances as per latest reports. Borrowers often fail to service their debt, which is coupled with the difficulty of enforcement of the security provided. Recent cases of fraud and misrepresentation have come to light where borrowers didn't have authority over properties they provided as security, resulting in various banks and financial institutions contending to enforce security over the same property. In light of the above, the RBI, in addition to the other steps taken by it, has directed banks to conduct legal audits.

The Reserve Bank of India on a review has decided that the banks should also subject the title deeds and other documents in respect of all credit exposures of Rs 5 crore and above to periodic legal audit and re-verification of title deeds with relevant authorities as part of regular audit exercise till the loan stands fully repaid.

2. Structure of the Legal Audit Department

The Legal Audit should be looked after by the Legal department of the bank.

3. Scope and Coverage

Most of the lending by the bank are secured by immovable properties of borrowers and /or guarantors or as extended credit. The legal auditors should ensure:

- a. Acknowledgment of sanction obtained and documentation formalities completed as per terms of sanction.
- b. All Prescribed Loan documents, Loan application, Loan agreements, Promissory Note, BC Letter, mortgage deed, Hypo deeds, Guarantee agreements/ documents etc and other loan documents prescribed by bank are properly executed, duly signed and appropriate columns e.g Rate of Interest, EMI period etc are duly filled and no column is left blank and all these are obtained on Non judicial papers of appropriate value to make it enforceable at law.
- c. Before release of funds, pre-disbursement formalities carried out as per sanction letter and post-disbursement visit done as per laid down guidelines.
- d. Hypothecation, mortgage or any other charges on primary & collateral security, as applicable, created as per laid down guidelines.
- e. Property offered and accepted as primary and/or collateral security whether of borrower and/or guarantor is supported by prescribed search report of bank empanelled Advocate clearly specifying title, ownership, possession and the property is free of charge and encumbrances, undisputed, marketable and can be mortgaged in favour of Bank. Also the verification report is obtained from CERSAI.
- f. The lien/charge is created, whether registered or Equitable, as the case may be, is also inspected, verified and confirmed from Revenue records.
- g. Charge over security is filed and registered with ROC wherever applicable (In case of Companies Registered in Companies Act) and LLP within 30 days.
- h. Charge over security is filed and registered with CERSAI, wherever applicable.
- i. Such documents are kept in safe and under lock and key.

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j. Procedure to be followed at the time of closure of an account and handing over the documents and release of lien/charges recorded in favour of Bank:

- 1.
- 2.
- 3.
- 4.

5. The charge with the Registrar of companies should be removed within 30 days from the closure/fore closure of any credit facility.

4. Conducting legal Audit:

The Legal Audit will be conducted by the Legal department /section of the bank and compliance may be assigned to the Legal department /section of the bank.

5. Frequency & Extent of Legal Audit

The accounts covered under legal audit will be 100% in case of bank exposure above Rs one crore and atleast 50% in case of exposure below one crore, as per the nature of security offered by borrower. In case of Housing Loans Legal Audit will be conducted after every 3-5 years, depending on the tenure of Housing Loan.

6. Fee for conducting Legal Audit

Category	Limit	Professional fees per loan account (Including all expenses) plus GST as applicable.
Standard and NPA borrower Account Other than home loans	Rs. 5 Crore and above	Rs. 3000.00 or as decided by bank.
Standard and NPA borrower Account Other than home loans	Rs. one Crore and above but below 5 crores	Rs. 2000.00 or as decided by bank.
Home Loan borrowers Accounts (Both standard/NPAs)	Rs 40 Lakhs and above.	Rs. 700.00 or as decided by bank.

7. Coverage for Branches under Concurrent Audit

In order to contain the frauds, the bank may put in place a system wherein the concurrent audit would look into and report on the following aspects:

Wherever documents of title are submitted as security for loans, there should be a system where documents of title are subject to verification regarding their genuineness, especially for large value loans. In case of loan against the security of land, the bank may also seek reports from the local revenue authorities regarding the title deeds before sanction of loan.

8. Reporting of Legal Audit to Audit Committee:

The legal department/section will furnish a review note to its Board/ Audit Committee of the Board at quarterly intervals on an on going basis giving therein the information in respect of such legal audits which should cover aspects, inter alia, like number of loan accounts due for legal audit for the quarter, how many accounts covered, list of deficiencies observed by the auditors, steps taken to rectify the deficiencies, number of accounts in which the rectification could not take place, course of action to safeguard the interest of bank in such cases, action taken on issues pending from earlier quarters.

Manoj Kumar *Q. Khan* *S* *h*

Review

This credit and legal audit policy will be in force for one year and may be reviewed thereafter as per fresh guidelines of RBI and/or as desired by Board /Management.

Manoj Kumar *(Signature)* *b* *2*

(Signature)

Format of Legal Audit Report

-20-

1. Branch Name & Code :

2.	Name of the Account	
3.	Sanction details Sanction letter no. & date: Sanctioning authority :	
4.	Credit Facilities sanctioned/availed WC TL BG LC etc.	(Amount Rs. In lakhs) Total exposure
5.	a) Whether all Documents are obtained by the branch, as per sanction ticket/Manual and are duly filed in. b) Any other document required to be taken	
6.	Date of last Acknowledgment of Debt, if any and whether the same is legally valid.	
7.	Mortgaged securities stipulated in the sanction letter 1. 2. 3.	
8.	List of Documents perused relating to the Properties (Property wise) 1. 2. 3.	
9.	Schedule of Properties (property wise) 1. 2. 3.	
10.	Whether all the Documents related to flow of title of property offered as security are as per the legal opinion.	
11.	Details of missing documents, if any.	
12.	Whether Proper entries are made in the document execution register.	
13.	Whether proper entries are made in the EM register.	
14.	Whether registration, of MOD / extension of MOD with SRO is done as per extant guidelines.	
15.	Whether Proper filling of charge/	

Manoj *Prakash* *AS* *AS*

	modification of charge done with ROC, if applicable.	
16.	Search report from ROC is obtained at periodical intervals	
17.	Whether the loan documents and EM /Mortgage Deed documents are duly Stamped, properly executed and enforceable under Court of Law.	
18.	Whether inspection report of the Mortgaged property before / at the time of sanction of loan, by the branch official is on record.	
19.	Whether CERSAI Registration is done and if so Asset ID No. Amendment of charges if any done.	
20.	In case of 2 nd /subsequent legal Audit 1) Details of latest Search Report/Genuineness certificate of title deeds to confirm that they are original. Whether EC/Jamabandi immediately obtained after registration of MOD/Execution of Mortgage Deed and Banks name appeared in the EC/Jamabandi as mortgagee. Whether the up to date EC / Jamabandi obtained at regular intervals and if so, whether any discrepancy observed.	

We certify that

- 1.) The entire set of loan documents (details given above) have been scrutinized and the documents are in terms of sanction letter , Bank's Manual and periodical instructions issued by Bank.
- 2.) The documents are correctly worded with regard to amount, rate of interest, repayment terms etc. They are property dated, adequately stamped and duly executed by the borrowers and guarantors as per the deeds of constitution / bye-laws/ resolution as the case may be, and are legally enforceable.
- 3.) Mortgage of immoveable Property has been created as per the Bank's extant guidelines.
- 4.) The documents related to title deeds being deposited with the bank to create charge are original and the one finding in the records of Register of Assurances.
- 5.) We have examined each and every page of the documents affecting the validity of the title and do not find that transactions under the title documents are sham and fictitious.
- 6.) Property of the borrower/guarantor is clear and marketable without any further act on the part of borrower. Or The title to the property of the borrower/Guarantor is clear and marketable, if the following acts/deeds are done or caused to be done:



7.) The filings, registration necessary, desirable and incidental to creation and perfection of security interest stipulated under the sanction have been duly filed and registered, rendering the security interest a binding and enforceable obligation on the security interest provider (borrower)/ guarantor / mortgager / hypothecator / pledger etc, with constructive notice of such security interest to whom so ever it may concern.

8.) Further, the findings of legal audit are as under:

1) Validity of title to Mortgaged / charged properties Documents of title reviewed :
Discrepancies observed (if any)

2) Filings and Registration of security interest Documents perused and reports obtained:
Discrepancies observed (if any)

Date

Seal & Signature of the

Panel lawyer / firm

*I / We

certify that this certificate is issued after verifying the necessary details and

I/We are aware that giving false certificate is a criminal act is a punishable offence*.

Seal & Signature of the

Panel lawyer / firm

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