

CAUTIOUS PRACTICE IN ACCOUNTANCY CREDIT UNITS

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The constitution of the specific risk provision refers to their creation and is realized including in the cost the sum representing the level of the necessary specific risk provisions, in case there is no provision. The constitutions, regulation and the utilization of specific risk provisions will be realized using the credit currency and/or the investments they correct. Specific risk provisions are to be determined only for the client's balance sheet engagements. The calculation for the necessary volume of provisions is realized for each and every credit contract referring to the final client classification category.

Keywords: *financial performance, credit contract, the necessary volume of provisions, specific risk provisions, the balance sheet, the accepted warranties*

Introduction

According to R.N.B (BNR) regulation no. 5/2002, changed and improved by RNB regulation no. 7/2002 and no. 8/2005, all bank credits and investments are classified by simultaneous apposition of the following criteria:

- Bank dept
- Financial performance
- Juridical procedures initiation

Framing criteria settled on credits classification categories for crediting unit's area and off them.

Credits and investments are classified as it follows:

- Standard
- In observation (only in case of the credits accorded to clients beyond crediting area)
- Under standard (only in case of the credits accorded to clients beyond crediting area)
- Doubtful (only in case of the credits accorded to clients beyond crediting area)
- Loss

The clients from the crediting area are considered, from the performance point of view, in so called A category. Financial performance categories will be marked from A to E, in a quality decreasing ranch. In case of the clients beyond the crediting area, the financial performance evaluation will be done as per the marks obtained – according to quantitative and qualitative vectors.

Quantitative indicators for the economical entities will be determined after laying financial situations according to settlements made by the Public Financial Ministry or other authorities with similar abilities from other countries, and the financial performance category is settled and used to establish the classification category for the next month following to the month where the bank approached to the incoming report.

The credit portfolio evaluation:

According to the RNB regulation no. 5/2002, changed and improved by RNB regulation no. 7/2002 and no. 8/2005 and to RNB Methodological Guide no. 12/2002, all bank units have to classify the credits portfolio monthly according to the bank dept and to the client's financial performance, as well as to determine and regulate in the accounting evidence the risk and credit provisions resulted from these operations. The idea of credits includes all the client's balance and off the balance sheet engagements. The financial performance evaluation for the non financial clients will be made according to the scoring of certain quantitative and qualitative vectors. The evaluation will be differently realized for juridical and physical entities. The evaluation will be differently made for important juridical entities and for other clients of less importance.

Specific risk provisions determination

Specific risk provisions are to be determined only for the client's balance sheet engagements. The calculation for the

necessary volume of provisions is realized for each and every credit contract referring to the final client classification category (A-E). To establish the necessary volume of provisions for each credit contract the following phases are to be observed:

- The bank has to establish the client classification category;
- The bank settles the uncut exposure for every credit contract, identifying all the in and off balance sheet elements affiliated to the contract;
- The bank has to determine the adjusted contract's exposure deducing it from the uncut exposure of the accepted warranties;
- The bank has to determine the necessary volume of provisions per credit contract, meaning every balance element of the contract, applying the provision index to the adjusted contract exposure.

The adjusted exposure determination is settled as it follows:

- The bank has to identify the in and off balance sheet elements which reflect the credit contract;
- The bank establishes the percentage of each in and off balance sheet element in the uncut exposure;
- The bank identifies the warranties for each contract, it groups them in risk degrees and indexes with the right risk degree every warrantee type;
- The bank offers proportionally warranties to each in and off balance sheet element.

The adjusted exposure (AE) of each contract's in and off balance sheet element are determined applying the following formula:

AE= uncut exposure – indexed warrantee

The adjusted exposure per contract is equal to the sum of all adjusted exposures corresponding to all the balance sheet elements of the contract. The necessary risk provision for the credit contract is determined multiplying the adjusted exposure affiliated only to the balance part of the contract with the provision index determine by the client's classification category.

Provision indexes for credits

Classification category	Provision index
standard	0%
In observation	5%
Under standard	20%
Doubtful	50%
Loss	100%

For the loss category clients, according to the financial performance and to the dept duty, with a dept duty:

- Less or equal to 90 days the adjusted exposure is determined and the provision will be the same as the adjusted exposure.
- More than 90 days, the necessary provision will be the same with the uncut exposure resulted from the sum of the balance sheet elements from the credit contracts.

For all the clients (economical agents and physical entities) the bank will keep on disks the calculation details for the specific risk provisions in order to demonstrate whenever necessary the foundation of the constitution or regulation of the provisions.

The constitution of the specific risk provision refers to their creation and is realized including in the cost the sum representing the level of the necessary specific risk provisions, in case there is no provision.

The specific risk provision's regulation is realized by changing their existing level, in order to reestablish the equivalence between the existent and the necessary provision. This operation is realized including in the cost or registering as income the sum resulting from the difference between the existent level of balance account and the necessary one.

In the accountant evidence the bank registers only the necessary provision resulted from the credits classification according to the bank dept corroborated with the client's financial performance and/ or the legal procedure initiation. The constitution and the regulation of the specific risk provisions are made at the end of the month such as the accountant evidence for the very month to reflect the necessary volume of specific risk provisions.

The constitution, regulation and the utilization of specific risk provisions will be realized using the credit currency and/or the investments they correct.

Specific risk provision's utilization and the drawing off of the due accounts

Drawing off the balance all the affiliated sums of a credit according to art 79 (3) out of law no. 58/1998 republished and art. 16 out of statute no. 5/2002 of RNB will be done under the following circumstances:

- At least one of the credit affiliated sums registers a bank dept for more than 360 days to mark out the balance sheet the credits and the interests, the bank will use the account no. 99319.

- The bank asked for the investment with a prosecuted formula, for the credit contract and the contracts' warrantees if needed.
- It was invested with prosecuted formula the definitive judge decision disposing upon the credit contract, as well the contracts' warrantees, if needed.

To mark out off the balance sheet, we use the accounts: 99311 – for credits, 99317 – for interests.

For the upper previewed situations we consider the credit contract, such as, we will take off the balance sheet all the credits and the interests affiliated to a credit contract.

- If the procedure of legal enforcement was started upon the patrimony of juridical and physical entities.
- the court has decided to start the procedure to bankruptcy.

For all the situations above, we operate upon the debtor, meaning the taking off the balance sheet all the due accounts affiliated to the client (credits, interests and other due accounts).all these are to be marked out off the balance sheet in the account no. 99319. All credits are considered residual starting from their taking off the balance sheet (no matter the refund graphic). For the extra balance sheet credits we therefore calculate interest and we register them into the account no. 9937, called attached due account, excerpt for the uninsured due accounts or uninsured parts of the insured due accounts affiliated to the clients that we started the procedure based on Law no. 64/ 1995 republished.

The exclusion from the balance sheet of the uncollected due accounts (credits, interests, other due accounts) and the use of the specific risk provisions are to be done as asked by the retriever analyst and juridical ounsellor, containing the following elements:

- To accomplish the registering tasks for due accounts in the extra balance accountancy and insert a copy of the proof document.
- To present the causes that led to register residual debts for more than 360 days and the undertaken measures in order to recover the debits.
- The credit and interests volume in sold
- The provisions' volume that exists in sold
- The necessary provisions to constitute or to diminish

Examples of accounting procedures regarding extra balance sheet bank due accounts

After approving to exult the due accounts off the balance sheet, the recover risk analyst will transmit as copy the approved paper to the deduction – accounting department. The necessary deduction registers will be operated in the department as it follows:

- The provisions' constitution, when the existent level of provisions is under the debts level (credits and interests), which will be registered off the balance.

- for credits and interests in RON:

6621002 = 2911

6622002 = 2912

- for credit and interests in foreign currency

% = 3722019

6621064

6622064

3721019 = %

2911

2912

The accounts 2911 “Credit provisions” and 2912 “Interest provisions” are developing on the right extensions of the six types of credits and inside them on current credits, residual and doubtful.

2. The due accounts put up

- for credits in RON:

6670101 = %

20xx

2811

2821

- for credits in foreign currency:

6670161 = 3722

3721 = %

20xx

2811

2821

- for interests in RON:

6670201 = %

20x7

2812

2817

2822

2827

- for interests in foreign currencies:

6670261 = 3722

3721 = %
 20x7
 2812
 2817
 2822
 2827

3. The use of constituted specific risk provisions:

- for credits and interests in RON
 2911 = 7621002
 2912 = 7622002

- for credits and interests in foreign currencies:

3722019 = 7621064
 2911 = 3721019
 3722019 = 7622064
 2912 = 3721019

4. The registration in the extra balance evidence for credits, interests and other due accounts

% = 999
 99311
 99317
 99319

5. The sums registration, representing the credits and the affiliated interests in case of investment with legal prosecution of credit contracts or definitive prosecuted decision upon credit contracts, which were registered off balance sheet, because one of the sums affiliated to the respective credits, has registered a bank debt for more than 360 days.

999 = 99319
 Concurrent
 % = 999
 99311
 99317

6. The registration in the extra balance sheet account 99319 "Other due accounts off assets, constantly pursued" distinctively analytic for each debtor and due accounts category, to the sums representing credits and affiliated interests; in case the legal enforcement procedure upon the physical entity's patrimony has started, respectively the juridical reorganization procedure or the bankruptcy procedure against the debtor, which were before registered off the balance sheet due to the investment in executive formula for credit contracts or definitive

judge decision disposing upon credit contracts.

999 = %
 99311
 99317

Concurrent
 99319 = 999

7. For cashed due accounts from the extra balance sheet accountancy, we present the following accountant registrations:

- for credits and interests in RON:
 2511 = 767...

999 = %
 99311
 99317
 99319

- for affiliated due accounts in RON

2511 = 7028
 999 = 9937

- for credits and interests in foreign currencies:

2511 = 3721
 3722 = 767...
 999 = %
 99311
 99317
 99319

- for affiliated due accounts in foreign currencies:

2511 = 3721
 3722 = 7028
 999 = 9937

The registration of cashed due accounts by entering in bank property as a result of legal enforcement is made according to RNB Guide no. 7/1998. The responsibility for the correct accountancy registration comes to the bank office that operates on the client.

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