

Loan Asset Write Offs

DATE EFFECTIVE: 31 May 2016

1. Purpose

This procedure

- Sets out the requirements in relation to writing off indebtedness in client accounts that are managed by FR, and
- Describes the steps required to review a debt account for write-off, receive necessary approvals, effect the write-off and close the account in T24, where appropriate.

The procedure applies to FR Managers, BMRT and the GT and RBC teams in Financial Control.

1.1 Prerequisites

This procedure should be followed where the FR Manager determines that an amount is to be written off in accordance with the Loan Asset Write Offs Policy (FR POL04).

Note: While in the majority of cases, a write off on an account will occur when all actions have been taken for recovery and the account is to be closed, there are some instances where a partial debt write off may be appropriate which necessitates the maintenance of a “shadow” account in T24 to reflect the true legal debt owed by the client to the Bank.

2. Steps to Effect a Write-Off

There are three tasks involved in writing off amounts on client accounts.

Task	Description	Resp
Prepare paper with recommendation for write-off	Prepare recommendation paper with input and approval of quantum from the RBC team in FC	FR Mgr/ RBC
Seek necessary approvals	Seek approval from <ul style="list-style-type: none"> ■ GT/RBC, ■ Heads of FR AU & NZ, ■ The relevant Credit Committees 	FR Mgr/ GT/RBC/ Heads of FR AU & NZ / Relevant Credit Committees
Effect the write-off (and account closure where appropriate)	Instruct FC to write-off amount, request Branch to close the account in T24, where appropriate and update portfolio report	BMRT/Snr Finance Officer FR Team/ FR Mgrs/Branch/ Credit/Rural Operations

3. Prepare Paper with Recommendation for Write-Off

FR Manager uses this task to prepare a write-off recommendation paper when the loan is considered to be bad, based on:

- Internal FR debt recovery practice, and
- Loan Write-offs Policy.

Step	Action
1	Prepare write-off recommendation paper (memo or LSR)
2	Forward paper to RBC in FC to confirm the following details: <ul style="list-style-type: none"> ■ Amount outstanding ■ Existing provisions ■ Interest foregone.
3	Confirm P&L and capital implications of write-off with RBC in FC.

4. Seek Necessary Approvals

FR Manager uses this task to seek the relevant approvals **before** the write-off can be effected.

Step	Action
1	<p>After making an assessment according to the guidelines outlined in the Loan Asset Write Off policy (particularly the Section FR Assessment), finalise the draft recommendation paper.</p> <p>Note. Any guidance required from RBC/GT, CBL and/or Group Legal including issues around the appropriate timing for the write off and deductibility of the write off should be obtained before finalising the draft recommendation paper.</p>
2	<p>Circulate the paper to RBC/GT for approval for write offs exceeding AUD100,000/NZD100,000.</p> <p>For GT sign-off, the paper must include an opinion/attestation that states that: <i>“Based on all the facts and circumstances available at this time, objectively and commercially determined, a reasonably prudent commercial person would also come up with the opinion that on the balance of probabilities there is little or no reasonable likelihood that the amount I/we, [Name of FR Manager/(s)], am/are recommending to be written off will be recoverable/repaid by the client”.</i></p>
3	<p>Update the paper with any inclusions requested by RBC/GT and resubmit for approval.</p> <p>Finalise the recommendation paper and circulate for approval to:</p> <ul style="list-style-type: none"> ■ Heads of FR AU & NZ; ■ CBCC; ■ LCC; or ■ FRI/CSAR and Management Team WRR (MR WRR) (as appropriate). <p>Refer to Delegated Authorities for FR policy in relation to authority levels for write offs.</p> <p>Retain a copy of the relevant Heads of FR AU & NZ/CBCC/LCC/ FRI/CC FR&R and MT WRR approved minutes.</p>

5. Effect the Write-Off (and Account Closure where appropriate)

This task is used by the BMRT and FR Managers to effect the write-off and undertake any related actions such as account closure in T24. Where accounts are to be closed in T24, FR Managers coordinate with Branch staff.

Step	Action	
1	<p>Once the required level of approval has been obtained, BMRT instructs FC to:</p> <ul style="list-style-type: none"> ■ Write-off amount in the General Ledger <p>Note: The write-off must be physically effected by the earlier of:</p> <ul style="list-style-type: none"> ■ the month following the date when the highest level approval is obtained, or ■ the end of December during the calendar year that the indebtedness is required to be written off. <p>Note: As mentioned in the policy, to preserve the Bank's entitlement to a tax deduction, the "bad" portion of the indebtedness must be physically written off in the GL before any settlement or release agreements with the client are signed/finalised.</p>	
2	<p>If...</p> <p>A write off of the account (full or partial) in T24 is appropriate</p>	<p>Then...</p> <ul style="list-style-type: none"> ■ FR manager instructs Branch to request an indicative payout figure from Operations via a completed Account Closure/ Discharge Authority (for full write off) and ■ FR manager sends Branch a copy of the relevant approved minutes. <p>Refer to Section 6.1.1 for the Account Closure Request/ Discharge Authority Form (AU)/ Account Closure Request Form (NZ).</p> <p>As Branch will prepare a Work Request to Credit to begin the process of writing off the amount on the T24 Account, the FR Manager should advise Branch to include a copy of the following in the Work Request:</p> <ul style="list-style-type: none"> ■ Approved minutes, and ■ Duly executed Account Closure/Discharge of Authority Form (if full write off of account). <p>The FR Manager should also advise Branch to include the following in the Commentary section of the Work Request:</p> <ul style="list-style-type: none"> ■ The write off is a Value Write off to the account which will be reflected on the statements, ■ Proposed new limit (zero if the account is to be fully written off), ■ Remaining outstanding balance (zero if the account is to be fully written off), ■ Request that the amount to be written off to "GL Account No. PL50025" (FR account as interest adjustments) or in New Zealand "the nostro account", and ■ Whether Branch needs to close the account or not. <p>Where the account needs to be closed, the FR Manager confirms to Branch that they should close the account in T24. If the account is to be closed, consider whether the address for notice should be changed to the FR Manager for the final statement.</p> <p>Please refer to Section 6.1.2. Close a Loan Account procedure.</p>

Step	Action
	<p>If an account has been written off and closed and there may be sufficient reason to continue to monitor the account for some period after the write off, please refer to Section 6.1.3 Monitoring FR Accounts after Write Off.</p>
	<p>A write off is to be made on an account but the full legal debt is to remain visible in T24 and to the client via the monthly statements</p> <p>Branch will prepare a Work Request to Credit to begin the process of writing off the amount on the T24 Account on the basis of a Financial (shadow accounting) write off. The FR Manager should advise Branch to include a copy of the following in the Work Request:</p> <ul style="list-style-type: none"> ■ Approved minutes, and <p>The FR Manager should also advise Branch to include the following in the Commentary section of the Work Request:</p> <ul style="list-style-type: none"> ■ The write off is a Financial (shadow accounting) Write off, ■ Proposed new limit (zero if the account is to be fully written off), ■ Remaining outstanding balance (zero if the account is to be fully written off), ■ Note: statements should reflect full legal debt due by the client.
3	BMRT (AU)/Senior Finance Officer (NZ) update the Portfolio Report to reflect the write-off and closure of account.

6. Supplementary Information

6.1 Related Documents

	Document Title	Type	Link
6.1.1	Account Closure/ Discharge Authority Account Closure Request	Form	Rural Banking AU Rural Banking NZ
6.1.2	Close a Loan Account	Rural Procedure	Rural Banking AU Rural Banking NZ
6.1.3	Monitoring FR Accounts after Write Off	FR Procedure	Financial Restructuring
6.1.4	Delegated Authorities for FR	FR Policy	Financial Restructuring
6.1.5	Loan Asset Write-Offs	FR Policy	Financial Restructuring
6.1.6	Principles of the Credit Policy of Rabobank Group	KRM Policy	Rabobank Group

6.2 Glossary of Terms

Term	Definition
ATO	Australian Taxation Office
BMRT	Business Management Risk Team
CBCC	Country Banking Credit Committee
FC	Financial Control (namely the Group Tax ("GT") and Retail Business Control ("RBC") teams)

Term	Definition
Financial Write Off	A write off in the general ledger, however the legal debt remains on the banking system and in statements available for the client.
GT	Group Tax
FRI / FR&R CC	Financial Restructuring & Recovery International / Financial Restructuring & Recovery Credit Committee
IFRS	International Financial Reporting Standards
IRD	Inland Revenue Department, New Zealand
LCC	Local Credit Committee
LSR	Loan Strategy Report
RBC	Retail Business Control
FR	Special Asset Management
Value Write Off	A write off in the banking system and general ledger.

6.3 Relevant Regulations

Regulations, Legislation and Standards
Global Standard on IFRS 9 provisioning methodologies
ATO Taxation Ruling TR 92/18
IRD Public Ruling – BR Pub 00/03

6.3 Document Management

Owner:	Head of FR Australia; Head of FR New Zealand	Author:	Head of Business Management Risk
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