

**Income Recognition, Asset
Classification and
Provisioning) Directions, 2025**

IRAC Norms: When introduced?

March 31, 1993 - 4 quarters (Past due)
1994 - 3 -do-
1995 - 2 -do-
2001 - 180 days (overdue)
2004 - 90 days

Non-performing assets

- An asset becomes non-performing when it ceases to generate income.
- interest and/ or instalment of principal of term loan, bill or any other facility overdue for **more than 90 days**.
- Overdraft/Cash Credit (OD/CC) account remains 'out of order' **for 90 days**.
- Agricultural loan to individuals – overdue - two crop seasons for short-duration crop and one crop duration for long-duration crop.

Specifying Due dates

- The **exact due dates** for repayment of a loan, frequency of repayment, breakup between **principal and interest**, examples of SMA/NPA classification dates, etc., should be clearly specified in the **loan agreement** and the borrower should be apprised of the same at the time of loan sanction. (General Examples may be displayed in website and the branch notice board)
- If there is a **moratorium** on payment of principal and/or interest, the exact **date of commencement of repayment** shall also be specified in the loan agreements.

What is 'Out of Order'

- **An account should be treated as 'out of order'**
 - i) If the outstanding balance in the CC/ OD account remains **continuously** in excess of the sanctioned limit/drawing power or
 - ii) Outstanding balance is less than the sanctioned limit/DP, but there are **no credits continuously for 90 days** or
 - iii) Credits are not enough to cover the interest debited during the previous 90-day period.

*The aforesaid 'previous 90-day period' is inclusive of the day for which the day-end process is being run.

1) Cash Credit Account No 10005
1000

Limits sanctioned Rs.

DP Rs. 1000

Date	Particulars	Debit	Credit	Balance (DR)
30.12.25	B/F			800
31.12.25	To interest	50	-	850
31.12.25	To <u>cheque</u>	200		1050
31.01.26	No.-	50		1100
15.01.26	To interest		75	1025
28.02.26	By cash	50		1075
31.03.26	To interest	50		1125
	To interest			

**Balance outstanding continuously in excess of Limit/DP from
31.12.2025**

NPA as on 30.03.2026

**2) Cash Credit Account No 10005
1000**

Limits sanctioned Rs

DP Rs. 1000

Date	Particulars	Debit	Credit	Balance (DR)
30.12.25	B/F			800
31.12.25	To interest	50	-	850
31.01.26	To interest	50		900
28.02.26	To interest	50		950
31.03.26	To interest	50		1000

**Though the account was within the limit, there was no credit for
90 days**

NPA as on 29.03.2026

3) Cash Credit Account No 10005
Rs 1000

Limits sanctioned

DP Rs. 1000

Date	Particulars	Debit	Credit	Balance (DR)
30.12.25	B/F			800
31.12.25	To interest	50	-	850
31.01.26	To interest	50	-	900
28.02.26	To interest	50	-	950
01.03.26	By cash	-	25	925
31.03.26	To interest	50	-	975

Account was within the limit and there was credit in the account

However, the credit was not enough to cover the interest debited on **31.12.25**

NPA as on 30.03.2026

4) Cash Credit Account No 10005
Rs. **1500**

Limits sanctioned

DP Rs. **1000**

Date	Particulars	Debit	Credit	Balance (DR)
30.12.25	B/F			800
31.12.25	To interest	50	-	850
31.12.25	To <u>cheque</u>	200		1050
31.01.26	No.-	50		1100
15.01.26	To interest		75	1025
28.02.26	By cash	50	-	1075
31.03.26	To interest	50	-	1125
	To interest			

Though the balance outstanding was within the limit, it was continuously in excess of DP from 31.12.2025

NPA as on 30.03.2026

Basic concepts

- 'Drawing Power'
- **Availability of primary security cover**
- Drawings in the working capital accounts are covered by the adequacy of current assets; Drawing power shall be arrived at based on the stock statement, which is current.
- Stock statements relied upon by a bank for determining drawing power should not be older **than three months**.

Basic concepts, cont..

- **'Overdue'**
- **If the amount due is not paid on the due date fixed by the bank**

Income recognition

Based on the record of recovery

Reversal of income

Unrealised income to be reversed.

Interest received during the moratorium period need not be revised if the account becomes NPA after the moratorium period.

Treatment of Government guaranteed accounts

- * Special treatment applicable only for Central Govt. Guaranteed accounts
- * Treated as NPA only when the Government repudiates its guarantee
- * Income **not** to be recognised on an **accrual basis**.
- * State Govt. Guaranteed A/C will be NPA if overdue for 90 days.

ASSET CLASSIFICATION

Sub-standard Assets

- **NPA for a period less than or equal to 12 months**

Doubtful Assets

- **NPA for a period exceeding 12 months**

Loss Assets

- **NPA where the realisable value of security is less than 10% of the amount outstanding.**

Provisioning for NPAs

- Make provisions for NPAs at the end of **each calendar quarter.**
- Substandard – 10% of NPA
- Doubtful – 100% on the unsecured portion and on the secured portion as under:
 - D1(Up to 1 year) 20%
 - D2 (1 year to 3 years) 30%
 - D3 (above 3 years) 100%
- Loss assets 100%

Provisioning for Retirement Benefits

- **The liabilities of a bank in the form of retirement benefit schemes for their staff, viz. Provident Fund, Gratuity and Pension, etc. shall be estimated on an actuarial basis and full provision shall be made every year for the purpose in their Profit and Loss account.**

Guidelines for classification of assets

- Stock statements should not be older **than three months** (NPA if allowed continuously for 90 days)
- **Account to be reviewed/ renewed as per the bank's policy.**
- **Asset Classification to be borrower-wise and not facility-wise.**
- **Accounts under consortium – based on the record of recovery of the individual member banks.**
- **Advances against term deposits, NSCs, KVPs and life policies need not be treated as NPAs.**
- **Exemption not applicable to gold loans and advances against Government Securities.**
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Guidelines for classification of assets

- **Accounts where there is erosion in the value of security (50%) are straightaway classified as doubtful/loss assets**
- **Loans with moratorium for payment of interest/instalments- special treatment.**
- **Repayment through EMIs- NPA only if EMI is not paid**
- **Appropriation of recoveries**
- **Valuation of Security – for NPAs above Rs. 10 lakh - Collateral should be valued once in three years by valuers**

What is 'write-off' and 'write back'

- Write-off means a provision required to be made is treated as an **expenditure (instead of a provision)** and reduced from the assets.
- Write back means on recovery of dues, the provision that is no longer required is credited back to the P& L account.

Special Mention Account

- SMA is an account which is exhibiting signs of **incipient stress resulting** in the borrower defaulting in timely servicing of her debt obligations, though the account has not yet been classified as NPA. As early recognition of such accounts enables banks to initiate timely remedial actions to prevent their potential slippages into NPAs.

Special Mention Account (Loan account)

	Principal or interest Overdue for-
SMA -0	Up to 30 days
SMA-1	More than 30 days and up to 60 days
SMA-2	More than 60 days and up to 90 days

Classification of borrower accounts as SMA as well as NPA shall be done as part of the day-end process.

Illustration I:

If the due date of a loan account is March 31, 2025, and full dues are not received before the bank runs the day-end process for this date, the date of overdue (SMA - 0) shall be **March 31, 2025.**

SMA-1 - April 30, 2025 (day end)

SMA-2 –May 30, 2025 (day end)

NPA - June 29, 2025 (day end)

Upgradation of NPA

- **The loan accounts classified as NPAs may be upgraded as ‘standard’ assets only if entire arrears of interest and principal are paid by the borrower.**

DP Calculation

A	Total Stock	Rs. 14,00,000
B	Less: Creditors	Rs. 3,00,000
C	Net paid stock (A-B)	Rs. 11,00,000
D	Less: Margin on stock @25%	Rs. 2,75,000
E	Drawing Power (DP) on stock (C-D)	Rs. 8,25,000
F	Total Book Debtors	Rs. 5,00,000
G	Less: Debtors > 90 days	Rs. 1,00,000
H	Net Debtors for DP (F-G)	Rs. 4,00,000
I	Less: Margin on Debtor @40%	Rs. 1,60,000
J	Drawing Power (DP) on Debtor (H-I)	Rs. 2,40,000
K	Total Drawing Power (E+J)	Rs. 10,65,000

