

Draft Reserve Bank of India (Small Finance Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025

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Reserve Bank of India (Small Finance Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025

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Introduction

The Reserve Bank is statutorily mandated to operate the credit system of the country to its advantage. In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), 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 banks so as to move towards greater consistency and transparency in the published accounts.

In exercise of powers conferred by Sections 21, and 35A of the Banking Regulation Act, 1949, and Section 6 of the Factoring Regulation Act, 2011, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest to do so, hereby issues these Directions hereinafter specified.

Chapter I - Preliminary

1. Short title and commencement

- (1) These directions shall be called the Reserve Bank of India (Small Finance Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.
- (2) These directions shall come into force with immediate effect.

2. Applicability

- (1) These Directions shall be applicable to Small Finance Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').
- (2) A bank shall also follow the prudential guidelines on income recognition, asset classification and provisioning of advances for restructured accounts as prescribed in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025, in addition to these Directions.

3. Definitions

- (1) In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:

- (i) ‘*crop season*’ for each crop, shall mean the period up to harvesting of the crops raised, as determined by the State Level Bankers’ Committee (SLBC) in each State;
- (ii) ‘*doubtful asset*’ shall mean an asset which has remained in the substandard category for a period of twelve months;
- (iii) ‘*exposure*’ shall include all funded and non-funded exposures (including underwriting and similar commitments).
- (iv) “*long duration crops*” shall mean crops with crop season longer than one year;
- (v) ‘*loss asset*’ shall mean an asset where loss has been identified by a bank or internal or external auditors or the inspection conducted by the Reserve Bank of India, but the amount has not been written off wholly by the bank;
- (vi) “*non-performing asset*” shall mean an asset, including a leased asset, which has ceased to generate income for a bank;
- (vii) “*out of order status*” – a cash credit / overdraft (CC / OD) account shall be treated as ‘out of order’ if either of the following conditions are satisfied:
 - (a) the outstanding balance in the CC / OD account remains continuously in excess of the sanctioned limit / drawing power for ninety days;
 - (b) the outstanding balance in the CC / OD account is less than the sanctioned limit / drawing power but there are no credits continuously for ninety days;
 - (c) the outstanding balance in the CC / OD account is less than the sanctioned limit / drawing power but credits are not enough to cover the interest debited during the previous ninety days period.

Explanation 1: ‘Previous ninety days period’ referred to in Sl. No. (c) above shall be inclusive of the day for which the day-end process is being run.

Explanation 2: The definition of “out of order” shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purpose and / or which entail interest repayments as the only credits.

(viii) ‘*overdue*’ *status* – any amount due to a bank under any credit facility shall be treated as ‘*overdue*’ if it is not paid on the due date fixed by the bank.

(ix) ‘*provisioning coverage ratio (PCR)*’ shall mean the ratio of provisioning to gross non-performing assets and indicates the extent of funds kept aside to cover loan losses;

(x) ‘*security*’ shall mean tangible security properly charged to the bank and will not include intangible securities like guarantees (including State government guarantees), comfort letters, etc.

(xi) “*short duration crops*” shall mean crops which are not “*long duration*” crops;

(xii) ‘*substandard asset*’ shall mean an asset, which has remained NPA for a period less than or equal to twelve months;

(xiii) ‘*unsecured exposure*’ shall mean an exposure where the realisable value of the security, as assessed by a bank / approved valuers / Reserve Bank’s inspecting officers, is not more than ten percent, ab-initio, of the outstanding exposure.

- (2) The definitions of the terms Micro Enterprises, Small Enterprises, and Medium Enterprises shall be in terms of the circular FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020 on [‘Credit flow to Micro, Small and Medium Enterprises Sector’](#) as updated from time to time.
- (3) The terms ‘*credit event*’ and ‘*default*’ shall have the same meaning as assigned to it in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2015.
- (4) The terms ‘*Commercial Real Estate (CRE)*’, ‘*Commercial Real Estate – Residential Housing Sector (CRE - RH)*’, ‘*project finance*’, ‘*DCCO*’, and ‘*financial closure*’ shall have the same meaning assigned to them in the Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2015.
- (5) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, or the Companies Act, 2013, or any statutory

modification or re-enactment thereto or other regulations issued by the Reserve Bank of India or the Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.

Chapter II - General Instructions

4. Role of the Board

(1) A bank shall frame a Board approved policy for the implementation of the regulations contained in this Chapter, which shall *inter alia* include the following principles / components:

- (i) the policy of income recognition shall be objective and based on record of recovery rather than on any subjective considerations;
- (ii) the policy shall specify the level to which the floating provisions can be created;
- (iii) circumstances which would be considered as extraordinary for the utilization of floating provisions for making specific provisions in impaired accounts;
- (iv) policy for making provisions for standard assets at rates higher than the regulatory minimum, based on evaluation of risk and stress in various sectors;
- (v) guidelines for appointment of external agencies for stock audit and valuation of collateral;
- (vi) policy on methodology and periodicity for review / renewal of credit facilities within the overall regulatory guidelines;
- (vii) delegation of powers for authorising the exceptions to automation of Income Recognition, Asset Classification and Provisioning processes.

(2) The Board of Directors of a bank shall take all necessary steps to arrest the deteriorating asset quality in the books and focus on improving the credit risk management system. Early recognition of problems in asset quality and resolution requires a bank to be proactive and make use of Central Repository of Information on Large Credits (CRILC).

5. Prudence in Lending and Consumer Education

(1) A bank shall ensure that realistic repayment schedules are fixed on the basis of cash flows in consultation with borrowers while granting loans and advances,

to facilitate prompt repayment by the borrowers and thus improve the record of recovery in advances.

(2) A bank shall comply with the following instructions in respect of all loans sanctioned on or after December 31, 2021:

- (i) The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of dates of classification as special mention account / non-performing asset, etc. shall be clearly specified in the loan agreement;
- (ii) The borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms / loan agreement till full repayment of the loan;
- (iii) In cases of loan facilities with moratorium on payment of principal and / or interest, the exact date of commencement of repayment shall also be specified in the loan agreements.

(3) In case of loans sanctioned before December 31, 2021, compliance to the instructions in sub-paragraph (2) shall be ensured as and when such loans become due for renewal / review.

(4) A bank shall apply the following principles in respect of working capital accounts sanctioned by them:

- (i) Ensure that drawings in the working capital accounts are covered by the adequacy of current assets.
- (ii) Drawing power shall be arrived at based on the stock statement which is current.
- (iii) Notwithstanding Sl. No. (ii), considering the difficulties of large borrowers, stock statements relied upon by a bank for determining drawing power should not be older than three months.
- (iv) The outstanding in the account based on drawing power calculated from stock statements older than three months, shall be deemed as irregular.

- (5) Regular and *ad hoc* credit limits shall be reviewed / regularised not later than three months from the due date / date of *ad hoc* sanction.
- (6) In case of constraints such as non-availability of financial statements and other data from the borrowers, a branch of the bank should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon.
- (7) Notwithstanding sub-paragraph (6), delay beyond six months is not considered desirable as a general discipline.
- (8) Stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board shall be mandatory in cases of NPAs with balance of ₹5 crore and above in order to enhance the reliability on stock valuation and bring down divergence arising out of difference in assessment of the value of security.
- (9) Collaterals such as immovable properties charged in favour of the bank shall be valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.
- (10) A bank shall seek explanation from advocates who wrongly certify as to clear legal titles in respect of assets or valuers who overstate the security value, by negligence or connivance, and if no reply / satisfactory clarification is received from them within one month, they may report their names to IBA. The IBA may circulate the names of such advocates / valuers among its members for consideration before availing of their services in future. The IBA would create a central registry for this purpose.
- (11) A bank shall implement the following instructions to increasing awareness among the borrowers:
 - (i) place consumer education literature on its website, explaining with examples, the concepts of date of overdue, special mention account and non-performing asset classification and upgradation, with specific reference to day-end process;
 - (ii) consider displaying such consumer education literature in its branches by means of posters and / or other appropriate media;

(iii) ensure that front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction / disbursal / renewal of loans.

6. Disclosure Requirements

A bank shall make suitable disclosures in its Notes to Accounts as per the requirements contained in the Reserve Bank of India (Small Finance Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter III - Asset Classification

7. General Instructions on Asset Classification

- (1) A bank shall classify a loan or an advance as a Standard asset or a non-performing asset, as the case may be.
- (2) A bank shall 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.
- (3) The IT and MIS system of a bank 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 their own MIS reporting.
- (4) A bank shall flag a borrower account as overdue, if so, as part of their day-end processes for the due date, irrespective of the time of running such processes.
- (5) Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. Thus, the date of SMA / NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

Illustration: *If due date of a loan account is March 31, 2021, and full dues are not received before the bank runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.*

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to

remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

- (6) The classification of assets of a bank as non-performing shall be done on the basis of objective criteria to ensure a uniform and consistent application of the norms, and by taking into account the degree of well-defined credit weaknesses.
- (7) A bank should 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.
- (8) A bank shall strictly adhere to the Board approved policy on methodology and periodicity for review / renewal of credit facilities within the overall regulatory guidelines.
- (9) A bank shall avoid frequent and repeated *ad-hoc* / short review / renewal of credit facilities without justifiable reasons.
- (10) A bank shall capture all the data relating to regular as well as *ad-hoc* / short review / renewal of credit facilities in its core banking systems / management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors / RBI. Further, the processes governing review / renewal of credit facilities should be brought under the scope of concurrent / internal audit / internal control mechanism of the bank.
- (11) A bank shall compute their Gross Advances, Net Advances, Gross NPAs and Net NPAs, as per the format in [Annex - I](#).
- (12) If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of these Directions.

8. Automation of Income Recognition, Asset Classification and Provisioning processes

- (1) A bank had to conform with the instructions contained in this Paragraph latest by June 30, 2021.
- (2) Coverage of automation:
 - (i) All borrowing accounts, including temporary overdrafts, irrespective of size, sector or types of limits, shall be covered in the automated IT based system ('System') for asset classification, upgradation, and provisioning processes. A bank's investments shall also be covered under the System.
 - (ii) Asset classification rules shall be configured in the System, in compliance with the regulatory stipulations.
 - (iii) Calculation of provisioning requirement shall also be System based as per pre-set rules for various categories of assets, value of security as captured in the System and any other regulatory stipulations issued from time to time on provisioning requirements.
 - (iv) In addition, income recognition / derecognition in case of impaired assets (NPAs / NPIs) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention.
 - (v) The System shall handle both down-grade and upgrade of accounts through Straight Through Process (STP) without manual intervention.
- (3) The System based asset classification shall be an ongoing exercise for both down-gradation and up-gradation of accounts. A bank should ensure that the asset classification status is updated as part of day end process. The bank should also be able to generate classification status report at any given point of time with actual date of classification of assets as NPAs / NPIs.
- (4) Exceptions to automation:
 - (i) Exceptions may be granted from System driven classification in certain circumstances, which are expected to be minimum and temporary. These exceptions shall be from automated classification and not from income

recognition, asset classification and provisioning norms under these Directions and shall be subject to the conditions specified below.

- (ii) A bank shall not resort to manual intervention / over-ride in the System based asset classification process.
- (iii) In any exceptional circumstance where manual intervention is required to override the System classification, it must have at least two level authorisation. Such delegation of powers for authorising the exceptions should be as per the Board approved policy of the bank (by CEO, in case of unavailability of Board) and preferably should be done from the centralised location and suitably documented. Further, any such intervention shall have appropriate audit trails and subjected to audit by concurrent and statutory auditors. Detailed reports of such manual intervention shall be placed before the Audit Committee / Audit Head (banks having no Board) regularly.
- (iv) A bank shall maintain logs for all exceptions i.e. manual interventions / over-rides including, but not limited to, the date and time stamp; purpose/reason; user-IDs, name and designation of those making such manual intervention and necessary account details. These logs shall also be stored for a minimum period of three years and not be tampered with during the storage period. These logs shall be system generated.

(5) System Requirements and System Audit:

- (i) In case a separate application outside the CBS is used as the System for NPA / NPI identification and / or classification, the System must have access to the required data from the CBS and / or other relevant applications of the bank and the borrower / investment accounts shall be updated back into the CBS automatically, wherever applicable, through STP.
- (ii) A bank shall keep the business logic and other parameters / configurations of the System updated to ensure that the System based identification, classification, provisioning and income recognition are strictly in compliance with the regulatory guidelines on an ongoing basis.

- (iii) There should be periodic system audit, at least once in a year, by Internal / External Auditors who are well versed with the system audit both on system parameters as also from the perspective of compliance to Income Recognition, Asset Classification and Provisioning norms as per these Directions.

(6) A bank shall adhere to the following baseline requirements while designing and maintaining the NPA classification Solution:

- (i) Data Input
 - (a) Data Input in the system by any means should be fully captured and stored without truncation [For example, time stamp - with date and time, narration field, or any other text data captured].
 - (b) Ensure presence of necessary validation / verification checks in the solution for the user inputs, wherever applicable. Such validations, among other things should check for data type validations, min/max value, exceptions, etc.
 - (c) Ensure necessary data validation/checks in the system for the data keyed in manually, wherever applicable. For example, such validations with master data (or parameters used in asset classification fed into the system as per the internal policy of the bank) could prevent issues related to incorrect entries generally seen (illustrative but not exhaustive list) in margin setting, moratorium period, security valuation, repayment schedule, products mapped / linked to different categories of account holders (as per applicability) etc.
 - (d) Data input shall be effected only after authentication and authorisation.
- (ii) User Access Management
 - (a) Ensure that all 'user-ids' in the solution have unique identification. If there are any generic user-ids used, it should only be used under exceptional circumstances and such ids should be mandatorily mapped to the employee ID of the user to fix accountability of the activities carried-out under the generic ID.

- (b) Provide for two-factor or higher level of authentication for the users of the application.
- (c) Restrict the access to the solution on ‘need to have / least privilege’ basis for all users.
- (d) Provide for maker checker authorisation / control for transactions (an illustrative list of transactions includes updating/modifying the internal accounts, customer accounts, parameters – both financial and non-financial that affect the status of the credit portfolio / loan / asset) entered in the solution. This shall also include transactions / activities carried out by administrator accounts in the application. (For example: activities such as create / update / modify user-ids, roles, privileges including access rights to various modules; system related activities including updates to master data, etc. should have at least two individuals to complete the activity).

(iii) Straight Through Processing (STP): Provide for straight-through processing (STP) and support for STP integration with all critical systems / add-on sub-systems / modules etc., in a seamless and secure manner for NPA / NPI classification as per these Directions. Such STP mechanism shall seamlessly take into account all the facilities availed by a given customer (in case of advances) and all the instruments of an entity (where bank has made investments in an entity), maintained across multiple systems of the bank without any manual intervention. Further, the bank shall also ensure that the updated account status, including asset classification of the customer accounts, flow to the CBS automatically, if NPA classification process is performed outside CBS.

(iv) Back-end Data Access Restriction

- (a) Any changes to the data, parameters from backend shall be avoided. The solution should provide for changes to the data items only through front end (from the application (eg: CBS) itself and not through the backend database update) after requisite authorisation. Audit trails / logs of access, changes to any data, parameters, if any, should be captured with specific user details in the system.

(b) In case of exceptions in rare circumstances, such changes should be duly approved at an appropriate level and documented. Provision for MIS report should be available to auditors to generate complete list of back-end access and changes made.

(v) Audit Logs

- (a) Provisions of audit trails / logs to capture details of mandatory fields (that are essential to complete the transaction and essential to identify the transaction for audit / forensic purpose in the future) of all the transactions (financial and non-financial) shall be made.
- (b) Logs should be maintained for changing the master data. System generated activity logs of the users with administrative privileges should also be maintained.
- (c) Secure storage and retention of logs in encrypted format with access controls in an archival solution.

(vi) System Generated NPAs: All parameters required for NPA / NPI identification shall be captured in the CBS or associated sub-system(s) / module(s) meant for NPA / NPI identification / classification of asset codes as per these Directions. It should provide for separate MIS report capturing all parameters for NPA / NPI identification. Such parameters could either be configured in database or application itself as per the architecture of the solution / sub-system.

(vii) Test Environment: The existing test environment in the bank with dummy data and functional logic similar to that of the product environment of the solution shall be made available to the supervisors during their onsite supervisory visit(s) as per the requirements. This shall be required, *inter alia*, to perform sample transactions review to assess whether the solution adheres in complying with regulatory prescriptions in the extant environment for NPA / NPI identification as per applicability.

(7) A bank shall draw up their standard operating procedure (SOP) for System based NPA classification for usage by the operating staff.

(8) The adherence to these instructions will be examined as part of supervisory assessment of the banks and in case of non-compliance, suitable supervisory / enforcement action shall be initiated against the concerned bank.

9. Classification as non-performing asset

(1) A bank shall classify a loan or an advance as non-performing asset (NPA) if any of the following conditions are satisfied:

- (i) interest and / or instalment of principal remains overdue for a period of more than ninety days in respect of a term loan;
- (ii) the account remains 'out of order' in respect of an Overdraft / Cash Credit (OD/CC);
- (iii) a working capital borrowing account where irregular drawings are permitted in the account for a continuous period of ninety days even though the unit may be working or the borrower's financial position is satisfactory;
- (iv) the bill remains overdue for a period of more than ninety days in the case of bills purchased and discounted;
- (v) an account where the regular / *ad hoc* credit limits have not been reviewed / renewed within 180 days from the due date / date of *ad hoc* sanction;
- (vi) the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
- (vii) the instalment of principal or interest thereon remains overdue for one crop season for long duration crops;
- (viii) the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of the Reserve Bank of India (Small Finance Banks – Securitisation Transactions) Directions, 2025;
- (ix) in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, remain unpaid for a period of ninety days from the specified due date for payment.

Provided that in cases where the contract provides for settlement of the current mark-to-market value of a derivative contract before its maturity, only the current credit exposure (not the potential future exposure) shall be classified as a non-performing asset after an overdue period of ninety days;

Provided further that in cases where a bank partially or fully terminates the derivative contract before maturity, at their discretion, based on preference of the clients to reduce the notional exposure of the hedging derivative contract, and the bank permitted payment in instalments of the crystallized MTM of such derivative contracts (including Forex Forward Contracts), the receivable shall be classified as non-performing asset: (i) if the amount becomes overdue for ninety days from the date of partial / full termination of the derivative contract; or (ii) if the amount becomes overdue for ninety days from the due date of payment of subsequent instalments.

- (x) a credit card account where the minimum amount due, as mentioned in the statement, is not paid fully within ninety days from the payment due date mentioned in the statement.
- (2) In addition to the conditions in sub-paragraph (1), an account may also be classified as NPA in terms of certain specific provisions of this Chapter, including *inter alia* Paragraph 10 as well as instructions contained in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025.
- (3) Asset classification shall be borrower-wise and not facility-wise. All the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower shall have to be treated as NPA / NPI and not the particular facility / investment or part thereof which has become irregular.
- (4) The classification of an asset as NPA should be based on the record of recovery. A bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc.

(5) The availability of security or net worth of borrower / guarantor should not be taken into account for the purpose of treating an advance as NPA (except to the extent provided in Paragraph 11 (5)) or otherwise.

10. Accounts regularised near about the balance sheet date

- (1) The asset classification of borrowing accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity.
- (2) Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as NPA.
- (3) In other genuine cases, a bank must furnish satisfactory evidence to the Statutory Auditors / Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

11. Specific cases of asset classification

- (1) The bills discounted under Letter of Credit (LC) favouring a borrower may not be classified as NPA, when any other facility granted to the borrower is classified as NPA.
- (2) Notwithstanding sub-paragraph (1), in case documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.
- (3) Derivative Contracts
 - (i) In case the overdues arising from forward contracts and plain vanilla swaps and options become NPAs, all other funded facilities granted to the client shall also be classified as NPA following the principle of borrower-wise classification.
 - (ii) If the client concerned is also a borrower of the bank enjoying a Cash Credit or Overdraft facility from the bank, the receivables from the derivative contract may be debited to that account on due date and the impact of its non-payment

shall be reflected in the cash credit / overdraft facility account. The principle of borrower-wise asset classification would be applicable here also, as per these Directions.

(iii) The income recognition in respect of the derivative contracts classified as NPA shall be as per Paragraph 26(1).

(4) Advances under consortium arrangements

(i) Asset classification of accounts under consortium shall be based on the record of recovery of the individual member and other aspects having a bearing on the recoverability of the advances.

(ii) Where the remittances by the borrower under consortium lending arrangements are pooled with one consortium member and / or where the consortium member receiving remittances is not parting with the share of other members, the account will be treated as not serviced in the books of the other members and therefore, be treated as NPA.

(iii) A bank participating in the consortium should, therefore, arrange to get its share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of its share of recovery, to ensure proper asset classification in its books.

(5) Advances to Primary Agricultural Credit Societies (PACS) / Farmers' Service Societies (FSS) ceded to banks

(i) In respect of agricultural advances as well as advances for other purposes granted by a bank to PACS / FSS under the on-lending system, only that particular credit facility granted to PACS / FSS which is in default for a period of two crop seasons in case of short duration crops and one crop season in case of long duration crops, as the case may be, after it has become due will be classified as NPA, and not all the credit facilities sanctioned to a PACS / FSS.

(ii) The other direct loans and advances, if any, granted by the bank to the member borrower of a PACS / FSS outside the on-lending arrangement shall

become NPA even if one of the credit facilities granted to the same borrower becomes NPA.

(6) Advances against Term Deposits, NSCs, KVPs, etc.

(i) Advances against term deposits, NSCs eligible for surrender, KVPs and life insurance policies need not be treated as NPAs, provided adequate margin is available in the accounts.

(ii) Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

(7) Loans with moratorium for payment of interest

(i) In the case of finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

(ii) In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans / advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.

(8) Agricultural advances

(i) Depending upon the duration of crops raised by an agriculturist, the NPA norms as per Sl. Nos. (vi) and (vii) of Paragraph 8(1) shall also be made applicable to agricultural term loans availed of by them.

(ii) The NPA norms as per Sl. Nos. (vi) and (vii) of Paragraph 8(1) shall be made applicable only to the following credit facilities extended for agricultural activities:

(a) Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided the bank

maintains disaggregated data of such loans], directly engaged in Agriculture only. This shall include:

- i. crop loans to farmers, which shall include traditional / non-traditional plantations, and horticulture;
- ii. medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery and other developmental activities undertaken in the farm);
- iii. loans to farmers for pre and post-harvest activities, viz., spraying, harvesting, grading and transporting of their own farm produce;
- iv. loans to farmers up to ₹60 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding twelve months;
- v. loans to distressed farmers indebted to non-institutional lenders;
- vi. loans to farmers under the Kisan Credit Card Scheme;
- vii. loans to small and marginal farmers (SMFs) for purchase of land for agricultural purposes.

(b) Loans to corporate farmers, farmers' producer organizations / companies (FPOs) / (FPCs) of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture only up to an aggregate limit of ₹4 crore per borrower. This will include:

- i. crop loans to farmers which shall include traditional / non-traditional plantations and horticulture;
- ii. medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements, technological solutions, machinery and developmental activities undertaken in the farm);
- iii. loans to farmers for pre and post-harvest activities, viz., spraying, harvesting, sorting, and transporting of their own farm produce;

- iv. loans up to ₹2.5 crore against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding twelve months.
- (c) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
- (iii) In respect of agricultural loans, other than those specified in Sl. No. (iii), identification of NPAs shall be done on the same basis as non-agricultural advances, which at present is the ninety days delinquency norm.
- (iv) Where natural calamities impair the repaying capacity of agricultural borrowers for the purposes specified in Sl. No. (iii), a scheduled bank may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to [Master Direction – Reserve Bank of India \(Relief Measures by Banks in Areas affected by Natural Calamities\) Directions 2018 – SCBs dated October 17, 2018](#), as updated from time to time.
- (v) In such cases of conversion or re-schedulement, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA.
- (vi) The asset classification of these loans would thereafter be governed by the revised terms & conditions and would be treated as NPA if interest and / or instalment of principal remains overdue for two crop seasons for short duration crops and for one crop season for long duration crops.
- (vii) While fixing the repayment schedule in case of rural housing advances granted to agriculturists under Indira Awas Yojana / Pradhan Mantri Gram Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, a bank should ensure that the interest / instalment payable on such advances are linked to crop cycles.

(9) Government guaranteed advances

- (i) The credit facilities backed by guarantee of the Central Government though overdue shall be treated as NPA only when the Government repudiates its guarantee when invoked.
- (ii) The exemption in Sl. No. (i) is not for the purpose of recognition of income.
- (iii) The requirement of invocation of guarantee has been delinked for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposures.
- (iv) State Government guaranteed advances and investments in State Government guaranteed securities shall attract asset classification and provisioning norms if interest and / or principal or any other amount due to the bank remains overdue for more than ninety days.

(10) Post-shipment Supplier's Credit – In respect of post-shipment credit extended by a bank covering export of goods to countries for which the Export Credit Guarantee Corporation's (ECGC) cover is available, EXIM Bank has introduced a guarantee-cum-refinance programme whereby, in the event of default, EXIM Bank will pay the guaranteed amount to the bank within a period of 30 days from the day the bank invokes the guarantee after the exporter has filed claim with ECGC. Accordingly, to the extent payment has been received from the EXIM Bank, the advance may not be treated as a non-performing asset for asset classification and provisioning purposes.

(11) Export Project Finance

- (i) In respect of export project finance, there could be instances where the actual importer has paid the dues to the bank abroad but the bank in turn is unable to remit the amount due to political developments such as war, strife, UN embargo, etc.
- (ii) In such cases, where the lending bank is able to establish through documentary evidence that the importer has cleared the dues in full by depositing the amount in the bank abroad before it turned into NPA in the books of the bank, but the importer's country is not allowing the funds to be remitted

due to political or other reasons, the asset classification may be made after a period of one year from the date the amount was deposited by the importer in the bank abroad.

(12) Transfer of Loan Exposures – The asset classification and provisioning requirements in respect of transactions involving transfer of loans shall be as per the Reserve Bank of India (Small Finance Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

(13) Credit Card Accounts

(i) A bank shall report a credit card account as 'past due' to credit information companies (CICs) or levy penal charges, viz. late payment charges, etc., if any, only when a credit card account remains 'past due' for more than three days.

(ii) The number of 'days past due' and late payment charges shall, however, be computed from the payment due date mentioned in the credit card statement.

(14) Takeout finance

(i) The asset classification norms shall be followed by the concerned bank in whose books the account stands as balance sheet item as on the relevant date.

(ii) Where the credit facility becomes NPA before take over by the taking over institution, the lending bank shall classify the asset as NPA.

(iii) Subsequent to take over by a bank, the taking over bank shall classify the asset as NPA from the actual date of it becoming NPA even though the account was not in its books as on that date.

12. Categories of non-performing assets

(1) A bank shall classify non-performing assets further into 'substandard assets', 'doubtful assets' and 'loss assets' categories based on the period for which the asset has remained non-performing and the realisability of the dues.

(2) An NPA classified as substandard asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by

the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

- (3) An NPA classified as doubtful asset has all the weaknesses inherent in assets that were classified as substandard, 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.
- (4) An NPA classified as loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
- (5) Notwithstanding Paragraph 8(4), in respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers, the asset should be straightaway classified as doubtful or loss asset as appropriate.
- (6) For the purpose of sub-paragraph (5), the following shall apply:
 - (i) erosion in the value of security shall be reckoned as significant when the realisable value of the security is less than fifty per cent of the value assessed by the bank or accepted by the Reserve Bank at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category.
 - (ii) if the realisable value of the security, as assessed by the bank / approved valuers / the Reserve Bank is less than ten per cent of the outstanding in the borrowing accounts, the existence of security shall be ignored and the asset shall be straightaway classified as loss asset.

13. Upgradation of loan accounts classified as NPAs

- (1) The loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.
- (2) With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO),

etc., the instructions as specified in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025 shall be applicable.

- (3) In case of borrowers having more than one credit facility from a bank, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.
- (4) A bank resorting to partial and technical write-offs should not show the remaining part of the loan as standard asset.

Chapter IV - Provisioning Norms

14. General Principles for Provisioning

- (1) The provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof.
- (2) The primary responsibility for making adequate provisions for any diminution in the value of loan assets, investment or other assets is that of the management of the bank and the statutory auditors.
- (3) The assessment made by the inspecting officer of the Reserve Bank is furnished to the bank to assist bank management and the statutory auditors in taking a decision in regard to making adequate and necessary provisions in terms of prudential guidelines.
- (4) Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the bank, the bank shall make provision against substandard assets, doubtful assets and loss assets.
- (5) For determining the amount of unsecured advances for reflecting in Schedule 9 of the published balance sheet, the rights, licenses, authorisations, etc., charged to the bank as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security. Hence such advances shall be reckoned as unsecured.
- (6) A bank may treat annuities under build-operate-transfer (BOT) model in respect of road / highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities subject to the condition that the right of the bank to receive annuities and toll collection rights is legally enforceable and irrevocable.
- (7) In case of public-private partnership (PPP) projects, the debts due to a bank may be considered as secured to the extent assured by the project authority in terms of the Concession Agreement, subject to the following conditions:

- (i) user charges / toll / tariff payments are kept in an escrow account where senior lenders have priority over withdrawals by the concessionaire;
- (ii) there is sufficient risk mitigation, such as pre-determined increase in user charges or increase in concession period, in case project revenues are lower than anticipated;
- (iii) the lenders have a right of substitution in case of concessionaire default;
- (iv) the lenders have a right to trigger termination in case of default in debt service; and
- (v) upon termination, the Project Authority has an obligation of: (a) compulsory buy-out; and (b) repayment of debt due in a pre-determined manner.
- (vi) In all such cases, a bank must satisfy itself about the legal enforceability of the provisions of the tripartite agreement and factor in their past experience with such contracts.

15. Provisions in respect of Standard assets

- (1) A bank shall make general provision for standard assets at the following rates for the funded outstanding on global loan portfolio basis:
 - (i) farm Credit to agricultural activities, individual housing loans and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent;
 - (ii) advances to Commercial Real Estate (CRE) sector at 1.00 per cent;
 - (iii) advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent;
 - (iv) housing loans extended at teaser rates as indicated in Paragraph 20(11);
 - (v) restructured advances – as stipulated in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025;
 - (vi) advances restructured and classified as standard in terms of the [Master Direction – Reserve Bank of India \(Relief Measures by Banks in Areas affected by Natural Calamities\) Directions 2018 – SCBs](#), as updated from time to time, at five per cent;

(vii) All other loans and advances not included in (i) – (vi) above at 0.40 per cent.

(2) Loans to Medium Enterprises shall attract 0.40% standard asset provisioning.

(3) The provisions on standard assets shall not be reckoned for arriving at net NPAs.

(4) The provisions towards Standard Assets need not be netted from gross advances but shown separately as ‘Contingent Provisions against Standard Assets’ under ‘Other Liabilities and Provisions Others’ in Schedule 5 of the balance sheet.

(5) A bank shall estimate the riskiness of unhedged position of their borrowers as per the instructions on unhedged foreign currency exposures contained in the Reserve Bank of India (Small Finance Banks – Credit Risk Management) Directions, 2025 and make incremental provisions on all their exposures to such entities as under:

Likely Loss / EBID (%)	Incremental Provisioning Requirement on the total credit exposures over and above extant standard asset provisioning
Up to 15 per cent	0
More than 15 per cent and up to 30 per cent	20 bps
More than 30 per cent and up to 50 per cent	40 bps
More than 50 per cent and up to 75 per cent	60 bps
More than 75 per cent	80 bps

Explanation: For this purpose, EBID, as defined for computation of DSCR = Profit After Tax + Depreciation + Interest on debt + Lease Rentals, if any, shall be used.

16. Provisions in respect of substandard assets

(1) A general provision of fifteen percent on total outstanding should be made in respect of substandard assets without making any allowance for ECGC guarantee cover and securities available.

(2) The ‘unsecured exposures’ which are identified as ‘substandard’ would attract additional provision of ten per cent, i.e., a total of twenty-five per cent on the outstanding balance

(3) Notwithstanding sub-paragraph (2), infrastructure loan accounts which are classified as sub-standard shall attract a provisioning of twenty per cent, in view of certain safeguards such as escrow accounts available in respect of infrastructure lending. To avail of this benefit of lower provisioning, a bank shall have in place an appropriate mechanism to escrow the cash flows and also have a clear and legal first claim on these cash flows.

(4) In the case of leased assets, the provisions shall be fifteen percent of the sum of the net investment in the lease and the unrealised portion of finance income net of finance charge component. The terms 'net investment in the lease', 'finance income' and 'finance charge' shall be as defined in 'AS 19 Leases'.

(5) Unsecured lease exposures, which are identified as 'substandard' shall attract additional provision of ten per cent, i.e., a total of twenty-five per cent.

17. Provisions in respect of Doubtful Assets

(1) A bank shall make provisions of 100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.

(2) In regard to the secured portion, provision may be made on the following basis, at the rates ranging from twenty-five percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provisioning requirement (%)
Up to one year	25
One to three years	40
More than three years	100

(3) In the case of leased assets classified as 'Doubtful', 100 percent of the extent to which the finance is not secured by the realisable value of the leased asset, shall be provided for. Realisable value must be estimated on a realistic basis.

(4) In addition to the above provision, provision at the rates specified in sub-paragraph (2) shall be made on the sum of the net investment in the lease and the unrealised portion of finance income net of finance charge component of

the secured portion, depending upon the period for which asset has been doubtful.

18. Provisions in respect of Loss Assets

- (1) Loss assets should be written off.
- (2) If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.
- (3) Similarly, if for any reason, a leased asset classified as 'Loss' is allowed to remain in books, 100 percent of the sum of the net investment in the lease and the unrealised portion of finance income net of finance charge component shall be provided for.

19. Prudential norms on creation and utilisation of floating provisions

- (1) A bank shall hold floating provisions for 'advances' and 'investments' separately and the guidelines prescribed in this Paragraph will be applicable to floating provisions held for both 'advances' and 'investment portfolios.'
- (2) Principles for utilisation of floating provisions
 - (i) The floating provisions should not be used for making specific provisions as per the extant prudential guidelines in respect of non-performing assets or for making regulatory provisions for standard assets.
 - (ii) The floating provisions can be used only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of the Reserve Bank.
 - (iii) The extraordinary circumstances refer to losses which do not arise in the normal course of business and are exceptional and non-recurring in nature.
 - (iv) These extraordinary circumstances could broadly fall under three categories viz. General, Market and Credit.
 - (v) Under general category, there can be situations where a bank is put unexpectedly to loss due to events such as civil unrest or collapse of currency

in a country. Natural calamities and pandemics may also be included in the general category.

(vi) Market category may include events such as a general melt down in the markets, which affects the entire financial system.

(vii) Among the credit category, only exceptional credit losses shall be considered as an extra-ordinary circumstance.

(3) Accounting of floating provisions

(i) Floating provisions shall not be reversed by credit to the profit and loss account. They can only be utilised for making specific provisions in extraordinary circumstances as mentioned in sub-paragraph (2).

(ii) Until such utilisation, these provisions can be netted off from gross NPAs to arrive at disclosure of net NPAs.

(iii) Alternatively, the floating provisions may be treated as part of Tier II capital within the overall ceiling of 1.25% of total risk weighted assets.

20. Additional Provisions at higher than prescribed rates

(1) The provisioning rates prescribed in these Directions are the regulatory minimum.

(2) A bank is encouraged to make provisions at higher rates in respect of advances to stressed sectors of the economy which are classified as Standard.

(3) The Board approved policy for making provisions for standard assets at rates higher than the regulatory minimum, shall be reviewed at least on a quarterly basis, of the performance of various sectors of the economy to which the bank has an exposure to evaluate the present and emerging risks and stress therein. The review may include quantitative and qualitative aspects like debt-equity ratio, interest coverage ratio, profit margins, ratings upgrade to downgrade ratio, sectoral non-performing assets / stressed assets, industry performance and outlook, legal / regulatory issues faced by the sector, etc. The reviews may also include sector specific parameters.

(4) Similarly, a bank may voluntarily make specific provisions for NPAs at rates which are higher than the rates prescribed under these Directions, to provide for estimated actual loss in collectible amount, provided such higher rates are approved by the Board of Directors and consistently adopted from year to year.

(5) Such additional provisions are not to be considered as floating provisions.

(6) The additional provisions for NPAs, like the minimum regulatory provision on NPAs, may be netted off from gross NPAs to arrive at the net NPAs.

21. Provisions under Special Circumstances

(1) Provisioning in respect of cases of fraud

(i) A bank shall normally provide for the entire amount due to the bank or for which the bank is liable (including in case of deposit accounts), immediately upon a fraud being detected.

(ii) To smoothen the effect of such provisioning on quarterly profit and loss, a bank has the option to make the provisions over a period, not exceeding four quarters, commencing from the quarter in which the fraud has been detected.

(iii) Where a bank chooses to provide for the fraud over two to four quarters and this results in the full provisioning being made in more than one financial year, the bank shall debit 'other reserves' [i.e., reserves other than the one created in terms of Section 17(2) of the Banking Regulation Act 1949] by the amount remaining un-provided at the end of the financial year by credit to provisions. However, the bank shall proportionately reverse the debits to 'other reserves' and complete the provisioning by debiting profit and loss account, in the subsequent quarters of the next financial year.

(iv) While computing the provisioning requirement, a bank may adjust financial collateral eligible under credit risk mitigation techniques available in terms of the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025, if any, available with them with regard to the accounts declared as fraud account.

(2) Advances against deposits / specific instruments – advances against term deposits, NSCs eligible for surrender, KVPs, gold ornaments, government &

other securities and life insurance policies shall attract provisioning requirements as applicable to their asset classification status.

(3) Treatment of interest suspense account

- (i) Amounts held in Interest Suspense Account shall not be reckoned as part of provisions.
- (ii) Amounts lying in the Interest Suspense Account shall be deducted from the relative advances and thereafter, provisioning as per the norms, should be made on the balances after such deduction.

(4) Project Finance

- (i) For project finance exposures, a bank shall maintain a general provision at the following rates for the funded outstanding on a portfolio basis:

	Construction Phase	Operational Phase – <u>after</u> commencement of repayment of interest <u>and</u> principal
CRE	1.25%	1.00%
CRE-RH	1.00%	0.75%
All others	1.00%	0.40%

- (ii) For accounts which have availed DCCO deferment and are classified as 'standard', a bank shall maintain additional specific provisions as per the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025.
- (iii) The provisions stipulated in Sl. Nos. (ii) and (iii) shall not be applicable for projects where financial closure has been achieved as on October 1, 2025, and such project loans shall continue to be guided by the prudential guidelines prevailing before October 1, 2025 for the purpose of provisioning, which otherwise shall be treated as repealed.
- (iv) Notwithstanding Sl. No. (iv), in case of any resolution of a fresh credit event and / or change in material terms and conditions in the loan contract in such projects, subsequent to October 1, 2025, the provisions stipulated in Sl. Nos. (ii) and (iii) shall apply to these projects as if these were sanctioned post October 1, 2025.

(v) Provisioning for project loans classified as NPA shall be as per the instructions in Paragraphs 15 to 17 of these Directions.

(5) Advances covered by ECGC guarantee

(i) In the case of advances classified as doubtful and guaranteed by ECGC, provision shall be made only for the balance in excess of the amount guaranteed by the Corporation.

(ii) Further, while arriving at the provision required to be made for doubtful assets, realizable value of the securities shall first be deducted from the outstanding balance in respect of the amount guaranteed by the Corporation and then provision made.

Illustration:

Outstanding Balance	₹4 lakhs
ECGC Cover	50 percent
Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2014)
Value of security held	₹1.50 lakhs

Provision required to be made:

Outstanding balance	₹4.00 lakhs
Less: Value of security held	₹1.50 lakhs
Unrealised balance	₹2.50 lakhs
Less: ECGC Cover (50% of unrealisable balance)	₹1.25 lakhs
Net unsecured balance	₹1.25 lakhs
Provision for unsecured portion of advance	₹1.25 lakhs (@ 100 percent of unsecured portion)
Provision for secured portion of advance (as on March 31, 2012)	₹0.60 lakhs (@ 40 per cent of the secured portion)
Total provision to be made	₹1.85 lakhs (as on March 31, 2014)

(6) Advance covered by guarantees under any existing or future schemes launched by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and National Credit Guarantee Trustee Company Ltd (NCGTC).

- (i) In case the advance covered by any existing or future schemes/guarantees launched by CGTMSE, CRGFTLIH and NCGTC becomes non-performing, no provision need be made towards the guaranteed portion.
- (ii) The amount outstanding, in excess of the guaranteed portion, shall be provided for as per the extant guidelines on provisioning for non-performing assets.

Illustration:

Outstanding Balance	₹10 lakh
CGTMSE/CRGFTLIH Cover	75% of the amount outstanding or 75% of the unsecured amount or ₹37.50 lakh, whichever is the least
Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2014)
Value of security held ₹1.50 lakh	Value of security held ₹1.50 lakh

Provision required to be made:

Balance outstanding	₹10.00 lakh
Less: Value of security	₹1.50 lakh
Unsecured amount	₹8.50 lakh
Less: CGTMSE/CRGFTLIH cover (75%)	₹6.38 lakh
Net unsecured and uncovered portion:	₹2.12 lakh
Provision for Secured portion @ 40% of ₹1.50 lakh	₹0.60 lakh
Provision for Unsecured & uncovered portion @ 100% of ₹2.12 lakh	₹2.12 lakh
Total provision required	₹2.72 lakh

(7) Reserve for Exchange Rate Fluctuations Account (RERFA)

When exchange rate movements of Indian rupee turn adverse, the outstanding amount of foreign currency denominated loans (where actual disbursement was made in Indian Rupee) which becomes overdue, goes up correspondingly, with its attendant implications of provisioning requirements. Such assets should not normally be revalued. In case such assets need to be revalued as per requirement of accounting practices or for any other requirement, the following procedure shall be adopted:

- (i) The loss on revaluation of assets shall be booked in the Profit & Loss Account of the bank.

(ii) In addition to the provisioning requirement as per asset classification, the full amount of the Revaluation Gain, if any, on account of foreign exchange fluctuation shall be used to make provisions against the corresponding assets.

(8) Provisioning for country risk

(i) A bank shall make provisions, on the net funded country exposures on a graded scale ranging from 0.25 to 100 percent according to the risk categories as per the following schedule:

Risk category	ECGC Classification	Provisioning Requirement (per cent)
Insignificant	A1	0.25
Low	A2	0.25
Moderate	B1	5
High	B2	20
Very high	C1	25
Restricted	C2	100
Off-credit	D	100

(ii) A bank shall make provision for country risk in respect of a country where its net funded exposure is one per cent or more of its total assets.

(iii) The provision for country risk shall be in addition to the provisions required to be held according to the asset classification status of the asset.

(iv) Notwithstanding Sl. No. (iii), in the case of 'loss assets' and 'doubtful assets', provision held, including provision held for country risk, shall not exceed 100% of the outstanding.

(v) A bank may not make any provision for 'home country' exposures i.e. exposure to India.

(vi) The exposures of foreign branches of Indian banks to the host country should be included for the computation of provision requirements.

(vii) A Foreign bank shall compute the country exposures of its Indian branches and shall hold appropriate provisions in their Indian books. However, their exposures to India will be excluded for the above purpose.

(viii) A bank may make a lower level of provisioning (say 25% of the requirement) in respect of short-term exposures (i.e. exposures with contractual maturity of less than 180 days).

(9) Provisioning norms for Liquidity facility provided for Securitisation transactions

The amount of liquidity facility drawn and outstanding for more than ninety days, in respect of securitisation transactions undertaken in terms of the Reserve Bank of India (Small Finance Banks – Securitisation Transactions) Directions, 2021, shall be fully provided for.

(10) Provisioning requirements for derivative exposures

(i) Credit exposures computed as per the current marked to market value of the contract, arising on account of the interest rate & foreign exchange derivative transactions, credit default swaps and gold, shall attract provisioning requirement as applicable to the loan assets in the 'standard' category, of the concerned counterparties.

(ii) All conditions applicable for treatment of the provisions for standard assets shall also apply to the aforesaid provisions for derivative and gold exposures.

(11) Provisioning for housing loans at teaser rates

(i) The standard asset provisioning on the outstanding amount of housing loans at teaser rates i.e. at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates, shall be 2.00 per cent in view of the higher risk associated with them.

(ii) The provisioning on these assets shall revert to 0.40 per cent after one year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.

(12) Provisioning requirement in terms of Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism

(i) In respect of specified borrowers, as per the provisions of the Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism contained in the Reserve Bank of India (Small Finance Banks –

Concentration Risk Management) Directions, 2025, a bank shall make additional provisions of three percentage points, over and above the applicable provision, on the incremental exposure of the banking system in excess of Normally Permitted Lending Limit (NPLL) as defined in the said guidelines.

- (ii) This higher provisioning requirement shall be distributed in proportion to each bank's funded exposure to the specified borrower.

(13) Wilful Defaulters

- (i) The provisioning in respect of existing loans / exposures to companies having director(s) (other than nominee directors of government / financial institutions brought on board at the time of distress), whose name(s) appear more than once in the list of wilful defaulters, shall be five per cent in cases of standard accounts.
- (ii) If such account is classified as NPA, it will attract accelerated provisioning as under:

Asset Classification	Period as NPA	Regular provisioning (%)	Accelerated provisioning (%)
Sub-standard (secured)	Up to 6 months	15	No change
	6 months to 1 year	15	
Sub-standard (unsecured <i>ab initio</i>)	Up to 6 months	25 (other than infrastructure loans)	25
		20 (infrastructure loans)	
	6 months to 1 year	25 (other than infrastructure loans)	40
		20 (infrastructure loans)	
Doubtful I	2nd year	25 (secured portion)	40 (secured portion)
		100 (unsecured portion)	100 (unsecured portion)
Doubtful II	3rd & 4th year	40 (secured portion)	100 for both secured and unsecured portions
		100 (unsecured portion)	
Doubtful III	5th year onwards	100	100

(14) Takeout finance

- (i) The lending bank and / or the taking over bank, shall make appropriate provisions corresponding to the asset classification as per Paragraph 10(14).
- (ii) As and when the asset is taken over by the taking over institution, the lending bank may reverse the corresponding provisions.

22. Provisioning Coverage Ratio (PCR)

- (1) From a macro-prudential perspective, a bank is encouraged to build up provisioning and capital buffers in good times i.e. when the profits are good, which can be used for absorbing losses in a downturn.
- (2) The Reserve Bank has not prescribed any regulatory minimum level of PCR for a bank, and the same is left to the discretion of the bank.

Chapter V - Income Recognition

23. General Principles for Income Recognition

- (1) A bank may recognise income on accrual basis in respect of credit facilities which are classified as 'Standard'.
- (2) A bank shall not charge and take to income account interest on any NPA, including a Government guaranteed account.
- (3) Notwithstanding sub-paragraph (2), interest on advances against Term Deposits, National Savings Certificates (NSCs), Kisan Vikas Patras (KVPs) and life insurance policies may be taken to income account on the due date, provided adequate margin is available in the accounts.
- (4) Fees and commissions earned by a bank as a result of renegotiations or rescheduling of outstanding debts shall be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

24. Reversal of income upon classification as NPA

- (1) If any advance, including bills purchased and discounted as well as a Government guaranteed account, becomes NPA, the entire interest accrued and credited to income account in the past periods, shall be reversed if the same is not realised.
- (2) If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest, if any, corresponding to the interest accrued during such moratorium period need not be reversed.
- (3) In respect of NPAs, fees, commission and similar income that have accrued shall cease to accrue in the current period and shall be reversed with respect to past periods, if uncollected.
- (4) In respect of leased assets, the finance charge component of finance income [as defined in 'AS 19 Leases')] on the leased asset which has accrued and was credited to income account before the asset became non-performing, and

remaining unrealised, shall be reversed or provided for in the current accounting period.

25. Interest application after NPA classification

- (1) On an account turning NPA, a bank shall reverse the interest already charged and not collected by debiting Profit and Loss account and stop further application of interest.
- (2) A bank shall continue to record such accrued interest in a Memorandum account in their books.
- (3) For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be considered.

26. Appropriation of recovery from NPAs

- (1) Interest realised 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.
- (2) In the absence of a clear agreement between a bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), the bank shall adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

27. Income recognition in special cases

- (1) Derivative contracts classified as NPA
 - (i) In respect of derivative contracts classified as NPA, the amount representing unrealized income already booked on accrual basis and taken to 'Profit and Loss a/c' shall be reversed and held in a 'Suspense Account-Crystallised Receivables' in the same manner as done in the case of overdue advances.
 - (ii) Further, in cases where the derivative contracts provide for more settlements in future, the MTM value will comprise of:
 - (a) crystallised receivables; and
 - (b) positive or negative MTM in respect of future receivables.

- (iii) If the derivative contract is not terminated on the overdue receivable remaining unpaid for ninety days, in addition to reversing the crystallised receivable from Profit and Loss Account as stipulated in Sl. No. (i), the positive MTM pertaining to future receivables shall also be reversed from Profit and Loss Account to another account styled as 'Suspense Account – Positive MTM'.
- (iv) The subsequent positive changes in the MTM value shall be credited to the 'Suspense Account – Positive MTM', not to P&L Account.
- (v) The subsequent decline in MTM value shall be adjusted against the balance in 'Suspense Account – Positive MTM'. If the balance in this account is not sufficient, the remaining amount may be debited to the P&L Account.
- (vi) On payment of the overdues in cash, the balance in the 'Suspense Account- Crystallised Receivables' shall be transferred to the 'Profit and Loss Account', to the extent payment is received.
- (vii) If the bank has other derivative exposures on the borrower, the MTMs of other derivative exposures should also be dealt with / accounted for in the manner as described in this Paragraph, subsequent to the crystallised / settlement amount in respect of a particular derivative transaction being treated as NPA.
- (viii) Similarly, in case a fund-based credit facility extended to a borrower is classified as NPA, the MTMs of all the derivative exposures should be treated as per this Paragraph.

(2) Take out finance

- (i) The norms of income recognition shall be followed by the bank in whose books the account stands as balance sheet item as on the relevant date.
- (ii) Where the credit facility becomes NPA before take over by the taking over institution, the lending bank should not recognise income on accrual basis and account for the same only when it is paid by the borrower / taking over institution (if the arrangement so provides).

(3) Project Finance

- (i) A bank may recognise income on accrual basis in respect of project finance exposures which are classified as 'Standard'.
- (ii) For NPAs, income recognition shall be as per Paragraphs 24 and 25 of these Directions.

(4) In cases of loans where moratorium has been granted for repayment of interest, income may be recognised on accrual basis for accounts which continue to be classified as 'standard'. This shall be evaluated against the definition of 'restructuring' provided in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025.

28. Tax treatment in respect of provisions

- (1) 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 Reserve Bank in relation to such debts, shall be chargeable to tax in the previous year in which it is credited to the profit and loss account or received, whichever is earlier.
- (2) The stipulation in sub-paragraph (1) is not applicable to provisioning required to be made as per these Directions. Therefore, amounts set aside for making provision for NPAs as per these Directions are not eligible for tax deductions.
- (3) A bank shall either make full provision as per these Directions or write-off such advances and claim such tax benefits as are applicable, by evolving appropriate methodology in consultation with their auditors/tax consultants.
- (4) Recoveries made in such accounts should be offered for tax purposes as per the rules.

Chapter VI - Repeal and Other Provisions

29. Repeal and saving

- (1) With the issue of these Directions, the existing directions, instructions, and guidelines relating income recognition, asset classification and provisioning as applicable to Small Finance Banks stand repealed, as communicated vide notification dated XX, 2025. The directions, instructions and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above notification shall continue to remain repealed.
- (2) Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

30. Application of other laws not barred

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

31. Interpretations

For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

Annex - I

Details of Gross Advances, Gross NPAs, Net Advances and Net NPAs

Part A

Particulars		(Rs. in Crore up to two decimals)
	Amount	
1. Standard Advances		
2. Gross NPAs *		
3. Gross Advances ** (1+2)		
4. Gross NPAs as a percentage of Gross Advances (2/3) (in %)		
5. Deductions		
(i) Provisions held in the case of NPA Accounts as per asset classification (including additional Provisions for NPAs at higher than prescribed rates).		
(ii) DICGC / ECGC claims received and held pending adjustment		
(iii) Part payment received and kept in Suspense Account or any other similar account		
(iv) Balance in Sundries Account (Interest Capitalization - Restructured Accounts), in respect of NPA Accounts		
(v) Floating Provisions***		
6. Net Advances (3-5)		
7. Net NPAs {2-5(i + ii + iii + iv + v)}		
8. Net NPAs as percentage of Net Advances (7/6) (in %)		
* Principal dues of NPAs plus Funded Interest Term Loan (FITL) where the corresponding contra credit is parked in Sundries Account (Interest Capitalization - Restructured Accounts), in respect of NPA Accounts.		
** For the purpose of this Statement, 'Gross Advances' mean all outstanding loans and advances including advances for which refinance has been received but excluding rediscounted bills, and advances written off at Head Office level (Technical write off).		
*** Floating Provisions would be deducted while calculating Net NPAs, to the extent, banks have exercised this option, over utilising it towards Tier II capital.		

Part B

Supplementary Details

Particulars		(Rs. in Crore up to two decimals)
	Amount	
1. Provisions on Standard Assets in Part A above		
2. Interest recorded as Memorandum Item		
3. Amount of cumulative Technical Write - Off in respect of NPA accounts reported in Part A above		