20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **A term loan becomes an NPA when interest or principal instalment remains overdue for more than 90 days.**
   This 90-day overdue trigger is the core rule under RBI's IRAC prudential norms for asset classification.

2. **A cash credit or overdraft account is NPA when it stays out of order for 90 days beyond the sanctioned limit or drawing power.**
   Out-of-order status for CC or OD accounts is treated the same as the 90-day overdue rule for term loans.

3. **Under IRAC norms, asset classification is done borrower-wise, not facility-wise.**
   If one facility of a borrower turns NPA, all facilities of that borrower are classified as NPA.

4. **Standard assets attract a general provision of 0.40% of the outstanding balance.**
   Banks hold a small standing provision on performing standard advances as a buffer against future losses.

5 **Standard advances to stressed sectors such as commercial real estate attract a higher provision of around 1%.**

RBI prescribes elevated standard-asset provisioning for sectors it identifies as carrying higher credit risk.

6 **A sub-standard asset is one that has remained an NPA for up to 12 months.**

After 12 months of non-performance an asset moves from sub-standard into the doubtful category.

7 **Sub-standard assets require a 15% provision, rising to 25% if the advance was unsecured from inception.**

Unsecured ab-initio advances carry higher provisioning because there is no security to fall back on.

8 **A doubtful asset is an NPA that has remained non-performing for more than 12 months.**

Doubtful assets are graded further into D1, D2 and D3 bands based on how long they have stayed doubtful.

9 **The unsecured portion of a doubtful asset requires 100% provisioning.**

With no recoverable security, RBI requires full provisioning on the unsecured part of a doubtful advance.

10 **The secured portion of a doubtful asset needs 25%, 40% or 100% provisioning depending on how long it has stayed doubtful.**

These bands correspond roughly to up to one year, one to three years, and over three years in the doubtful stage.

11 **A loss asset must be fully provided for at 100% or written off entirely.**
Loss assets are those identified as uncollectible by the bank, its auditors, or an RBI inspection.

12 **Provisioning Coverage Ratio is the total of provisions held against gross non-performing assets.**
RBI expects banks to maintain a healthy PCR as a cushion against loan losses.

13 **Ind AS 109 uses a forward-looking Expected Credit Loss model instead of the incurred-loss approach used in IRAC.**
ECL requires banks to estimate and provide for likely losses from the start of a loan, not just after default.

14 **Under Ind AS 109, Stage 1 covers performing assets and requires a 12-month expected credit loss provision.**
Stage 1 is the lowest-risk category where only losses expected in the next twelve months are provided for.

15 **Stage 2 under Ind AS 109 covers assets with a significant increase in credit risk and needs lifetime ECL provisioning.**
A rise in credit risk since origination, even without default, moves an asset from Stage 1 to Stage 2.

16 **Stage 3 under Ind AS 109 is credit-impaired, broadly equivalent to an NPA, and also needs lifetime ECL.**
Stage 3 assets additionally have interest computed on the net carrying amount after impairment.

17 **Expected Credit Loss is derived from Probability of Default, Loss Given Default and Exposure at Default.**
These three parameters are multiplied and discounted to present value to arrive at the ECL provision.

18 **An NPA can be upgraded to standard only when the entire arrears of interest and principal are paid.**
Partial recovery of an overdue account does not qualify it for upgradation back to standard.

19 **The Long Form Audit Report is a detailed questionnaire completed by statutory auditors alongside the main audit report.**
LFAR covers advances, asset classification, documentation, overdue accounts, frauds and internal controls.

20 **Divergence in asset classification must be disclosed when RBI's assessed NPAs exceed the bank's own figures beyond specified thresholds.**
This disclosure flags material gaps between a bank's self-reported NPAs and RBI's supervisory assessment.

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