20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **A term loan is generally classified as an NPA when interest or instalment stays overdue for more than 90 days.**
   Once income stops flowing for over 90 days on a term loan, the bank must treat the asset as non-performing.

2. **Gross NPA percentage equals total NPAs divided by total advances, multiplied by 100.**
   This ratio shows what share of a bank's total loan book has turned bad.

3. **Net NPA equals Gross NPA minus the provisions the bank has already set aside.**
   Net NPA reflects the uncovered risk remaining after provisioning is deducted from gross bad loans.

4. **NPA assets are classified into four categories: standard, sub-standard, doubtful and loss.**
   Each category carries a different provisioning requirement based on how long the account has stayed irregular.

5. **Standard-asset provisioning is a small precautionary charge, far lower than the rate applied to NPAs.**
   Standard loans are still performing, so only a fraction of a percent is set aside against them.

6. **For a sub-standard account, secured and unsecured balances are not split for the base provisioning rate.**
The entire sub-standard outstanding attracts the same base percentage regardless of security cover.

7. **An unsecured sub-standard account attracts an extra provisioning charge on top of the base rate.**
The additional charge reflects the higher risk of the portion with no security backing.

8. **Doubtful assets are split into age-based sub-categories, with provisioning rising as the account ages further.**
The longer an account stays doubtful, the higher the provisioning percentage a bank must hold against it.

9. **The oldest doubtful accounts attract full provisioning even on the secured portion of the balance.**
Once a doubtful account crosses the highest age bracket, recovery is treated as remote and fully provided for.

10. **The unsecured portion of any doubtful account attracts full provisioning irrespective of how long it has aged.**
An unsecured doubtful balance has no collateral cushion, so it is provided for at the maximum rate.

11. **A loss asset requires full provisioning on the entire outstanding balance.**
Loss assets are identified as effectively uncollectible, so the whole exposure must be provided for.

12 **Provision Coverage Ratio is calculated as total provisions held divided by gross NPA, expressed as a percentage.**

PCR shows how much of the bad-loan book a bank has already cushioned with provisions.

13 **A higher Provision Coverage Ratio means a bank is better protected against future loan-loss shocks.**

More provisioning already set aside reduces the hit to profitability if recoveries fail.

14 **Doubtful accounts always require the secured and unsecured portions to be provisioned separately.**

Unlike sub-standard accounts, doubtful accounts never share a single blended base provisioning rate.

15 **An account can be upgraded back to standard classification once the borrower clears all overdue amounts.**

Regular repayment restores an irregular account to performing status under asset classification norms.

16 **CAIIB BFM NPA case studies typically require computing provisions across standard, sub-standard, doubtful and loss buckets in sequence.**

Working bucket by bucket in a fixed order reduces calculation errors under exam time pressure.

17 **A narrower gap between Gross NPA and Net NPA indicates a bank has made stronger provisioning against its bad loans.**

When provisions closely track gross NPAs, less uncovered risk remains on the books as net NPA.

18 **Rising doubtful and loss asset balances signal weakening recovery and growing provisioning pressure on a bank.**

A shift of accounts into worse buckets forces higher provisioning charges that squeeze profitability.

19 **Exam candidates should always verify exact NPA provisioning percentages against the latest official IIBF or RBI norms.**

Regulators periodically revise provisioning rates, so figures memorised earlier can become outdated.

20 **A frequent CAIIB exam mistake is splitting a sub-standard account's secured and unsecured portions for the base provisioning rate, which is incorrect.**

The base rate on a sub-standard account applies to the whole balance; only the unsecured extra charge is calculated separately.

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