LEARNING SESSIONS

WITH ASHISH SIR

BANK PROMOTION EXAM NOTES

VOLUME 1 | 2026 EDITION

Banking Law and Regulatory Framework



RBI REGULATIONS • PUBLIC-SECTOR BANKING

REGIONAL RURAL BANKS (RRBs)

State Bank of India	Bank of Baroda	Punjab National Bank
Canara Bank	Union Bank of India	Bank of India
Indian Bank	Central Bank of India	Bank of Maharashtra
Indian Overseas Bank	UCO Bank	Punjab & Sind Bank

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BP Vol 1 — Banking Law and Regulatory Framework

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CH-1 Banking Regulation Act, 1949

Topic 1 — Basic Background

- **What it is** — The **Banking Regulation Act, 1949** is the main law that controls how banks work in India.
- **What it covers** — What counts as banking, what a bank may and may not do, how a bank must be managed, and RBI's powers over banks.
- **Who runs it** — **RBI** administers the Act.
- **Backup powers** — The **Central Government** keeps a few powers, such as declaring a **moratorium** (a temporary freeze on a bank's business) and giving exemptions.

History in three lines

- **1949** — Passed as the **"Banking Companies Act, 1949"**. It came into force on **16 March 1949**.
- **1965 amendment** — Renamed the **"Banking Regulation Act"**, effective **1 March 1966**.
- **2020 amendment** — The Banking Regulation (Amendment) Act, 2020 extended the Act to **co-operative banks**.
- **UCBs and multi-State co-operative banks** — Came fully under RBI's governance, audit and rescue powers.
- **StCBs and DCCBs** — The change applied to State and District Central co-operative banks from **1 April 2021**.

Who the Act covers

Type of bank	Covered ?	How
Private sector banking company	Yes	**Directly** (the Act is written for "banking companies")
SBI, nationalised banks, RRBs	Yes	**Section 51** applies listed sections to them
Co-operative banks	Yes	**Section 56** applies the Act with changes
NBFCs	No	NBFCs are controlled under the **RBI Act, 1934**

The 2025 amendment in one table

- **Act** — The **Banking Laws (Amendment) Act, 2025 (Act 16 of 2025)** changed several rules.
- **Commencement** — It came into force in **three steps**. Each change is explained in the relevant topic below.
- **See** — Ch 2 (p. 8) for the six 2025 amendment changes and their commencement dates (1 August 2025, 1 November 2025 and 15 December 2025).

Topic 2 — Key Definitions (Section 5)

Section 5 is the **dictionary** of the Act. Four definitions are asked again and again in exams.

- **Banking — Section 5(b)** — Accepting money **from the public** as deposits, for the purpose of **lending or investing** it.
- **Repayment** — The deposit must be repayable **on demand or otherwise**, and withdrawable by **cheque, draft, order or otherwise**.

Four tests that make an activity "banking"

Test	Condition
1	Money is accepted **from the public** (not only from members or friends)
2	The purpose is **lending or investment**
3	The money is **repayable** — on demand or after a fixed time
4	It can be **withdrawn by cheque, draft or order**

- **Banking company — Section 5(c)** — Any company that does banking business in India.
- **Approved securities — Section 5(a)** — Securities in which a trustee may invest trust money under the **Indian Trusts Act, 1882**.
- **Also included** — Any securities the Central Government or RBI approves for this purpose. In practice these are **government securities**.
- **Why they matter** — **SLR** can be kept only in approved securities (see Topic 5).
- **Secured loan — Section 5(n)** — A loan backed by an asset (security).
- **Security value** — The market value of the security must **never be less than the loan amount**. If it is worth less, the loan is **unsecured to that extent**.

Substantial interest — Section 5(ne)

- **Meaning** — A big shareholding in a company.
- **See** — Ch 2 (p. 8) for whose shares are added together (own, spouse, minor children) and the earlier ₹5 lakh limit.
- **Test** — The interest is substantial if the total is more than ₹**2 crore** or more than **10% of the company's paid-up capital**, **whichever is smaller**.

Example: Mr. A holds shares worth ₹1.2 crore in XYZ Ltd. His wife holds ₹60 lakh and his minor son holds ₹30 lakh. Total = ₹**2.1 crore**. XYZ's paid-up capital is ₹40 crore, so 10% = ₹4 crore. The lower test is ₹**2 crore**. The family holds more than ₹2 crore, so Mr. A has a **substantial interest** in XYZ. If Mr. A is a director of a bank, that bank cannot lend to XYZ (see Topic 4).

Remember this

- Public deposits + lending/investing + repayable + withdrawable by cheque = **banking**.
- Substantial interest = ₹**2 crore or 10%, whichever is less**; count spouse and minor children.

Topic 3 — What Business a Bank May Do (Sections 6 to 9)

The Act gives a **closed list** of activities. A bank may do **only** what is on the list.

Permitted business — Section 6(1)

- Besides ordinary banking, a bank may do **borrowing and lending**.
- **Bills** — Dealing in bills of exchange and collecting bills.
- **Foreign exchange** — Buying and selling foreign exchange.
- **Custody** — Providing lockers and safe custody.
- **Instruments** — Issuing letters of credit and travellers' cheques.
- **Agency** — Acting as agent for customers and the Government, and selling insurance as an agent.
- **Trustee** — Acting as trustee.
- **Notified business** — Any other business the Central Government notifies in the Gazette.

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- **Nothing else — Section 6(2)** — A bank may not do any business other than what Section 6(1) allows.
- **Name — Section 7** — A company doing banking in India must use the word **"bank", "banker" or "banking"** in its name.
- **Exclusive use** — No other company may use these words.
- **Exceptions** — A **subsidiary of a bank** formed for permitted purposes, and an **association of banks** formed to protect their common interests.
- **No trading — Section 8** — A bank cannot **buy, sell or barter goods**.
- **Exception to Section 8** — It may sell goods only to **recover a loan** (for example, goods pledged to it), or in connection with **bills of exchange**.

Non-banking assets — Section 9

- **Situation** — A bank may end up owning property it does not need, for example a house taken over from a defaulter.
- **Time to sell** — The bank must sell such property within **7 years** of acquiring it.
- **Extension** — **RBI** may extend this by up to **5 more years** if it is in the **interest of depositors**.
- **Outer limit** — So the maximum is **12 years**.
- **Not covered** — Property used for the bank's own work (branch building, staff quarters).

Example: In March 2020, a bank took over a factory shed from a defaulting borrower. It must sell the shed by **March 2027**. If the market is bad, the bank can ask RBI for time. RBI can allow up to **March 2032**, but not later.

Question	Answer
Who extends the 7-year period?	**RBI**, not the Central Government
What is the test for extension?	**Interest of depositors**
Does the limit apply to the bank's own branch building?	**No**

Remember this

- Only listed business; nothing outside **Section 6**.
- **7 years** to sell non-banking property; RBI may add **5**; maximum **12**.

Topic 4 — Management and Capital of a Bank (Sections 10 to 13)

These sections decide **who may run** a bank, how the **board** must look, and how the **capital** must be structured.

Who cannot be in management — Section 10

- A bank cannot employ or be managed by a **managing agent**.
- Nor by a person **adjudicated insolvent** (declared unable to pay debts) or who has **compounded with creditors**.
- Nor by a person **convicted of an offence involving moral turpitude**.
- Nor by a person who has a **substantial interest in, or is a director of, any other company** (limited exceptions such as subsidiaries).

Board and top management

- **Board composition — Section 10A(2)** — At least **51%** of the total directors must be **experts**.
- **Expert fields** — Accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law, small-scale industry, and any other field RBI considers useful.
- **Special knowledge** — At least **2 directors** must have special knowledge of **agriculture and rural economy, co-operation or small-scale industry**.
- **Tenure — Section 10A(2A)** — A director (other than the Chairperson or a whole-time director) cannot hold office for more than **8 years continuously** in a banking company.
- **Co-operative bank** — The limit is **10 years** from **1 August 2025** (it was 8 years earlier).
- **See** — Ch 2 (p. 8) for the 3-year cooling-off for co-operative bank directors (from 25 May 2026).
- **Chairman / MD — Section 10B** — Every banking company must have a Chairman (whole-time or part-time) or a Managing Director who runs the whole business.
- **Term** — A whole-time Chairman or MD holds office for at most **5 years at a time**. It can be renewed, each time for not more than 5 years.

Item	Limit
Ordinary director, banking company	**8 years** continuous
Ordinary director, co-operative bank	**10 years** continuous (from 1 August 2025)
MD / whole-time Chairman	**5 years** per term, renewable
RBI-appointed additional director (Topic 7)	**3 years** per term, renewable

Minimum capital — Section 11

The Act fixes very old minimum figures for **paid-up capital plus reserves**.

Type of bank	Section 11 minimum
Foreign bank with a place of business in **Mumbai or Kolkata** (or both)	**₹20 lakh**
Foreign bank **without** a place of business in Mumbai or Kolkata	**₹15 lakh**
Domestic bank with places of business in more than one State, **including** Mumbai or Kolkata	**₹10 lakh**
Domestic bank with places of business in more than one State, **not including** Mumbai or Kolkata	**₹5 lakh**
Domestic bank with all places of business in **one State**	**₹1 lakh** (with small additions per district)

- **History only** — These figures are still printed in the Act, but nobody can start a bank with ₹5 lakh today.
- **Real requirement** — It comes from RBI's **licensing rules under Section 22**.
- **Example** — A new **universal bank** needs **₹1,000 crore** of paid-up voting equity capital.
- **Exam tip** — "Section 11 minimum" means the Act figure; "capital to start a bank today" means the RBI figure.

Capital structure, voting and commission

- **Capital structure — Section 12(1)** — Subscribed capital must be at least **half of authorised** capital.
- **Paid-up** — Paid-up capital must be at least **half of subscribed** capital.

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- **Ratio** — Authorised : subscribed : paid-up = **4 : 2 : 1** (at minimum).
- **Voting rights — Section 12(2)** — No shareholder can vote with more than **10%** of total voting rights, however many shares they hold.
- **Higher ceiling** — RBI may raise this ceiling in stages up to **26%** (since the **2012 amendment**).
- **Commission on shares — Section 13** — Commission, brokerage or discount on issue of shares cannot exceed **2.5%** of the paid-up value of the shares.

Example: A bank has authorised capital of ₹800 crore. Subscribed capital must be at least ₹**400 crore**. Paid-up capital must be at least ₹**200 crore**. If subscribed capital is ₹600 crore, paid-up must be at least ₹**300 crore** (half of subscribed).

Example: Mr. B holds **18%** of a bank's shares. Unless RBI has raised the ceiling for him, he can vote only with **10%**. His extra **8%** carries dividend but no vote.

Remember this

- **51%** expert directors; at least **2** from agriculture, co-operation or small industry.
- **4 : 2 : 1** capital ratio; **10%** voting cap, RBI may raise to **26%**; **2.5%** share commission.
- Section 11 figures are historical; **RBI licensing rules** decide real capital.

Topic 5 — Reserves, Shareholdings and Restrictions on Loans (Sections 17 to 21A)

These sections protect depositors by making banks **keep aside profit**, **limiting risky shareholdings** and **stopping loans to insiders**.

- **Statutory reserve — Section 17** — Every year, **before declaring any dividend**, a bank must transfer part of its profit to a reserve fund.
- **Act figure** — At least **20%** of the year's profit.
- **RBI figure** — RBI has directed banks to transfer **25% of net profit** (from the year ended **31 March 2001**).
- **Withdrawal** — Any withdrawal from this reserve must be reported to RBI within **21 days**.
- **Cash reserve of non-scheduled banks — Section 18** — A non-scheduled bank (not in the **Second Schedule** of the RBI Act) must keep a cash reserve of at least **3%** of its demand and time liabilities.
- **Base** — Liabilities as on the **last day of the second preceding fortnight**. Scheduled banks keep **CRR under the RBI Act** instead.
- **Subsidiaries — Section 19(1)** — A bank may form a subsidiary only for purposes the Act allows, and only with **RBI's approval**.

Shares in other companies — Section 19(2)

A bank cannot hold shares in any company, as **pledgee, mortgagee or absolute owner**, beyond the **lower** of two limits:

- **30%** of the paid-up share capital of **that company**, or
- **30%** of the bank's **own paid-up capital plus reserves**.

Loans a bank cannot give — Section 20

No.	Prohibited loan
1	Loan against the security of its **own shares**
2	Loan to any of its **directors**
3	Loan to a **firm** in which a director is a **partner, manager, employee or guarantor**
4	Loan to a **company** in which a director is a **director, manager, employee or guarantor**, or holds a **substantial interest**
5	Loan to an **individual** for whom a director is a **partner or guarantor**

- **RBI Directions** — They add operating rules, e.g. **Board or Management Committee sanction** for loans to **relatives of directors**. These are RBI Directions, not the Act itself.
- **RBI's control over advances — Section 21** — RBI can fix the **purpose** of loans, the **margin**, the **maximum amount**, the **interest rate** and other conditions.
- **Legal root** — Section 21 is the basis of **priority sector lending** rules, **gold loan LTV** limits and **exposure norms**.
- **Interest not reviewable — Section 21A** — A court **cannot reopen** a loan deal between a bank and its borrower on the ground that the interest is too high.
- **Limits of 21A** — It does not apply to **co-operative banks**. By court rulings, it does not override **State money-lending laws** for agricultural loans in some situations.

Example: Bank P has paid-up capital plus reserves of ₹10,000 crore. It wants shares of Company Q, whose paid-up capital is ₹5,000 crore. 30% of Q's capital = ₹**1,500 crore**. 30% of P's capital and reserves = ₹**3,000 crore**. Lower limit = ₹**1,500 crore**. Bank P cannot hold Q shares above ₹1,500 crore.

Example: Ms. C is a director of Bank R. She is also a partner in a trading firm. The firm applies to Bank R for a working capital loan. Bank R **must refuse**. The bar applies because a director is a partner in the borrowing firm, **whatever the loan amount**.

Rule	Act figure	RBI figure
Statutory reserve transfer	**20%** of profit	**25%** of net profit

Exam answer: quote **20%** when the question says “under Section 17”; quote **25%** when it says “as directed by RBI”.

Remember this

- Reserve: Act **20%**, RBI **25%**; withdrawals reported in **21 days**.
- Shares in another company: **30%** of either base, **lower** applies.
- No loan against own shares; no loan to directors or their firms.

Topic 6 — Licence, Branches, SLR, Returns and Unclaimed Deposits (Sections 22 to 26A)

This is the operating heart of the Act: **licence**, **branches**, the **SLR** cushion, regular **returns**, and **unclaimed money**.

Licence — Section 22

- **Licence needed** — No company may do banking in India without a **licence from RBI**.
- **See** — Ch 11 (p. 67) for the four Section 22(3) checks and cancellation of a licence after a chance to correct.

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- **Appeal** — To the **Central Government** within **30 days**.

Places of business — Section 23

- **Prior permission** — RBI's prior permission is needed to open a new place of business **in India or abroad**, or to shift one **outside the same city, town or village**.
- **Place of business** — Includes a branch, sub-office, pay office, sub-pay office, and any place where deposits are taken, cheques cashed or money lent.
- **The one exception** — No permission for a **temporary place of business** for **not more than one month**.
- **Conditions of exception** — It must be in a city, town or village where the bank **already has a place of business**, for an **exhibition, conference, mela** or similar occasion.
- **Not a grace period** — This is the only meaning of "one month" in Section 23. It is not a general one-month grace period for branches.
- **Conditions and revocation** — RBI may attach conditions and may revoke permission **after a hearing** if conditions are broken.
- **RRBs** — Route their applications through their **sponsor bank and NABARD**.
- **Branch Authorisation rules** — SCBs have general permission to open "banking outlets", subject to conditions such as opening **25%** of new outlets in **unbanked rural centres**. This is an RBI Direction under Section 23, not the Act.

SLR — Section 24

- **What SLR is** — Every bank must keep part of its money in **safe, liquid assets** so it can always repay depositors.
- **Eligible assets** — **Cash in hand, gold**, and **unencumbered approved securities** (government securities, Treasury bills, State Development Loans).
- **Unencumbered** — Free of any charge or lien.
- **Not eligible** — Balances with RBI under the **Standing Deposit Facility** do not count as SLR.
- **Ceiling** — RBI fixes the rate. The Act sets only a ceiling of **40% of NDTL**.
- **No floor** — The old **25%** floor was removed by the **2007 amendment**.
- **Current SLR** — **18%**.
- **Base** — NDTL as on the **last day of the second preceding fortnight**.
- **See** — Ch 2 (p. 8) for the new meaning of "fortnight" and the RBI Directions applying it from the fortnight beginning 16 January 2026.
- **2025 change** — "Last day" wording came in from **15 December 2025**. Earlier the Act said **"last Friday"** of the second preceding fortnight.
- **When checked** — At the **close of business on any day**. A return is filed as at close of business on the **last day of each fortnight**.
- **Penalty for shortfall** — **3% above Bank Rate** on the shortfall for the first fortnight; **5% above Bank Rate** if it continues in the next fortnight.

Example: Bank S has NDTL of ₹50,000 crore. Required SLR at 18% = ₹**9,000 crore**. It holds ₹8,800 crore of eligible assets — a shortfall of ₹**200 crore**. Bank Rate is 5.50%. For the first fortnight it pays penal interest at **8.50%** (5.50 + 3) on ₹200 crore for the fortnight. If the shortfall continues, the rate becomes **10.50%** (5.50 + 5).

Returns — Sections 25 and 27

- **Section 25** — A bank must hold **assets in India** equal to at least **75%** of its demand and time liabilities in India, and file a **quarterly return**.
- **Section 27** — **Monthly return** of assets and liabilities.
- **Reporting date** — Both are now prepared as on the **last day** of the quarter or month (earlier: last Friday), effective **15 December 2025**.

Unclaimed deposits — Sections 26 and 26A

- **Section 26** — A deposit account **not operated for 10 years** is "unclaimed".
- **Term deposit** — The 10 years run from the **date of maturity**.
- **Annual return** — Filed with RBI within **30 days** after the end of the calendar year (**31 December**).
- **Section 26A** — The money is transferred to RBI's **Depositor Education and Awareness Fund (DEAF)** within **three months** of completing 10 years.
- **DEAF Scheme** — Effective from **24 May 2014**.
- **Later claim** — The customer can still claim. The bank pays and then gets a **refund from the Fund**.
- **Do not confuse with IEPF** — The 2025 amendment moved unclaimed **dividends, shares and bond money** of SBI and nationalised banks to the **Investor Education and Protection Fund (IEPF)**.
- **Deposits unchanged** — Unclaimed deposits still go to **DEAF**.

Example: Mr. D opened a savings account in June 2015 and never used it after that. In **June 2025** it completed 10 years. The bank shows it in the annual return filed by **30 January 2026** and transfers the balance to DEAF. In 2027 Mr. D turns up with his passbook. The bank must **pay him** (with interest as per RBI rules) and then claim the amount back from the Fund.

Fund	What goes there	Governed by
DEAF	Unclaimed bank **deposits** (10 years)	BR Act **Section 26A**, RBI scheme
IEPF	Unclaimed **dividends, shares, bonds** — companies, and from 2025 also SBI and nationalised banks	**Companies Act**; 2025 amendment

Remember this

- Licence appeal: **Central Government, 30 days**.
- Branch permission from RBI; exception: temporary place **≤ 1 month** at a mela in an **existing centre**.
- SLR: ceiling **40%**, current **18%**, base = last day of second preceding fortnight; penalty **3%** then **5%** above Bank Rate.
- Unclaimed: **10 years**; return within **30 days** of year-end; money to **DEAF, not IEPF**.

Topic 7 — Accounts and Audit (Sections 29 to 31)

- **Section 29** — Every bank prepares a **balance sheet and P&L account** as on the last working day of the year (**31 March**).
- **Formats** — As in the **Third Schedule**: **Form A** for balance sheet, **Form B** for P&L.
- **Section 30** — Accounts must be audited by a **qualified auditor**.
- **RBI approval** — RBI's **prior approval** is needed to appoint, reappoint or remove the auditor.
- **Special audit** — RBI may order a special audit **at the bank's cost** in the public interest or depositors' interest.

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- **Section 31** — Audited accounts and auditor's report must be published, and **three copies** sent to RBI within **3 months** of the year-end.
- **Extension** — RBI may extend this by up to **3 more months**.
- **2025 change** — For **SBI and nationalised banks**, auditor qualifications now follow **Section 141 of the Companies Act, 2013**.
- **Auditor's fee** — The bank itself fixes the auditor's remuneration from **1 August 2025**. Earlier this was done in consultation with RBI or by the Government.

Example: Bank T's year ended 31 March 2026. It must send audited accounts to RBI by **30 June 2026**. If RBI grants the full extension, the last date becomes **30 September 2026**.

Remember this

- **31 March**; Third Schedule **Forms A and B**.
- RBI approval to appoint or remove the auditor; RBI can order a **special audit**.
- **3 months** to submit, plus up to **3 months** extension.

Topic 8 — RBI's Powers to Control and Correct a Bank (Sections 35 to 45)

RBI has a **ladder of powers**, from gentle (inspection) to drastic (freezing the bank). The order and section numbers are the most tested part of this chapter.

Powers in order of severity

- **Step 1 — Inspect (Section 35)** — RBI may inspect any bank and its books **at any time**, on its own or when the Central Government asks.
- **After inspection** — RBI reports to the Central Government, which may **prohibit fresh deposits** or apply for **winding up**.
- **Step 2 — Directions (Section 35A)** — In the public interest, in the interest of banking policy, to protect depositors, or to secure proper management.
- **Master Directions** — Every RBI Master Direction to banks rests on **Section 35A**.
- **Step 2A — Insolvency (Sections 35AA and 35AB, added 2017)** — The Central Government may authorise RBI to direct a bank to start **IBC** proceedings against a defaulter.
- **Stressed assets** — RBI may also issue directions for resolving stressed assets.
- **Step 3 — Add directors (Section 36AB)** — RBI may appoint additional directors, with **no limit on number**.
- **Term** — Up to **3 years** at a time, renewable. They are **not counted** for the **51% expert rule** under Section 10A.
- **Step 4 — Remove a person (Section 36AA)** — RBI may remove a Chairman, director, chief executive or other officer, in the public interest, to protect depositors or for proper management.
- **Hearing and appeal** — The person must be heard first. Appeal lies to the **Central Government** within **30 days**.
- **Step 5 — Supersede the board (Section 36ACA)** — With **Central Government approval**, RBI may remove the whole board and appoint an **administrator**.
- **Period** — Up to **6 months**, extendable to a total of **12 months**. Power came in **2012**; extended to co-operative banks in **2020**.
- **Step 6 — Moratorium and scheme (Section 45)** — On RBI's application, the **Central Government** may order a moratorium (stop on payments, fresh deposits) for up to **6 months in total**.
- **Scheme** — RBI prepares a scheme to **reconstruct** the bank or **merge** it. Since **2020**, RBI may do so **without a moratorium**.
- **Use** — **Yes Bank (2020)** and **Lakshmi Vilas Bank (2020)** rescues.
- **Voluntary merger (Section 44A)** — Shareholders holding **two-thirds in value** of each bank must approve, and then **RBI** must sanction.

Example: Bank U's inspection shows the MD has been sanctioning large loans to his relatives' companies. RBI wants the loans stopped and the MD out, but the bank is otherwise sound. Likely sequence: **directions under Section 35A** to stop the loans; **removal of the MD under Section 36AA** after a hearing; an **additional director under Section 36AB** to watch the board. RBI would **not** supersede the board (36ACA) or seek a moratorium (45), because the bank itself is not failing.

Section	Power	Who acts	Time limit
36AA	Remove one person	RBI, after hearing	Appeal in **30 days**
36AB	Add directors	RBI	**3 years** per term, no cap on number
36ACA	Remove whole board	RBI with Central Government	**6 months**, total **12**
45	Moratorium and scheme	Central Government on RBI's request	Moratorium max **6 months**

Remember this

- Ladder: **35** inspect → **35A** direct → **36AB** add → **36AA** remove → **36ACA** supersede → **45** moratorium.
- 36AB: no cap, **3 years**. 36ACA: **6 + 6 = 12 months**. 45: **6 months**. 44A: **two-thirds in value**.

Topic 9 — Records, Nomination, Penalties and Who the Act Applies To (Sections 45Y to 56)

Records

- **Section 45Y** — The Central Government, in consultation with RBI, makes rules on how long banks keep books and documents: **Banking Companies (Period of Preservation of Records) Rules, 1985**.
- **Section 45Z** — After paying a cheque, a bank may **return the original** to the customer if it keeps a **true copy**.

Nomination

- **Who may nominate** — A depositor, a locker hirer, or a person who leaves articles in safe custody.
- **Sections** — **45ZA** deposits, **45ZC** safe custody, **45ZE** lockers.
- **Number** — From **1 November 2025**, up to **four nominees**.
- **See** — Ch 2 (p. 8) for simultaneous and successive nominees, the Section 45ZG order of priority, valid discharge and the nominee's position as trustee for the legal heirs.
- **Operating rules** — In RBI's **Nomination Directions, 2025**: acknowledgement within **3 working days**, opt-out by written declaration, "Nomination Registered" printed on the passbook.

Example: Mrs. E has a ₹10 lakh fixed deposit. In December 2025 she names her two children as **simultaneous** nominees, 60% and 40%. On her death the

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bank pays ₹**6 lakh** and ₹**4 lakh** and is fully discharged. Had she named them **successively**, the first child would get the whole ₹10 lakh; the second would receive only if the first had died before payment.

Penalties

- **Section 46(1)** — Wilful **false statement**, or wilfully leaving out a material fact, in a return, balance sheet or document → **imprisonment up to 3 years and fine**.
- **Section 46(4)** — Any other breach of the Act or an RBI direction → fine up to ₹**1 crore or twice the amount involved, whichever is more**.
- **Continuing breach** — Further fine up to ₹**1 lakh per day**.
- **Section 47A** — **RBI itself** may impose Section 46 fines after giving the bank a chance to be heard.
- **Use** — RBI's penalty orders are issued under 47A, e.g. for **KYC failures** or **late fraud reporting**. KYC is an example of what gets penalised, not the subject of the section.

Example: A bank fails to report a ₹3 crore fraud within the time RBI has set. Under Sections 46(4) and 47A, RBI may impose a fine up to ₹**6 crore** (twice ₹3 crore), which is more than ₹1 crore. If the failure continues after the order, up to ₹**1 lakh per day** may be added.

Cheque-withdrawable deposits and coverage

- **Section 49A** — Only a **banking company, RBI, SBI**, or an institution **notified by the Central Government** may accept deposits withdrawable by cheque.
- **Section 51** — Applies listed sections to **SBI, nationalised banks and RRBs**.
- **Section 53** — The **Central Government** may exempt any bank from any provision, **on RBI's recommendation**, by Gazette notification.
- **Section 56** — Applies the Act to **co-operative banks** with listed changes (strengthened in **2020**).

Remember this

- Nominees: up to **4** from **1 November 2025**; simultaneous only for deposits; **45ZG** gives the order.
- False statement: **3 years** jail plus fine. Other breach: ₹**1 crore or 2×**, plus ₹**1 lakh/day**.
- Cheque-withdrawable deposits: **banking company, RBI, SBI**, notified institutions.

BP Vol 1 | CH-01 | MCQs

Q1. A company collects money from its 300 members only, promises repayment after one year, and lends the money to other members. Under Section 5(b), is this "banking"? *[Ref: Topic 2, p. 2]*

(a) Yes, because money is accepted for lending
(b) No, because the deposits are not from the public and are not withdrawable by cheque
(c) No, because only companies with an RBI licence can be called banks
(d) Yes, because the money is repayable

Q2. Mr. X holds shares of ₹1.5 crore in Alpha Ltd; his wife holds ₹40 lakh and his adult son holds ₹50 lakh. Alpha's paid-up capital is ₹12 crore. Does Mr. X have a substantial interest in Alpha under Section 5(ne)? *[Ref: Topic 2, p. 2]*

(a) Yes — the family total of ₹2.4 crore exceeds ₹2 crore
(b) No — only Mr. X's own ₹1.5 crore counts, and it is below ₹2 crore
(c) Yes — ₹1.9 crore (Mr. X plus wife) exceeds 10% of paid-up capital, which is ₹1.2 crore
(d) No — the test is only 10% of paid-up capital, and ₹1.5 crore is above it, so the test does not apply

Q3. A bank acquired a warehouse from a defaulting borrower on 1 April 2019. In January 2026 it is still unsold. Which statement is correct? *[Ref: Topic 3, p. 2]*

(a) The bank has already violated Section 9 because 7 years ended and no extension exists
(b) The Central Government may extend the period by 5 years
(c) The bank may hold it indefinitely because property acquired in loan recovery is exempt
(d) The bank may hold it till April 2026 as of right, and RBI may allow it to hold till April 2031 at most

Q4. A bank's authorised capital is ₹1,200 crore and subscribed capital is ₹700 crore. What is the minimum paid-up capital required under Section 12(1)? *[Ref: Topic 4, p. 3]*

(a) ₹300 crore (b) ₹350 crore (c) ₹600 crore (d) ₹700 crore

Q5. A promoter holds 22% of a private bank's shares. Without any special RBI approval, what share of the total voting rights can the promoter exercise? *[Ref: Topic 4, p. 3]*

(a) 22% (b) 26% (c) 15% (d) 10%

Q6. Bank M has paid-up capital plus reserves of ₹6,000 crore. It wants to buy shares in Zeta Ltd, whose paid-up capital is ₹8,000 crore. What is the maximum it may hold under Section 19(2)? *[Ref: Topic 5, p. 4]*

(a) ₹1,800 crore (b) ₹2,400 crore (c) ₹800 crore (d) ₹6,000 crore

Q7. A director of Bank N is a guarantor for a loan taken by his friend from Bank N. Which statement is correct? *[Ref: Topic 5, p. 4]*

(a) Allowed, because the director is not the borrower
(b) Allowed if the loan is below ₹25 lakh
(c) Allowed with Board approval
(d) Not allowed — Section 20 bars loans to any individual for whom a director stands as guarantor

Q8. Bank Q wants to open a temporary counter at a trade fair for 25 days in a town where it has no branch. Under Section 23: *[Ref: Topic 6, p. 4]*

(a) No RBI permission is needed because the period is within one month
(b) RBI permission is needed because the exception applies only in a place where the bank already has a place of business
(c) No permission is needed because temporary counters are outside Section 23
(d) Permission of the State Government is needed

Q9. Bank R's NDTL is ₹40,000 crore. SLR is 18% and Bank Rate is 5.50%. Bank R holds eligible SLR assets of ₹7,000 crore. For the first fortnight of shortfall, penal interest is charged at: *[Ref: Topic 6, p. 4]*

(a) 8.50% on ₹200 crore (b) 5.50% on ₹200 crore
(c) 10.50% on ₹200 crore (d) 8.50% on ₹7,200 crore

LEARNING SESSIONS

Q10. A savings account was last operated on 10 May 2015. When does it become an "unclaimed deposit" under Section 26, and by when must it appear in the bank's annual return? *[Ref: Topic 6, p. 4]*
(a) 10 May 2025; return by 30 January 2026
(b) 10 May 2025; return by 31 March 2026
(c) 10 May 2020; return by 30 January 2021
(d) 10 May 2025; return by 30 June 2026

Q11. Bank S's financial year ended on 31 March 2026. It has not yet sent its audited accounts to RBI on 15 July 2026. Which is correct? *[Ref: Topic 7, p. 5]*
(a) It is in default; Section 31 allows only 3 months with no extension
(b) It is not in default; Section 31 requires filing only with the Registrar of Companies
(c) It is not in default; the statutory period is 6 months
(d) It is in default only if RBI has not extended the period; RBI may extend up to 30 September 2026

Q12. RBI is satisfied that Bank T's Managing Director has acted against depositors' interests, but the rest of the board is functioning well. The most proportionate power for RBI to use is: *[Ref: Topic 8, p. 6]*
(a) Section 36ACA — supersede the board for 6 months
(b) Section 45 — apply for a moratorium
(c) Section 36AA — remove the MD after giving him a hearing
(d) Section 22 — cancel the licence

Q13. RBI appoints three additional directors to Bank U's board under Section 36AB in 2026. Which statement is correct? *[Ref: Topic 8, p. 6]*
(a) This is invalid because RBI may appoint at most one additional director
(b) Each appointment can be for a maximum of 5 years, like an MD
(c) Each appointment can be for up to 3 years and may be renewed; there is no cap on the number of such directors
(d) The appointments need approval of the bank's shareholders by two-thirds majority

Q14. Mrs. V wants to nominate her three children for her fixed deposit of ₹9 lakh, giving each an equal share, and also nominate the same three for her locker in the same equal-share manner. In January 2026, the branch should: *[Ref: Topic 9, p. 6]*
(a) Register both nominations with equal shares, since up to four nominees are allowed
(b) Register the locker nomination with shares, but the deposit nomination only successively
(c) Refuse both, since only one nominee is allowed per facility
(d) Register the deposit nomination with equal shares, but for the locker register the three only in order of succession, since simultaneous nomination is allowed only for deposits

Q15. RBI finds that a bank breached an RBI direction in a transaction involving ₹4 crore, and the breach continued for 10 days after RBI's order. Under Sections 46(4) and 47A, the maximum monetary penalty RBI can impose is: *[Ref: Topic 9, p. 6]*
(a) ₹1 crore (b) ₹4 crore
(c) ₹8 crore plus ₹10 lakh (d) ₹1 crore plus ₹10 lakh

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	b	7	d	10	a	13	c
2	c	5	d	8	b	11	d	14	d
3	d	6	a	9	a	12	c	15	c

CH-2 Banking Laws (Amendment) Act, 2025

Topic 1 — Basic Background

- **What it is** — The **Banking Laws (Amendment) Act, 2025** is **not a new banking code**. It is an **amending Act**.
- **What it changes** — Words, figures and definitions inside **five existing laws**.
- **The five laws** — RBI Act, 1934; Banking Regulation Act, 1949; State Bank of India Act, 1955; and the two **Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980** (which created the nationalised banks).
- **Size** — It makes **19 separate amendments** across these five Acts.
- **Who runs it** — The **Central Government** notified the Act and its commencement dates.
- **Supervision** — Once a provision is in force, the same authority that already supervised that rule (mainly **RBI**) supervises its day-to-day working.

History in four lines

- **Parliament** — Passed by the **Lok Sabha on 3 December 2024** and by the **Rajya Sabha on 26 March 2025**.
- **Assent** — Presidential assent on **15 April 2025**, published in the Gazette the same day as **Act No. 16 of 2025**.
- **Section 1(2)** — Allowed the Central Government to bring different provisions into force on different dates. This was used to switch the Act on in **three tranches**.
- **Assent ≠ commencement** — Nothing took legal effect on 15 April 2025 itself. Each provision started only on its **notified date**.

Which Acts it touches

Act amended	Subject touched
Reserve Bank of India Act, 1934	Cash reserve ratio: the meaning of "fortnight" and the return timeline
Banking Regulation Act, 1949	Substantial interest, director tenure, common directorship, reporting dates, nomination, co-operative banks
State Bank of India Act, 1955	Unclaimed dividends, shares and bonds; auditor remuneration
Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970	Same subjects, for the **first set** of nationalised banks
Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980	Same subjects, for the **second set** of nationalised banks

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LEARNING SESSIONS

CH-1 Deposit Accounts and Interest Rate Rules

Topic 1 — Basic Background

- **Rulebook** — The **RBI (Commercial Banks – Interest Rate on Deposits) Directions, 2025** tell a bank how it may price and pay interest on deposits.
- **Issue date** — Issued on **28 November 2025**; replaced the earlier **Master Direction of 2016**.
- **Who runs it** — **RBI** issues the Directions. Inside RBI's framework, each bank's **Board of Directors** fixes the actual rates it will pay.
- **Coverage** — Apply to **all commercial banks operating in India**.
- **Not covered** — **Foreign branches of Indian banks**, since they follow the host country's rules.
- **Parallel Directions** — Separate Directions cover Small Finance Banks, Regional Rural Banks, Local Area Banks, payments banks and co-operative banks; their figures can differ from this chapter.

History in short lines

- **Savings rate** — Fixed by RBI (last at **4% per annum**) until deregulated on **25 October 2011**. Since then, each bank's Board decides the rate.
- **Minimum tenor** — A domestic term deposit needed **15 days** until **2004**, when it was cut to **7 days**.
- **Bulk deposit threshold** — The amount above which a bank may price a term deposit differently moved from **₹1 crore**, to **₹2 crore from 2019**, to **₹3 crore from 7 June 2024**.
- **Non-callable floor** — For individual deposits that cannot be closed before maturity, the floor rose from **₹15 lakh to ₹1 crore** on **26 October 2023**.

Topic 2 — Deposit Products and Who May Not Open a Savings Account (Paragraphs 6, 43)

Paragraph 6 defines the deposit products a branch sells every day. Getting these definitions right decides which interest rule applies.

Product	Meaning	Interest
Current account	A demand deposit (repayable on demand, any number of withdrawals up to the balance or an agreed limit) that is neither a savings deposit nor a term deposit	**No interest**, except on the balance of a **deceased individual or sole proprietor**
Savings deposit	An interest-bearing demand deposit, with restrictions on the number or amount of withdrawals in a period	**Daily product**; uniform up to **₹1 lakh**
Savings deposit (contd.)	Any name qualifies — Savings Account, Savings Bank Account, Savings Deposit Account, or a **BSBDA** (Basic Savings Bank Deposit Account, a no-frills account)	—
Term deposit	Repayable after a fixed period. A plain fixed deposit or a **reinvestment (cumulative)** deposit, where interest is added to principal and paid only at maturity. **Minimum tenor 7 days**	Rate varies only by **tenor, size and callability**
Recurring deposit	Fixed monthly instalments for a fixed period. Treated as a term deposit	Term-deposit rules
Bulk deposit	A single rupee term deposit of **₹3 crore and above** (**₹1 crore and above** for Regional Rural Banks and Local Area Banks)	Differential rate permitted, from the bank's rate card
Floating-rate term deposit	Rate linked to a directly observable, transparent, market-determined **external benchmark**, instead of a fixed number	**Benchmark plus a spread**
Composite cash credit (a farmer's borrowing account with a savings-like module)	A cash-credit limit that also carries a small savings-type balance	Interest, if any, only on the **minimum balance between the 10th and the last day** of the month

Who cannot hold a savings account — paragraph 43(8)

- **Basic rule** — Only **individuals** and **Kartas (heads) of a Hindu Undivided Family (HUF)** may hold a savings account.
- **Barred** — Government departments and bodies living on **budget grants**, municipal bodies, panchayat samitis, housing and drainage boards, development authorities and **political parties**.
- **Also barred** — Any **trading, business or professional concern**, whether a proprietorship, partnership or company.

Entities still allowed a savings account

- Primary co-operative credit societies **financed by the bank**.
- Khadi and Village Industries Commission boards.
- Agricultural Produce Market Committees.
- Societies registered under the **Societies Registration Act, 1860**, and companies formed for a charitable purpose under **Section 8 of the Companies Act**.
- Income-tax-exempt institutions.
- Government departments handling grants or subsidies under a **sponsored scheme** (with written authorisation).
- Organised self-help and farmers' groups.
- **Not on the list** — A private company merely implementing a Government scheme. It cannot hold a savings account.

Example: A district administration wants a savings account for a scholarship-disbursement scheme it runs with a private trust as its implementing partner. The trust applies in its own name. The branch must **refuse**: a private trust running a scheme is not a Government department and is not on the permitted list. The Government department itself, if it applies directly with proper authorisation for the sponsored scheme, may be allowed.

LEARNING SESSIONS

Remember this

- Current account: no interest (except a deceased proprietor's balance). Savings deposit: interest, with withdrawal restrictions. Term deposit: minimum tenor **7 days**.
- Bulk deposit = **₹3 crore and above** for banks; **₹1 crore and above** for Regional Rural Banks and Local Area Banks.
- Political parties, Government bodies living on budget grants, and trading/business concerns cannot hold savings accounts, unless specifically listed as an exception.

Topic 3 — General Interest-Rate Rules for All Deposits (Paragraph 7)

Paragraph 7 lays down ground rules for interest on every deposit product, before the product-specific rules in later paragraphs.

Requirement	Rule
Board policy	A comprehensive policy, approved by the Board (or a Board committee), covering interest rates and premature-withdrawal penalties for term deposits, including **partial withdrawal**
Uniformity	Rates must be uniform across **all branches and all customers**; a bank cannot pay two customers different rates for a similar amount accepted on the same date at any office
Disclosed schedule	Interest must follow a schedule of rates **disclosed in advance**; nothing outside that schedule
Bulk-deposit rate card	Kept in the bank's **Core Banking System** (CBS — the computer system linking every branch) for supervisory review
No negotiation	A depositor and the bank **cannot negotiate** the interest rate
Reasonableness	Rates must be reasonable, consistent, transparent, and open to supervisory scrutiny
Rounding	To the **nearest rupee** for rupee deposits; to **two decimal places** for FCNR(B) deposits (Foreign Currency Non-Resident (Bank) — foreign-currency term deposits for non-residents)
Maturity on a non-business day	Interest for the extra day(s), until payment on the next working day, is paid at the **originally contracted rate** on the original principal; for reinvestment and recurring deposits, on the **maturity value**
Branch takeover	If a **rural or semi-urban** branch is transferred to another lender (including a Small Finance Bank, payments bank, Local Area Bank or Regional Rural Bank), transferred deposits continue on the **original contract terms and rate till maturity**

Example: A recurring deposit is due to mature on a **Sunday** and is paid the next working day, Monday. Interest for that extra day is paid on the **maturity value** (principal plus interest already accrued), at the **rate originally contracted** — not at the savings rate and not at nil.

Remember this

- Board-approved policy; uniform, disclosed, non-negotiable rates.
- Rounding: nearest rupee (rupee deposits); two decimal places (FCNR(B)).
- Non-business-day maturity: original contracted rate, on the maturity value for RDs and reinvestment deposits.

Topic 4 — Interest on Savings Deposits (Paragraphs 9, 18, 19)

A savings deposit earns interest worked out **every day**, not once a month or once a quarter.

Rule	Value
Basis	**Daily product** — interest is worked out on the end-of-day balance, every single day
Rate structure	A **uniform rate** applies on balances **up to ₹1 lakh**, whatever the exact amount within that limit. A **differential rate** is allowed only on the part of the balance **above ₹1 lakh**
Crediting	Credited **quarterly or at shorter intervals** — a bank cannot make a customer wait longer than a quarter
Frozen accounts	Interest is credited regularly even on accounts frozen by an enforcement authority, such as a **police or tax freeze**
Legacy	The rate was deregulated on **25 October 2011**; before that, RBI fixed it

Example: A bank pays **3.00%** per annum up to ₹1 lakh and **4.00%** per annum above ₹1 lakh. A customer keeps an end-of-day balance of **₹1,60,000** for a full **90-day** quarter. Interest is worked out on a **365-day** year.

- On ₹1,00,000 at 3.00%: ₹1,00,000 × 3.00% × 90/365 = **₹739.73**.
- On ₹60,000 at 4.00%: ₹60,000 × 4.00% × 90/365 = **₹591.78**.
- Total = ₹1,331.51, rounded to the nearest rupee = **₹1,332**.

Remember this

- Daily product; uniform rate to ₹1 lakh; differential allowed above ₹1 lakh.
- Credited quarterly or shorter, even to frozen accounts.
- Rate has been deregulated since **25 October 2011**.

Topic 5 — Interest on Term Deposits — Tenor, Size and Callability (Paragraph 10)

A bank cannot fix a term-deposit rate however it likes. Only **three** things may make the rate differ: **how long** the money stays, **how much** is deposited, and **whether it can be closed early**.

Factor	Rule
Tenor	The bank fixes the maturities it offers, but the **minimum tenor is 7 days**
Size	A size-based differential rate is allowed only on **bulk deposits — ₹3 crore and above**
Size (contd.)	**No** size-based differential on the **5-year tax-saving deposit** under the Bank Term Deposit Scheme, 2006, or on a deposit under the **Capital Gains Accounts Scheme, 1988**
Callability	A bank may offer a **non-callable** deposit (cannot be closed before maturity), but every term deposit of an **individual** (single or joint) of **₹1 crore and below** must carry the premature-withdrawal facility

Example: A branch wants to accept a **₹40 lakh, 2-year** term deposit from an individual and label it "non-callable" to offer **0.25%** extra. **Not permitted**: the deposit is ₹1 crore and below, so it must carry the premature-withdrawal facility. The bank may offer the extra 0.25% only on a callable deposit, or restructure the deposit above ₹1 crore if the customer agrees.

LEARNING SESSIONS

Remember this

- Minimum tenor **7 days**; only tenor, size (bulk only) and callability may change the rate.
- Individual deposits **≤ ₹1 crore** must be callable; non-callable pricing starts only above ₹1 crore.
- No size-based differential for the 5-year tax-saver scheme or Capital Gains Accounts Scheme deposits.

Topic 6 — Premature Withdrawal of Term Deposits (Paragraphs 11, 22 to 25)

Premature withdrawal means closing a term deposit before it matures. The Directions fix exactly how interest and any penalty work.

Rule	Position
Rate on premature withdrawal	Paid at the rate applicable to the **amount and period the deposit actually remained** with the bank — never the contracted rate for the full original tenor
Below the minimum period	**No interest at all** if withdrawn before completing **7 days**
Penalty policy	Must follow a **Board-approved** comprehensive policy, which also covers **partial** premature withdrawal
Disclosure	Penalty components must be disclosed **at the time of acceptance**. If not disclosed, **no penalty** can be charged at all
Splitting on death or among joint holders	**No penalty**, as long as the period and the aggregate (combined) amount do not change
Branch transfer to another lender	**No penalty** if the depositor withdraws because the branch was taken over by another bank
Death of the depositor	Premature closing allowed **without any penalty**, even inside a **lock-in period**; this must be stated in the account-opening form

Example: A **₹5,00,000** term deposit is placed for **2 years** at **7.00%**. It is closed after **400 days**. On the deposit date, the card rate for the tenor actually run (1 year to less than 2 years) was **6.50%**, and the Board's penalty is **1%**. Interest is paid at 6.50% − 1% = **5.50% for 400 days** — not at 7.00% less a penalty, and not at the full 2-year rate.

Remember this

- Rate for the period actually run, less a disclosed penalty; nil interest below **7 days**.
- No penalty if terms were undisclosed, on death/joint-split (amount and period unchanged), or on a branch takeover.
- Death of the depositor: no penalty at all, even in a lock-in period.

Topic 7 — Additional Interest for Staff and Senior Citizens (Paragraphs 12 to 14)

Two groups may get an extra rate over the normal card rate: **bank staff** and **resident senior citizens**.

Staff addition

- **Quantum** — The bank **may** (discretionary, not compulsory) pay an additional **1% per annum** on savings or term deposits.
- **Eligible** — Serving staff, retired staff, exclusive staff associations, and the Chairman, Managing Director, Executive Director or other **fixed-tenure executives**.
- **Declaration** — The depositor must declare that the money belongs to them **personally**.
- **Duration** — Continues till the person's eligibility ends and, for a term deposit, till its maturity.
- **Joint account** — The staff member must be the **principal (first-named) holder**, with family as the other holders.
- **Deceased staff** — The **spouse** remains eligible; a **child** is not eligible.
- **Court compensation** — Money paid as court compensation for a minor child is not eligible, even if deposited jointly with a staff parent.
- **Federation** — An employees' federation whose members do not directly hold the deposit is not eligible.
- **Deputation or contract** — A person on deputation or a fixed-tenure contract loses the benefit once that term ends.

Senior-citizen addition

- **Scheme** — The bank may frame term-deposit schemes with a **higher, fixed rate** for **resident Indian** senior citizens, on a deposit of **any size**.
- **HUF excluded** — Not available on a deposit in the name of an **HUF or its Karta**, even if the Karta is a senior citizen.
- **Both additions** — A retired staff member who is also a resident senior citizen may receive **both** together.
- **NRE/NRO** — Neither the staff nor the senior-citizen addition is available on **NRE or NRO** deposits.

Example: Mr Sharma, a **retired employee** of the bank, is **62 years** old. He places a **1-year** term deposit of **₹10 lakh** as the sole holder. Card rate is 7.00%; staff addition is 1%; senior-citizen scheme gives a further 0.50%. Being both retired staff and a resident senior citizen, he receives 7.00% + 1.00% + 0.50% = **8.50% per annum**.

Remember this

- Staff: **1% p.a.**, discretionary; principal holder test; spouse of deceased staff yes, children no.
- Senior citizen: higher fixed rate, any size; not for an HUF or its Karta; retired-staff seniors get both additions.
- Neither addition applies to NRE or NRO deposits.

Topic 8 — Overdue Deposits, Deceased Depositors and Non-Resident Deposits (Paragraphs 8, 15, 16, 20, 26 to 34)

Three situations where the normal interest rule does not directly apply: a **matured deposit left unrenewed**, the **death of the depositor**, and deposits from **persons resident outside India**.

Situation	Rule
Matured term deposit left **unpaid or unrenewed**	Interest from the date of maturity till payment, at the **lower of the savings rate or the contracted rate** on the matured deposit
Renewal of an overdue deposit	Follows the bank's **paragraph 7 policy**, applying the rate on the date of maturity or renewal
Matured deposit of a **deceased depositor** (sole or joint)	Follows the bank's comprehensive deposit-interest policy
Current account of a deceased individual or sole proprietor	Earns interest at the **savings rate**, from the **date of death to the date of repayment**, even though a current account normally earns no interest

LEARNING SESSIONS

Deposits from persons resident outside India

- **Who accepts** — **NRE** (Non-Resident External) and **NRO** (Non-Resident Ordinary) rupee deposits are accepted only by **Authorised Dealer (AD) banks**, authorised by RBI to deal in foreign exchange under **FEMA**.
- **Minimum tenor** — **1 year** for an NRE deposit; **7 days** for an NRO deposit, the same as a domestic deposit.
- **Premature withdrawal** — Compulsory for individual NRE and NRO deposits of **₹1 crore and below**, as for domestic deposits.
- **No lien** — No kind of lien (a bank's right to hold funds against a claim) is allowed on **NRE savings** deposits.
- **FCNR(B)** — Foreign-currency term deposits for non-residents, for tenors between **1 year and 5 years**.
- **FCNR(B) interest** — Paid at **180-day intervals** and rounded to two decimal places. The interest ceiling is fixed separately by RBI and reviewed from time to time.

Example: A one-year term deposit of **₹2,00,000** at **7.00%** matures on **20 June 2026** and is not renewed. The savings rate that day is **3.00%**. For every unrenewed day, interest is paid at the lower rate, **3.00%** — not 7.00% and not their average. If renewed **40 days** later, interest for those 40 days is ₹2,00,000 × 3.00% × 40/365 = ₹657.53, i.e. **₹658** rounded to the nearest rupee. The fresh 1-year term then earns the rate applicable on the renewal date.

Remember this

- Overdue deposit: lower of savings rate or contracted rate, till payment or renewal.
- Deceased proprietor's current account: savings rate, date of death to repayment.
- NRE minimum tenor **1 year**; NRO minimum tenor **7 days**; only Authorised Dealer banks accept these deposits.

Topic 9 — Prohibitions and Exemptions on Deposit Business (Paragraphs 43 and 44)

Paragraph 43 lists what a bank must never do while raising deposits. **Paragraph 44** lists deposits the Directions do not apply to at all.

#	A bank must not	Exception
1	Pay remuneration, fee, commission, brokerage or any incentive on deposits to anyone	Agents collecting **door-to-door** deposits under a special scheme; **Direct Selling or Marketing Agents** under an outsourcing arrangement; **Business Facilitators or Business Correspondents**
2	Offer prizes, lotteries, free trips or anything with an element of chance to attract deposits	An inexpensive gift costing **not more than ₹250**, at the bank's discretion
3	Raise resources through agents or third parties to meet borrowers' credit needs, or lend to intermediaries purely to mobilise deposits	—
4	Advertise **only the compounded yield** on a term deposit	The **simple annual rate** for the period must always be shown as well
5	Accept **interest-free deposits** other than current accounts, or pay compensation indirectly instead of interest	—
6	Accept deposits from, or at the request of, **private financiers or unincorporated bodies**, with receipts favouring their clients	—
7	Lend against the **term deposit of another bank**	—
8	Open a savings account for an entity barred under paragraph 43(8)	Entities specifically listed as exceptions
9	Set up a **charitable fund** in consultation with depositors	—

Exemptions — paragraph 44: the Directions do not apply to

- Deposits between institutions in the **call, notice or term-money market**.
- Deposits against which a **participation certificate** has been issued.
- Deposits under the **Capital Gains Accounts Scheme, 1988**.
- **Certificates of Deposit**.
- Interest paid for **delayed collection** of outstation cheques and other instruments.

Second Amendment, effective 1 October 2026

Position	Bulk-deposit pricing
Until 30 September 2026	Bulk deposits (**₹3 crore and above**) may be priced from the bank's own bulk-deposit rate card in its CBS. **No fixed time** for publishing the card. A bank may offer different rates on two bulk deposits simply because of their **size**
From 1 October 2026	Rates on all deposits, including bulk, must be **uniform** across every branch and customer for the same amount on the same date, per a schedule disclosed in advance on the bank's **website**
From 1 October 2026 (contd.)	Bulk-deposit rate card must be published **daily by 10:10 a.m.** Differential bulk rates are allowed **only** on the depositor's **Liquidity Coverage Ratio (LCR) run-off category**

- **LCR run-off category** — A classification (such as retail, small business, non-financial corporate or financial institution) showing how quickly that depositor's money is assumed to leave the bank under stress.
- **Only ground left** — It is the only basis for pricing one ₹3-crore-and-above deposit differently from another accepted on the same day.

Example: On **5 October 2026**, a bank accepts two term deposits of **₹4 crore** each on the same day — one from a large corporate treasury and one from a small business. It may quote different rates **only if** they fall in different **LCR run-off categories**. It cannot give the corporate a better rate merely because of the size of its overall relationship, and that day's bulk-deposit rate card must already be published by **10:10 a.m.**

LEARNING SESSIONS

Remember this

- Commission on deposits is banned, except for door-to-door agents, DSAs/DMAs and Business Correspondents/Facilitators; gifts capped at ₹**250**.
- Money-market deposits, participation certificates, Capital Gains Accounts Scheme deposits, Certificates of Deposit, and delayed-collection interest are outside these Directions altogether.
- From **1 October 2026**: uniform, website-disclosed bulk rates; **10:10 a.m.** daily publication; LCR run-off category is the only basis for a same-day price difference.

BP Vol 2 | CH-01 | MCQs

Q1. A deposit account allows withdrawals any number of times, up to the balance or an agreed limit, pays no interest, and is neither a savings deposit nor a term deposit. Under paragraph 6, this is a — *[Ref: Topic 2, p. 2]*

(a) savings deposit (b) term deposit
(c) current account (d) recurring deposit

Q2. Under paragraph 6(2), a "bulk deposit" for a scheduled commercial bank means a single rupee term deposit of — *[Ref: Topic 2, p. 2]*

(a) ₹1 crore and above (b) ₹2 crore and above
(c) ₹3 crore and above (d) ₹5 crore and above

Q3. A recurring deposit matures on a Sunday and is paid on Monday. Interest for the extra day is paid — *[Ref: Topic 3, p. 3]*

(a) on the maturity value, at the originally contracted rate
(b) not at all, since Sunday is a non-business day
(c) on the instalment amount only, at the savings rate
(d) at the overdue-deposit rate

Q4. A savings account keeps an end-of-day balance of ₹1,60,000 for a full 90-day quarter. The bank pays 3% per annum up to ₹1 lakh and 4% per annum on the balance above ₹1 lakh, worked out on a 365-day year and rounded to the nearest rupee. Interest for the quarter is closest to — *[Ref: Topic 4, p. 3]*

(a) ₹1,332 (b) ₹1,200 (c) ₹1,440 (d) ₹1,600

Q5. A branch wants to open a ₹40 lakh term deposit for an individual as "non-callable", with no premature-withdrawal facility. Is this permitted? *[Ref: Topic 5, p. 3]*

(a) Yes, a bank may make any deposit non-callable
(b) No — an individual's term deposit of ₹1 crore and below must carry the premature-withdrawal facility
(c) Yes, if the depositor gives written consent
(d) No — non-callable deposits are barred for all depositors

Q6. A term deposit is closed on the 5th day after it was placed. Interest payable is — *[Ref: Topic 6, p. 4]*

(a) the savings rate
(b) the contracted rate less penalty
(c) the 7-day card rate
(d) nil

Q7. A bank's account-opening form does not mention any premature-withdrawal penalty. A depositor closes the deposit early. The bank — *[Ref: Topic 6, p. 4]*

(a) may charge the standard penalty shown on its website
(b) cannot charge any penalty, because the components were not disclosed at acceptance
(c) may charge a penalty only with RBI's approval
(d) may deduct a flat 1% by default

Q8. A ₹5,00,000 term deposit for 2 years at a contracted rate of 7.00% per annum is closed after 400 days. On the date of deposit, the card rate for the tenor actually run (1 year to less than 2 years) was 6.50% per annum, and the bank's premature-withdrawal penalty is 1%. Interest is paid at — *[Ref: Topic 6, p. 4]*

(a) 7.00% for 400 days (b) 6.50% for 400 days
(c) 5.50% for 400 days (d) 5.50% for 2 years

Q9. Which of the following is NOT eligible for the additional staff interest under paragraph 12? *[Ref: Topic 7, p. 4]*

(a) the spouse of a deceased staff member
(b) a retired staff member, as the principal holder in a joint account with a family member
(c) the minor child of a deceased staff member
(d) a fixed-tenure Managing Director of the bank

Q10. Mr Sharma, a retired employee of the bank aged 62, places a 1-year term deposit of ₹10 lakh with his former employer bank as the sole holder. The card rate is 7.00% per annum; the bank's staff addition is 1% per annum; and its senior-citizen scheme for this tenor gives a further 0.50% per annum. The total rate payable to Mr Sharma is — *[Ref: Topic 7, p. 4]*

(a) 7.00% (b) 7.50% (c) 8.00% (d) 8.50%

Q11. A one-year term deposit at 7% matures and is not renewed. The prevailing savings rate is 3%. Interest for the overdue period, until renewal or payment, is paid at — *[Ref: Topic 8, p. 4]*

(a) 7% (b) 3%
(c) the average of 7% and 3% (d) nil

Q12. On the death of a sole proprietor, interest on the credit balance in the firm's current account is payable — *[Ref: Topic 8, p. 4]*

(a) not at all, since current accounts do not earn interest
(b) at the term-deposit rate, from the date of death
(c) at the savings rate, from the date of death to the date of repayment
(d) at the overdue-deposit rate

Q13. Which of the following are permitted under paragraph 43? 1. A bank pays commission to a Business Correspondent for door-to-door deposit collection under an outsourcing arrangement. 2. A bank offers a lucky-draw car to depositors who open a fixed deposit above ₹10 lakh. 3. A bank advertises only the compounded annual yield on a term deposit, without showing the simple rate. 4. A bank gives a depositor a diary costing ₹200 at the time of accepting a deposit. *[Ref: Topic 9, p. 5]*

(a) 1 and 4 only (b) 1, 2 and 4 only
(c) 2 and 3 only (d) All four

Q14. Which of the following is exempt from the 2025 Deposit Directions under paragraph 44? *[Ref: Topic 9, p. 5]*

(a) A recurring deposit of an individual
(b) A bulk deposit of ₹5 crore
(c) A staff term deposit
(d) A deposit under the Capital Gains Accounts Scheme, 1988

LEARNING SESSIONS

Q15. Statement I: Before 1 October 2026, bulk-deposit rates may be priced differently on the basis of size alone, and there is no prescribed time for publishing the bulk-deposit rate card. Statement II: From 1 October 2026, two bulk deposits accepted on the same day may be priced differently only by the depositor's LCR run-off category, and the rate card must be published daily by 10:10 a.m. *[Ref: Topic 9, p. 5]*

(a) Both I and II are correct (b) I is correct, II is incorrect
(c) I is incorrect, II is correct (d) Both are incorrect

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	c	4	a	7	b	10	d	13	a
2	c	5	b	8	c	11	b	14	d
3	a	6	d	9	c	12	c	15	a

CH-2 Nomination Facility

Topic 1 — Basic Background

- **What it is** — A holder of a bank deposit account, a locker, or an article in safe custody names **one or more individuals** to receive the money or article after the holder's death.
- **Limited effect** — Nomination decides only **who the bank pays**. It does not decide who finally owns the money; that is settled by the **law of succession**.
- **Legal basis** — The **Banking Regulation Act, 1949** gives it, in Sections **45ZA to 45ZG** (Part IIIA of the Act).
- **Who runs it** — **RBI** fixes the operating rules for banks. The **Central Government** notifies the detailed Rules under the Act.

History in three lines

- **1983** — Nomination first entered the Act. It allowed only **one nominee** for each deposit account, locker or safe-custody item.
- **2025 amendment** — The **Banking Laws (Amendment) Act, 2025** rewrote these sections. Up to **four nominees** are now allowed, from **1 November 2025**.
- **RBI Directions** — RBI issued the **Nomination Facility Directions, 2025** on the same date. They replaced **31 older circulars** with a single set of rules.

Facility	Section	Old maximum nominees	Current maximum nominees
Deposit accounts	**45ZA**	1	**4**
Articles in safe custody	**45ZC**	1	**4**
Safe deposit lockers	**45ZE**	1 (2 for a jointly held locker)	**4**

Topic 2 — What Nomination Is and the Law Behind It (Sections 45ZA to 45ZG)

- **Meaning** — Nomination is a **facility**, not a rule of inheritance.
- **How it works** — The account holder names a person to receive the money or article after death. That person deals only with the bank; the bank does not have to look further.

Main rules

- **Three facilities** — **Section 45ZA** covers deposit accounts, **45ZC** articles in safe custody, and **45ZE** safe deposit lockers.
- **Rival claims** — **Sections 45ZB, 45ZD and 45ZF** (one for each facility) say a notice of any other person's claim is **not binding** on the bank.
- **Priority** — **Section 45ZG**, newly inserted in **2025**, gives the order of priority when nominees are named one after another.
- **Valid discharge** — Once the bank pays the nominee, or hands over the article or locker contents, the bank's duty ends.
- **No ownership** — The nominee receives the money as the person **entitled to receive** it from the bank.
- **Trustee** — The **Supreme Court, in a 2010 ruling**, held that the nominee holds the amount **as trustee for the legal heirs**. Receiving it does not give absolute ownership.
- **Not an agent** — An agent acts on someone's instructions **during that person's lifetime**; a nominee's right arises only **after death**.

Often confused	Difference
Nominee vs legal heir	Nominee receives the money from the bank and gives a **valid discharge**; the legal heir's right to keep the money is decided later, under **succession law**
Nomination vs power of attorney	A nominee's right begins only **after the account holder's death**; a power-of-attorney holder can act only **while the account holder is alive**

Remember this

- Sections **45ZA** (deposits), **45ZC** (safe custody), **45ZE** (lockers); **45ZB/45ZD/45ZF** say rival claims are not binding; **45ZG** (2025) fixes priority.
- Nominee = person entitled to receive from the bank, holding as **trustee for the legal heirs**; no absolute ownership, and not an agent.
- Only a court order actually served on the bank can stop payment to a nominee.

Topic 3 — Who Can Nominate and Who Can Be a Nominee (Sections 45ZA, 45ZC, 45ZE)

- **Eligible accounts** — Individual accounts, held **singly or jointly**, and a **sole proprietor's** business deposit accounts.
- **Not available** — Accounts in the name of a **firm, company, trust, society** or similar body, as these are not natural persons.
- **Joint account** — Nomination is made, changed or cancelled only when **all joint holders sign together**. One holder cannot act alone.
- **Minor's account** — Where a **guardian** operates the account, the guardian may nominate. A minor operating an account personally **cannot** nominate on it.
- **Who can be a nominee** — Only an **individual** (natural person) — resident or non-resident, adult or minor.
- **Cannot be a nominee** — A firm, company, club, trust or society.
- **Minor as nominee** — Allowed. The account holder must also name **another individual** to receive and act on the minor's behalf if the holder dies during the minority.

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LEARNING SESSIONS

CH-1 Credit Appraisal and Financial Analysis

Topic 1 — Basic Background

- **What it is** — Credit appraisal means studying a firm's financial statements to decide how much a bank can safely lend, and on what terms.
- **Tools used** — The balance sheet, the profit and loss account, a set of standard ratios, and a few working-capital methods.
- **Who does it** — A bank's credit or appraisal officer prepares the appraisal from the audited balance sheet and profit and loss account.
- **Statutory base** — Companies prepare these statements under **Schedule III to the Companies Act, 2013**.
- **Nature of the tools** — Ratios and working-capital methods sit on top of these statements. They are **appraisal tools**, not company-law rules.

History in four lines

- **Tandon Committee (1975)** — Gave banks a structured way to size working-capital limits, called **Maximum Permissible Bank Finance (MPBF)**.
- **Chore Committee (1979-80)** — Made the Tandon Committee's **Second Method** the standard MPBF method, giving roughly a **1.33:1** current ratio.
- **April 1997** — RBI withdrew the mandatory MPBF prescription. Banks became free to use their own board-approved method.
- **Nayak Committee (1991-92)** — Gave a simpler turnover-based method for small units. RBI directed banks to apply it from **2 March 2001**. It still applies today for small fund-based working-capital limits.

Where each method stands today

Method	Introduced by	Status today
MPBF — Tandon and Chore methods	Tandon Committee (1975); Chore Committee (1979-80)	Not mandatory; a bank may still use it under its own credit policy
Turnover method	Nayak Committee (1991-92); RBI circular, 2 March 2001	Still applies for small fund-based working-capital limits
Cash budget method	Standard appraisal practice	Used for seasonal and contract-based activities, of any amount

Topic 2 — Classifying Balance-Sheet Items for Credit Appraisal (Schedule III, Ind AS 38)

A bank does not read a balance sheet the way a statutory auditor reads it. It regroups the figures to test what money the firm truly has (**net worth**) and what it truly owes.

Main rules — statutory presentation

- **No "Miscellaneous Expenditure" head** — Schedule III to the Companies Act, 2013 has no such head. It existed only under the earlier **Schedule VI** framework and does not apply today.
- **Debit balance of profit and loss** — An accumulated loss is shown as a **negative figure inside "Reserves and Surplus"**, called "Other Equity" under Ind AS. It is never shown as an asset.
- **Preliminary and issue expenses** — Preliminary expenses, share or debenture issue expenses and start-up costs are **expensed** (charged fully to profit and loss) in the year incurred. They are not carried forward as an asset.
- **Source of this rule** — **Ind AS 38, paragraph 69**, and **AS 26, paragraphs 55-56**.
- **Intangible asset** — Under **Ind AS 38, paragraph 8**, it is an identifiable, non-monetary asset with no physical form. Examples: patent, trademark, licence, purchased computer software, goodwill recognised on a business combination.
- **Fails the test** — A debit balance in profit and loss and preliminary expenses are not identifiable assets at all. So they cannot be intangible assets.

Main rules — the bank-appraisal adjustment (Tangible Net Worth)

- **Deduction for lending** — A bank still deducts these items from net worth, along with genuine intangible assets, to compute **Tangible Net Worth (TNW)**.
- **Do not mix purposes** — This is an **appraisal adjustment**, not a Schedule III classification.

Formula	Expression
TNW	(Paid-up capital + Reserves) − (Accumulated losses + Preliminary or deferred-revenue expenses not written off + Intangible assets)

- **Exam-safe line** — The debit balance of profit and loss and preliminary expenses are deducted from net worth as **fictitious items** for TNW. They are **not** classified as intangible assets under Schedule III or Ind AS 38.

Main rules — the appraisal balance-sheet layout

Banks group a firm's balance sheet functionally for appraisal, distinct from the statutory Schedule III format.

Liabilities	Assets
Capital — paid-up capital, or capital brought in by partners or promoters	**Fixed assets** — gross value less depreciation, giving the net or written-down value
Reserves (general, capital, revaluation, other)	**Non-current assets** — unquoted investments, long-term investments in associate firms or companies, old or disputed book debts, long-term security deposits
Long-term liabilities — term loan, debentures or bonds, unsecured loans not due within 12 months, fixed deposits not due within 12 months	**Current assets** — cash and bank balances, marketable or quoted securities, sundry debtors and bills receivable, inventory (raw material, work-in-process, finished goods)
Current liabilities — bank working-capital limits (cash credit, overdraft, bills, export credit), sundry creditors and bills payable, short-duration loans or deposits, expenses payable, provisions — all due within 12 months	**Current assets** (contd.) — stores and spares for regular consumption, prepaid expenses, advances recoverable within 12 months

Conventions from standard appraisal practice

- **Term-loan instalment** — The instalment payable within **12 months** is reclassified as a current liability **only** for computing the Current Ratio and the Quick Ratio.

LEARNING SESSIONS

- **Sources of funds** — Net worth plus long-term liabilities are long-term sources; current liabilities are short-term sources.
- **Profit and loss** — A profit for the year becomes part of net worth, under reserves. A loss is a fictitious item deducted from net worth, not an intangible asset.
- **Investments** — Government securities are current only if **marketable and due**. Other securities are current only if **quoted**. An investment in an associate, sister concern or similar firm is **always non-current**.
- **Bonus and rights** — Bonus shares, issued by capitalising reserves, do **not** change net worth. A rights issue brings in fresh cash, so it raises **both** net worth and the current ratio.

Example: A firm reports paid-up capital of ₹80 lakh and reserves of ₹50 lakh. It carries a debit balance in profit and loss of ₹15 lakh (an accumulated loss), preliminary expenses not written off of ₹5 lakh, and purchased goodwill of ₹10 lakh. Its Tangible Net Worth is (80 + 50) − (15 + 5 + 10) = ₹**100 lakh**, not the reported ₹130 lakh.

Important difference

Item	Schedule III / Ind AS 38 treatment	Bank-appraisal treatment
Debit balance of profit and loss	Negative figure under Reserves and Surplus	Deducted from net worth as a fictitious item for TNW
Preliminary expenses not written off	Expensed in the year incurred; not carried forward	Deducted from net worth as a fictitious item for TNW, if still shown
Goodwill, patents, purchased software	Genuine intangible assets (Ind AS 38)	Also deducted from net worth for TNW, along with the fictitious items above

Remember this

- Debit balance of profit and loss and preliminary expenses are **not** Schedule III "intangible assets" — they fail the identifiability test in Ind AS 38.
- TNW = (Capital + Reserves) − (Accumulated losses + Preliminary or deferred-revenue expenses + Intangible assets).
- Term-loan instalment payable within 12 months is a current liability only for the Current Ratio and Quick Ratio.

Topic 3 — Liquidity and Solvency Ratios (Current Ratio, Quick Ratio, Debt-Equity Ratio, DSCR)

- **Liquidity ratios** — Test whether a firm can meet its short-term dues from short-term assets.
- **Solvency (leverage) ratios** — Test how much the firm depends on outside liabilities, and how easily it can meet them.

Main rules

Ratio	Formula
Current Ratio	Current assets ÷ Current liabilities
Quick Ratio (Acid-test Ratio)	(Current assets − Inventory − Prepaid expenses) ÷ Current liabilities
Net Working Capital	Current assets − Current liabilities
Debt-Equity Ratio (DER)	Long-term liabilities ÷ Tangible Net Worth, or Total Outside Liabilities ÷ Tangible Net Worth (TOL/TNW)
Debt Service Coverage Ratio (DSCR)	(Profit after tax + Depreciation + Interest on term loan) ÷ (Interest on term loan + Annual instalment on term loan)

Commonly used figures

- **Current Ratio** — About **1.33:1**.
- **Quick Ratio** — About **1:1**.
- **DER (TOL/TNW)** — About **2:1**, as a common bank-policy ceiling.
- **DSCR** — Generally expected to average about **1.5 to 2.0** over the loan period, with a floor of about **1.2 to 1.25** in any single year.
- **Not RBI figures** — None of these is fixed by RBI. The topic on profitability ratios explains why.

Example: A firm's current assets are ₹150 lakh, including inventory of ₹60 lakh. Its current liabilities are ₹100 lakh. Its Current Ratio is 150 ÷ 100 = **1.50:1**. Its Quick Ratio is (150 − 60) ÷ 100 = **0.90:1**, below the usual 1:1 benchmark — this needs a closer look, not an automatic refusal.

Example: The same firm carries a term loan of ₹80 lakh with Tangible Net Worth of ₹120 lakh. Total Outside Liabilities = term loan + current liabilities = 80 + 100 = ₹180 lakh. DER (TOL/TNW) = 180 ÷ 120 = **1.50:1**, comfortably within a common 2:1 ceiling.

Example: Profit after tax ₹40 lakh, depreciation ₹15 lakh, interest on the term loan ₹12 lakh, annual instalment ₹20 lakh. DSCR = (40 + 15 + 12) ÷ (12 + 20) = 67 ÷ 32 = **2.09**, comfortably above a typical 1.5-2.0 average benchmark.

Remember this

- Current Ratio uses all current assets; Quick Ratio drops inventory and prepaid expenses — the more cautious test.
- DER can be stated two ways: long-term liabilities alone, or total outside liabilities (TOL/TNW); state which base is used.
- DSCR adds back depreciation and interest to profit after tax, then divides by interest plus instalment — it tests debt-servicing capacity, not just profit.

Topic 4 — Activity (Turnover) Ratios and Payment and Holding Periods

Activity or turnover ratios show how efficiently a firm uses its resources — stock, debtors, creditors and assets — to generate sales or purchases.

Main rules

- **Mirror period** — Every turnover ratio has a mirror period, expressed in days, months or weeks.
- **Keep them apart** — The ratio and its period must not be merged into one formula.

Turnover ratio (times per year)	Formula
Creditors (trade payables) Turnover Ratio	Net credit purchases ÷ Average trade payables

LEARNING SESSIONS

Turnover ratio (times per year)	Formula
Debtors (receivables) Turnover Ratio	Net credit sales ÷ Average trade receivables
Stock (Inventory) Turnover Ratio	Cost of sales ÷ Average inventory
Asset Turnover Ratio	Net sales (gross sales less excise or GST) ÷ Tangible assets

Mirror period (days, or months or weeks)	Formula
Average Payment Period	365 ÷ Creditors Turnover Ratio (use 12 for months, 52 for weeks)
Debtors Collection Period	365 ÷ Debtors Turnover Ratio
Raw material, work-in-process or finished-goods holding period	(Average holding ÷ consumption or cost of production or cost of sales) × 365

- **Averages** — Average figures use (opening + closing) ÷ 2. Use the closing figure alone only when the opening figure is not given.

Example: Net credit purchases are ₹36,00,000 and average trade payables are ₹6,00,000. Creditors Turnover Ratio = 36,00,000 ÷ 6,00,000 = **6 times**. Average Payment Period = 365 ÷ 6 ≈ **61 days**. An answer that calls "6 times" the payment period, or "61 days" the turnover ratio, has confused the ratio with the period.

Example: Net credit sales ₹4,80,00,000; average debtors ₹50,00,000. Debtors Turnover Ratio = 480 ÷ 50 = **9.6 times**; Debtors Collection Period = 365 ÷ 9.6 ≈ **38 days**. Cost of sales ₹3,80,00,000; average inventory ₹60,00,000. Stock Turnover Ratio = 380 ÷ 60 ≈ **6.33 times**; the holding period works out to about **58 days**.

Example: With net sales of ₹5,00,00,000 and tangible assets of ₹3,00,00,000, the Asset Turnover Ratio = 500 ÷ 300 ≈ **1.67 times** — how many rupees of sales each rupee of tangible assets generates.

Remember this

- A turnover ratio is a pure number ("times"); its mirror period is in days, months or weeks — never mix the two formulas.
- Average payment period = 365 ÷ Creditors Turnover Ratio; average collection period = 365 ÷ Debtors Turnover Ratio.
- Asset Turnover Ratio uses net sales over tangible assets; it measures efficiency, not profitability.

Topic 5 — Profitability Ratios and the Benchmark-versus-Rule Distinction

Profitability ratios show a firm's capacity to earn profit and its rate of return.

Main rules — profitability ratios

Ratio	Formula
Gross Profit Ratio	(Gross profit ÷ Net sales) × 100
Net Profit Ratio	(Net profit ÷ Net sales) × 100
Return on Investment (ROI) / Return on Capital Employed (ROCE)	(Profit before interest and tax ÷ Capital employed) × 100, where capital employed = TNW + outside long-term liabilities
Return on Equity (ROE)	(Net profit ÷ Tangible Net Worth) × 100
Proprietary Ratio	Tangible Net Worth ÷ Total tangible assets
Interest Coverage Ratio	Profit before interest and tax ÷ Interest expense

- **Gross Profit** — The surplus of sales over the cost of goods sold.
- **Net Profit** — The surplus left after meeting all other administrative, selling and financial expenses.
- **Interest Coverage vs DSCR** — Interest Coverage tests only interest cover. DSCR also covers the loan instalment. The two are not interchangeable.

Example: Net sales ₹5,00,00,000, cost of goods sold ₹3,80,00,000, net profit ₹40,00,000. Gross Profit Ratio = (500 − 380) ÷ 500 × 100 = **24%**. Net Profit Ratio = 40 ÷ 500 × 100 = **8%**.

Example: TNW ₹120 lakh, long-term outside liabilities ₹80 lakh, profit before interest and tax ₹60 lakh. Capital employed = 120 + 80 = ₹200 lakh, so ROI/ROCE = 60 ÷ 200 × 100 = **30%**. ROE = 40 ÷ 120 × 100 ≈ **33.3%**. With total tangible assets of ₹300 lakh, Proprietary Ratio = 120 ÷ 300 = **0.40**, so 40% of assets are funded from own capital and reserves. With interest of ₹12 lakh, Interest Coverage Ratio = 60 ÷ 12 = **5 times**.

Main rules — benchmark versus rule

The old teaching that Current Ratio 1.33:1, DSCR 2 and DER 2:1 are universal "ideal" ratios needs correction. **None of these is an RBI-mandated figure today.**

- **Current Ratio 1.33:1** — Comes from the Tandon Committee's **Second Method**, later made the standard by the Chore Committee.
- **Arithmetic behind 1.33** — Bank finance works out to **75%** of the working-capital gap. The borrower's **25%** margin on total current assets gives a current ratio of about 1.33:1.
- **Status** — RBI withdrew the mandatory MPBF prescription in **April 1997**. Assessment is now a matter of each bank's own board-approved credit policy.
- **DSCR** — Banks typically look for an average of about **1.5 to 2.0**, with a minimum of about **1.2 to 1.25** in any single year. These are bank-policy and product-specific benchmarks, not an RBI floor.
- **DER (TOL/TNW)** — **2:1** is a common ceiling for term loans.
- **No RBI ratio benchmarks** — RBI's Priority Sector Lending Directions and MSME lending rules prescribe none. Acceptable levels vary by industry, product, tenor and risk grade, and are fixed in each bank's own loan policy.

LEARNING SESSIONS

Important difference

Often confused	Difference
Current Ratio 1.33:1 as taught	A lending benchmark traced to Tandon/Chore arithmetic, not an RBI rule
DSCR "2" as taught	A common bank-policy working benchmark, not an RBI floor
DER 2:1 as taught	A common term-loan ceiling under bank policy, not an RBI ceiling

Remember this

- Ratios are computed from historical, accrual-basis figures — read them against the industry norm and the firm's own trend, not as a single-year pass or fail test.
- Call these "generally acceptable lending benchmarks" in an exam answer — never "RBI-stipulated ideal ratios".
- Year-end window dressing (temporary loan repayment, delayed purchases just before the balance-sheet date) can flatter a ratio without changing the real trend.

Topic 6 — Break-Even Point, Contribution and Margin of Safety

The **break-even point (BEP)** is the level of production or sales at which a firm makes no profit and no loss — total revenue equals total cost.

Main rules

- **Fixed costs** — Rent, salary, depreciation, financing costs. They do not change with output.
- **Variable costs** — Raw material, packing material, consumable stores. They move directly with the level of activity.

Term	Formula
Contribution per unit	Selling price per unit − Variable cost per unit
BEP (units)	Fixed costs ÷ Contribution per unit
Profit-Volume (P/V) ratio	Contribution ÷ Sales, or (Sales − Variable cost) ÷ Sales
BEP (sales value)	Fixed costs ÷ P/V ratio
Margin of Safety (MoS)	Actual sales − BEP sales
Margin of Safety, as a percentage	(MoS ÷ Actual sales) × 100
Profit at a given sales level	MoS × P/V ratio
Sales needed for a target profit	(Fixed costs + Target profit) ÷ P/V ratio

Example: Selling price ₹100 per unit, variable cost ₹60 per unit, fixed costs ₹4,00,000. Contribution per unit = 100 − 60 = ₹40. P/V ratio = 40 ÷ 100 = 40%. BEP (units) = 4,00,000 ÷ 40 = **10,000 units**. BEP (sales value) = 4,00,000 ÷ 0.40 = **₹10,00,000** — this cross-checks: 10,000 units × ₹100 = ₹10,00,000.

Example: Actual sales ₹15,00,000. Margin of Safety = 15,00,000 − 10,00,000 = **₹5,00,000**, which is 33.3% of actual sales. Profit = MoS × P/V ratio = 5,00,000 × 40% = **₹2,00,000**. For a target profit of ₹3,00,000, the sales needed = (4,00,000 + 3,00,000) ÷ 0.40 = **₹17,50,000**.

Remember this

- BEP (units) uses contribution per unit; BEP (value) uses the P/V ratio — never divide fixed costs by the selling price alone.
- Contribution = Selling price − Variable cost per unit; it is not the same as profit.
- Margin of Safety shows the cushion between actual sales and the break-even level; a thin cushion is a risk signal.

Topic 7 — Comparative Statements, Cash Flow and Funds Flow

A **comparative statement** lines up two or more years of a firm's figures side by side. It helps an appraiser see a trend, not just a single year's snapshot.

Main rules — comparative-statement red flags

Situation	Reading
Rise in sales	Favourable, but check that it is real growth and not just inflation
Fall in sales	Unfavourable; may point to under-trading
Rise in profits	Favourable; check how much is retained in the business
Rise in debtors	Favourable only if matched by a proportionate rise in sales; else check debtor ageing, drop debtors over six months, and seek a confidential opinion from the debtor's own bank
Rise in creditors	Should be matched by a proportionate rise in purchases; an unmatched rise may show the firm cannot generate enough cash to pay trade creditors
Rise in inventory	Check it is for production needs, not speculation
Fall in term loans	Favourable, showing genuine repayment capacity — check the repayment did not come out of working-capital funds

Main rules — cash flow versus funds flow

Accounts are prepared on an **accrual basis**, so profit and cash are not the same figure.

- **Cash-flow statement** — Useful for planning short-term operations.
- **Excludes non-cash items** — For example, a change in finished-goods stock recorded only as an accounting entry.
- **Basis** — Usually built on a receipts-and-disbursements basis, month by month.
- **Funds-flow statement** — Compares two balance sheets to show the movement of working capital between two years. It is a statement of **sources and application of funds**.
- **Source of funds** — An increase in a liability, or a decrease in an asset.
- **Use of funds** — An increase in an asset, or a decrease in a liability.

Example: A firm's term loan rises by ₹20 lakh during the year, and its fixed assets rise by ₹15 lakh. The rise in the term loan (a liability) is a **source** of funds of ₹20 lakh. The rise in fixed assets (an asset) is a **use** of funds of ₹15 lakh. The balance, **₹5 lakh**, adds to the firm's other sources or reduces some other use.

LEARNING SESSIONS

Remember this

- A cash-flow statement tracks actual cash receipts and payments; a funds-flow statement tracks working-capital movement between two balance-sheet dates.
- Increase in liability or decrease in asset = source; increase in asset or decrease in liability = use.
- A rise in debtors or creditors is read together with the change in sales or purchases, never alone.

Topic 8 — Working Capital Assessment — the Nayak Turnover Method and the Tandon and Chore (MPBF) Methods

- **Working capital** — The fund a firm needs for day-to-day operations: buying raw material, paying wages and meeting other running expenses.
- **Bank's decision** — How much of this the firm can fund itself, and how much the bank will finance.

Main rules — the Nayak turnover method

The **Nayak Committee** (December 1991, report 1992) gave a simple, turnover-based method for small units. RBI directed banks to apply it by its circular dated **2 March 2001**.

Element	Value
Working-capital requirement	**25%** of projected annual turnover
Minimum bank finance	**20%** of projected annual turnover (80% of the working-capital requirement)
Minimum borrower's margin	**5%** of projected annual turnover (20% of the working-capital requirement)
Eligibility	Fund-based working-capital limits up to ₹**5 crore**, for Micro and Small Enterprise units

- **Higher figure wins** — If the firm's own assessment, worked out from its operating cycle, is higher than the turnover-method figure, the higher of the two is sanctioned.
- **Above ₹5 crore** — For larger borrowers, banks use the MPBF method, the cash budget method, or their own board-approved method.
- **Timeline** — The RBI direction took effect from **2 March 2001** and still applies today.

Example: An MSE unit projects annual turnover of ₹4 crore (₹400 lakh). Working-capital requirement = 25% of 400 = ₹**100 lakh**. Minimum bank finance = 20% of 400 = ₹**80 lakh**. Minimum margin from the firm = 5% of 400 = ₹**20 lakh**. The fund-based limit of ₹80 lakh is well within the ₹5 crore ceiling, so the turnover method applies.

Main rules — MPBF (Tandon and Chore methods)

Element	First Method	Second Method
Working-capital gap (WCG)	Total current assets − Current liabilities other than bank borrowings	Same
Margin	25% of the working-capital gap	25% of total current assets
Maximum Permissible Bank Finance (MPBF)	Working-capital gap − 25% of the working-capital gap	Working-capital gap − 25% of total current assets
Resulting current ratio, in the standard illustration	About **1.17:1**	About **1.33:1**

- **Chore Committee** — Made the Second Method the standard MPBF method where MPBF is still used.
- **April 1997 circular** — Withdrew the mandatory prescription. MPBF survives only where a bank's own policy retains it, typically for larger borrowers.

Example: Total current liabilities ₹350 lakh: bank borrowings ₹200 lakh and other current liabilities ₹150 lakh. Total current assets ₹370 lakh. Working-capital gap = 370 − 150 = ₹**220 lakh**. **First Method**: margin = 25% of 220 = ₹55 lakh; MPBF = 220 − 55 = ₹**165 lakh**. Excess borrowing over MPBF = ₹**35 lakh**; current ratio 1.17:1.

Example: Same figures. Margin = 25% of 370 = ₹92.50 lakh; MPBF = 220 − 92.50 = ₹**127.50 lakh** (banks commonly round this to ₹128 lakh). Excess borrowing over MPBF is ₹**72 lakh**, and the resulting current ratio is **1.33:1** — the arithmetic source of the "1.33" benchmark.

Important difference

Often confused	Difference
Nayak turnover method	Simple, turnover-based, for MSE units up to ₹5 crore fund-based limit; margin 5% of turnover
MPBF, First Method	Margin is 25% of the working-capital gap; gives a lower current ratio, about 1.17:1
MPBF, Second Method	Margin is 25% of total current assets; gives a higher current ratio, about 1.33:1

Remember this

- Nayak method: working-capital requirement 25%, minimum bank finance 20%, minimum margin 5% of projected turnover; eligibility ceiling ₹5 crore fund-based, MSE units.
- If the firm's own assessment exceeds the turnover-method figure, the higher figure is sanctioned.
- MPBF First Method margins on the working-capital gap; Second Method margins on total current assets; RBI's mandatory prescription ended in April 1997.

Topic 9 — Cash Budget Method, Drawing Power and Term-Loan DSCR Appraisal

- **Three situations** — Some working-capital needs cannot be sized from a single balance sheet. Some limits, once sanctioned, still need a day-to-day check on how much may be drawn. A term loan is sized differently from a working-capital limit.

Main rules — cash budget method

- **Used for** — Seasonal industries, software development, film production, contractors and similar activities, **irrespective of the amount** of the limit.
- **Basis** — Projected cash inflows and outflows, month by month or quarter by quarter.
- **Limit** — Tracks the resulting **peak deficit**. It does not use a balance-sheet ratio at all.

Main rules — drawing power

- **Cap on drawings** — Whatever method fixed the limit, day-to-day availability in a cash-credit or overdraft account is capped by the **Drawing Power (DP)**.
- **Recomputation** — DP is recomputed each time a fresh stock or book-debts statement is filed — typically every month.

Formula	Expression
DP	(Paid-for stock value + Eligible book debts, each after the prescribed margin) − Sundry creditors for the goods (if netted off under the sanction terms)

LEARNING SESSIONS

- **Paid-for stock only** — Stock hypothecated to a third party, or stock-in-transit not yet received, is excluded.
- **Book-debt age** — Eligible only within the age limit in the sanction, commonly up to **90 days**. Older debts and debts from associate or sister concerns are excluded.
- **Lower of two** — The account may draw only up to the lower of the DP or the sanctioned limit. Drawing beyond DP, even within the sanctioned limit, is an **irregularity**.

Example: Cash-credit limit sanctioned: ₹70 lakh. Paid-for stock ₹60 lakh and eligible book debts (within 90 days) ₹40 lakh, each with a margin of 25%. Sundry creditors for the stock ₹15 lakh, netted off. DP = (60 × 0.75) + (40 × 0.75) − 15 = 45 + 30 − 15 = **₹60 lakh**. The DP of ₹60 lakh is lower than the ₹70 lakh limit, so the firm may draw only up to ₹60 lakh.

Main rules — term-loan DSCR appraisal

For a term loan, appraisal centres on projected cash accruals against the proposed repayment schedule. DSCR is used as a **sizing tool**, not a one-time pass-or-fail filter.

Step	What the appraiser does
1	Project profit after tax plus depreciation — the cash accrual — for each year of the loan tenor from the business plan.
2	Add back the interest on the very term loan being appraised, since DSCR tests total debt-servicing capacity, interest included.
3	Divide by that year's interest plus that year's instalment to get the year-wise DSCR; also work out the average DSCR over the full tenor.
4	If a year's DSCR falls below the bank's policy floor (commonly about 1.2 to 1.25), offer a moratorium, a step-up or step-down schedule, or a longer tenor, rather than an outright refusal.
5	Check the resulting DER after the fresh term loan against the bank's policy ceiling (commonly about 2:1). A proposal that clears DSCR but breaches the leverage ceiling still needs additional capital or a lower loan amount.

Example: A firm seeks a 5-year term loan of ₹1 crore. Year 1: profit after tax plus depreciation ₹32 lakh, interest on the new loan ₹10 lakh, instalment ₹20 lakh. Year 1 DSCR = (32 + 10) ÷ (20 + 10) = 42 ÷ 30 = **1.40**, above the usual floor of 1.2 to 1.25. If a later year dips below the floor, a step-down instalment in the early years and a step-up later, matched to cash accrual, is a common fix.

Remember this

- Cash budget method suits seasonal or contract-based activities, any amount, and uses projected cash inflow and outflow, not a balance-sheet ratio.
- Drawing Power is recomputed on every fresh stock or book-debts statement; the firm may draw only the lower of DP or the sanctioned limit.
- Term-loan DSCR is a sizing and restructuring tool across the full tenor, not a single-year pass-or-fail test.

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Q1. A firm's paid-up capital is ₹80 lakh and reserves are ₹50 lakh. It carries a debit balance in profit and loss of ₹15 lakh, preliminary expenses not written off of ₹5 lakh, and purchased goodwill of ₹10 lakh. Its Tangible Net Worth is — *[Ref: Topic 2, p. 2]*

(a) ₹130 lakh (b) ₹120 lakh (c) ₹115 lakh (d) ₹100 lakh

Q2. Which of the following are correctly treated as current assets in a bank-appraisal balance sheet? 1. Book debts recoverable within 12 months. 2. Investment in an associate company. 3. Government securities that are marketable and due. 4. Preliminary expenses not written off. *[Ref: Topic 2, p. 2]*

(a) 1, 2 and 3 only (b) 1 and 3 only
(c) 2 and 4 only (d) All four

Q3. A firm's current assets are ₹150 lakh, of which inventory is ₹60 lakh. Its current liabilities are ₹100 lakh. Its Current Ratio and Quick Ratio are — *[Ref: Topic 3, p. 3]*

(a) 1.50:1 and 0.90:1 (b) 1.50:1 and 1.50:1
(c) 0.90:1 and 1.50:1 (d) 1.33:1 and 1:1

Q4. A firm has a term loan of ₹80 lakh, current liabilities of ₹100 lakh and Tangible Net Worth of ₹120 lakh. Its Debt-Equity Ratio (Total Outside Liabilities ÷ TNW) is — *[Ref: Topic 3, p. 3]*

(a) 0.67:1 (b) 2.25:1 (c) 0.80:1 (d) 1.50:1

Q5. The Current Ratio benchmark of 1.33:1, as commonly taught, is best described as — *[Ref: Topic 5, p. 4]*

(a) a lending benchmark traceable to the Tandon/Chore Second Method, not an RBI-mandated ratio
(b) a ratio fixed under the Banking Regulation Act, 1949
(c) a listing requirement of the Securities and Exchange Board of India
(d) a ratio mandatory for every borrower under an RBI direction

Q6. A unit's profit after tax is ₹40 lakh, depreciation ₹15 lakh, interest on term loan ₹12 lakh, and the annual instalment is ₹20 lakh. Its DSCR is approximately — *[Ref: Topic 3, p. 3]*

(a) 1.75 (b) 2.09 (c) 2.50 (d) 1.34

Q7. The Interest Coverage Ratio differs from DSCR in that it — *[Ref: Topic 5, p. 4]*

(a) ignores interest altogether
(b) includes the term-loan instalment in the denominator
(c) measures only interest cover — profit before interest and tax over interest — leaving out the instalment
(d) is calculated only for working-capital limits, never for term loans

Q8. Net credit purchases are ₹36,00,000 and average trade payables are ₹6,00,000. The Average Payment Period is approximately — *[Ref: Topic 4, p. 3]*

(a) 61 days (b) 6 days (c) 36 days (d) 6 months

Q9. Average debtors are ₹50,00,000 and credit sales for the year are ₹4,80,00,000. The Debtors Collection Period is approximately — *[Ref: Topic 4, p. 3]*

(a) 9.6 days (b) 38 days (c) 96 days (d) 12 days

Q10. Selling price is ₹100 per unit, variable cost is ₹60 per unit, and fixed costs are ₹4,00,000. The break-even point, in units, is — *[Ref: Topic 6, p. 5]*

(a) 4,000 (b) 6,667 (c) 40,000 (d) 10,000

LEARNING SESSIONS

Q11. Selling price is ₹100 per unit, variable cost is ₹60 per unit and fixed costs are ₹4,00,000. If actual sales are ₹15,00,000, the margin of safety is — *[Ref: Topic 6, p. 5]*

(a) ₹5,00,000 (b) ₹4,00,000 (c) ₹10,00,000 (d) ₹15,00,000

Q12. A branch notices that a borrower's debtors have risen sharply from last year, without a matching rise in sales. The most appropriate reading is — *[Ref: Topic 7, p. 5]*

(a) this is always a favourable sign of business growth
(b) this needs a closer look — it may signal ageing or doubtful debts, and the branch should check debtor ageing and seek a confidential opinion from the debtor's own bank
(c) it always means the firm has diverted funds
(d) it has no bearing on credit appraisal

Q13. A Micro and Small Enterprise unit projects an annual turnover of ₹4 crore. Under the turnover method, the minimum bank finance and the minimum margin from the firm are — *[Ref: Topic 8, p. 6]*

(a) ₹1 crore and ₹20 lakh (b) ₹80 lakh and ₹1 crore
(c) ₹80 lakh and ₹20 lakh (d) ₹20 lakh and ₹80 lakh

Q14. A firm's total current liabilities are ₹350 lakh, of which bank borrowings are ₹200 lakh and other current liabilities are ₹150 lakh. Total current assets are ₹370 lakh. Under the Tandon Committee's First Method, the Maximum Permissible Bank Finance is — *[Ref: Topic 8, p. 6]*

(a) ₹165 lakh (b) ₹127.50 lakh (c) ₹220 lakh (d) ₹92.50 lakh

Q15. A film-production unit needs working-capital finance for an irregular, event-driven cash flow. The most suitable assessment method is — *[Ref: Topic 9, p. 6]*

(a) the Nayak turnover method
(b) the cash budget method, based on projected monthly cash inflows and outflows
(c) the Tandon Second Method
(d) the Chore Committee's current-ratio test

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	d	4	d	7	c	10	d	13	c
2	b	5	a	8	a	11	a	14	a
3	a	6	b	9	b	12	b	15	b

CH-2 Priority Sector Lending

Topic 1 — Basic Background

- **What PSL is** — **Priority Sector Lending (PSL)** makes banks direct a fixed minimum share of their credit to sectors the country wants to grow — farming, small business, education, housing and similar areas.
- **Goal** — Inclusive credit spread across the economy, not concentrated only in large corporate lending.
- **Who runs it** — The **Reserve Bank of India (RBI)** issues the PSL Directions and can change the categories, targets and limits from time to time.

Who it covers

Type of lender	Covered ?	How
Commercial banks (public, private, foreign)	Yes	Directly
Regional Rural Banks (RRBs)	Yes	Own target line
Small Finance Banks (SFBs)	Yes	Own target line
Local Area Banks (LABs)	Yes	Treated with commercial banks
Primary (Urban) Co-operative Banks (UCBs), other than Salary Earners' Banks	Yes	Own target line
Payments Banks	**No**	They do not lend money

History in brief

- **2020 Directions** — Banks worked under PSL Master Directions dated **4 September 2020** (updated up to **21 June 2024**).
- **2025 Directions** — Replaced by the **PSL (Targets and Classification) Directions, 2025**, effective **1 April 2025**.
- **Old loans protected** — A loan already classified as PSL under the 2020 Directions keeps that status till it matures. A running loan is never reclassified merely because a limit later changes.
- **SFB target** — Cut from **75% to 60%** with effect from **FY 2025-26**, by a circular dated **20 June 2025**.
- **2026 amendment** — An amendment dated **7 August 2026** added a temporary exclusion for certain foreign-currency and non-resident deposits (see the last topic).

Topic 2 — What PSL Is and Who It Covers (Directions, paras 1–2)

Every PSL loan must sit in exactly **one of eight categories**. A bank cannot split one loan across two categories to claim it twice.

The eight categories

#	Category	Broad coverage
1	**Agriculture**	Farm credit, allied activities, agri-infrastructure, ancillary services
2	**MSME**	All eligible bank loans to Micro, Small and Medium Enterprises, plus certain on-lending and factoring exposures
3	**Export Credit**	Eligible pre-shipment and post-shipment export credit
4	**Education**	Eligible education loans, subject to a limit
5	**Housing**	Eligible housing loans, subject to limits based on loan size and city population, plus specified government housing exposures
6	**Social Infrastructure**	Schools, drinking water, sanitation and healthcare, within prescribed limits
7	**Renewable Energy**	Renewable power generation, public utilities and household renewable energy loans
8	**Others**	Microfinance-type loans, SHG/JLG loans, distressed-persons loans, specified state-sponsored bodies, eligible start-ups

Main rules

LEARNING SESSIONS

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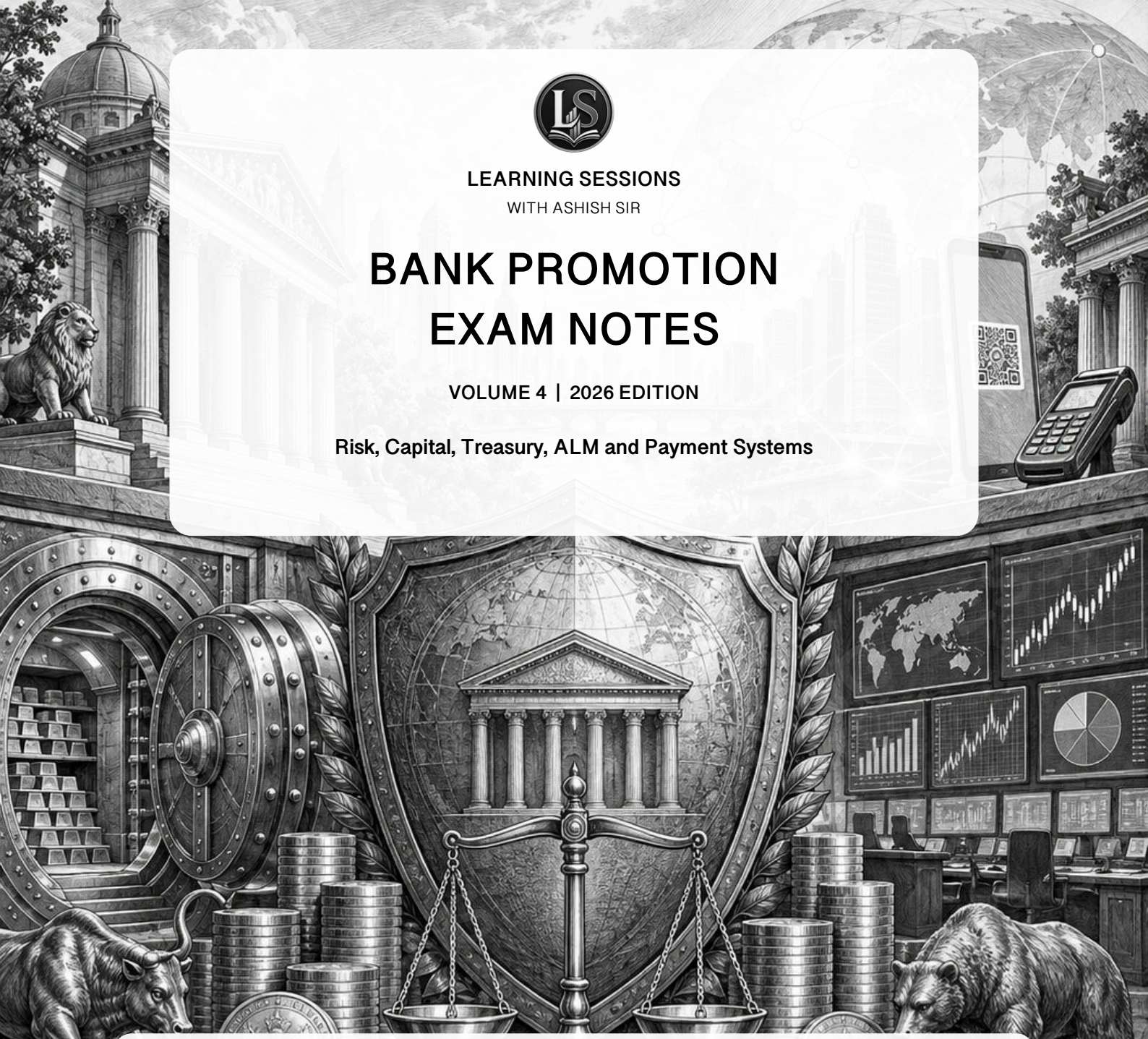

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LEARNING SESSIONS

CH-1 Monetary Policy and Liquidity Management

Topic 1 — Basic Background

- **What it is** — Monetary policy is the action the **Reserve Bank of India (RBI)** takes to control the supply of money in the economy.
- **How it works** — RBI changes **interest rates** and manages **liquidity** (the cash available in the banking system).
- **Aim** — Keep **inflation** (a rise in prices) near a fixed target, while also supporting **growth**.
- **Who runs it** — RBI runs monetary policy through the **Monetary Policy Committee (MPC)**, a **6-member** body.
- **Government's role** — The **Central Government** fixes the inflation target **once every five years** and nominates **three outside members** to the MPC.
- **RBI seats** — RBI's **Governor**, a **Deputy Governor** and **one RBI officer** fill the other three seats.
- **Who it covers** — The tools apply directly to banks that keep deposits with RBI and borrow from it.
- **Wider reach** — Through banks, these tools shape loan and deposit rates for every borrower and depositor in the economy.

Its history in short

- The **MPC** started functioning in **September 2016**, after a **2016 amendment** to the RBI Act created it.
- The **Standing Deposit Facility (SDF)** was added to the RBI Act in **2018** and became the corridor floor from **8 April 2022**.
- RBI revised its **Liquidity Management Framework** in **September 2025**.

Who does what

Body	Role
Monetary Policy Committee (MPC)	Fixes the **policy repo rate** to meet the inflation target
Reserve Bank of India (RBI)	Runs day-to-day liquidity tools (**LAF, CRR, SLR, MSF, OMO, MSS**) that carry out the MPC's decision
Central Government	Fixes the inflation target **every five years**; nominates **three outside** MPC members

Topic 2 — What Monetary Policy Is and Who Decides It — the Monetary Policy Committee (RBI Act, Section 45ZB)

Monetary policy means using interest rates and liquidity tools to control money supply and inflation. The **Monetary Policy Committee (MPC)** is the body that decides the key interest rate.

Main rules

- **Composition** — **6 members**: **3 from RBI** (the Governor, a Deputy Governor in charge of monetary policy, and one RBI officer) and **3 outside members** nominated by the Central Government.
- **Quorum** — At least **4 of the 6** members must be present for a valid meeting. This is the statutory minimum.
- **Meetings (law)** — The RBI Act requires at least **4 meetings a year**.
- **Meetings (practice)** — RBI holds **6 meetings a year**, once every two months (**bi-monthly**).
- **Voting** — Each member has **one vote**. A decision is by **majority of members present and voting**.
- **Tie** — If votes are equal, the **RBI Governor** gets a second, **casting vote** to break the tie.
- **Reporting** — The MPC publishes a **Monetary Policy Report every 6 months**. It explains the sources of inflation and RBI's forecast.

Example: At a scheduled meeting, only **3 of the 6** MPC members can attend because of travel delays. The meeting **cannot take a valid decision**. The quorum of **4** is not met, and the meeting must be rescheduled.

Important difference

Question	Answer
Statutory minimum meetings a year	**4**
RBI's actual practice	**6 meetings a year**, bi-monthly
Members needed for quorum	**4 out of 6**
Tie-break vote	**RBI Governor's** casting vote

Remember this

- MPC: **6 members**, 3 from RBI and 3 Central Government nominees; quorum **4**; statutory minimum **4 meetings** a year; RBI actually holds **6**.
- Equal votes are broken by the **RBI Governor's casting vote**.

Topic 3 — The Inflation Target (RBI Act, Section 45ZA)

The **inflation target** is the price-rise rate the MPC must aim for. It is measured by the **Consumer Price Index (CPI)** — a basket of goods and services prices tracked every month.

Main rules

- **Current target** — **4% CPI inflation**, with a tolerance band of **2% to 6%** (2 percentage points below and above the 4% mid-point).
- **Who fixes it** — The **Central Government**, once every **five years**, after consulting RBI, through an official notification.
- **Current notified period** — From **1 April 2026 to 31 March 2031**. This is the **third** five-year cycle.
- **Earlier cycles** — The first cycle ran from **2016 to 2021**, and the second from **2021 to 2026**.
- **Failure trigger** — If inflation stays outside the **2%–6%** band for **3 consecutive quarters**, RBI must send a report to the Central Government.
- **Contents of the report** — Why the target was missed, the steps RBI proposes, and a time estimate for bringing inflation back within the band.

Example: CPI inflation prints at **6.5%**, **6.8%** and **6.2%** in three back-to-back quarters. All three readings are above the **6%** upper band. RBI must **report to the Central Government**, explaining the failure and its planned steps.

Practical banking application

- **MPC review of 5 August 2026** — Projected CPI inflation of **5.0%** and GDP growth of **6.7%** for the financial year **2026–27**.
- **Use in banks** — Bank treasury desks track such forecasts to plan their bond holdings and loan pricing.

LEARNING SESSIONS

Remember this

- Target: **4% CPI**, band **2%–6%**; notified from **1 April 2026 to 31 March 2031** (third 5-year cycle).
- Miss the band for **3 straight quarters** → RBI reports to the Central Government.
- FY2026–27 MPC projection: GDP growth **6.7%**, CPI inflation **5.0%**.

Topic 4 — Net Demand and Time Liabilities (NDTL) — the Shared Base for CRR, SLR and MSF

Net Demand and Time Liabilities (NDTL) is a bank's total deposits and similar amounts owed to the public, after removing certain items. It is the base for **CRR**, **SLR** and the **MSF limit**.

Main rules

- **What counts** — All **demand deposits** (savings, current accounts) and **time deposits** (fixed, recurring deposits) of the public.
- **Also included** — **Certificate of Deposit (CD)** balances, and margin money kept against letters of credit and guarantees.
- **What is excluded** — Money owed to other banks (**inter-bank liabilities**).
- **Not an NDTL item** — Funds a bank places with **NABARD, SIDBI, NHB or MUDRA** (e.g. RIDF) for priority-sector shortfalls are the bank's **assets**; they enter the **ANBC** calculation, not NDTL, and are not deducted from NDTL.
- **Reference date** — NDTL is measured as of the **last day of a fortnight**. From **15 December 2025**, a fortnight means the **1st to the 15th**, or the **16th to the last day**, of a calendar month.
- **Time lag** — CRR, SLR and the MSF limit for the current fortnight are worked out on the NDTL of the **second preceding fortnight** (two fortnights earlier). This gives banks time to compute the figure.

Example: A bank's outstanding deposits are ₹**50,000 crore**. It owes ₹**2,000 crore** to other banks and keeps ₹**500 crore** with NABARD against a priority-sector shortfall. NDTL = ₹50,000 crore − ₹2,000 crore = ₹**48,000 crore**. The ₹500 crore with NABARD is an asset and does **not** reduce NDTL.

Remember this

- NDTL = deposits and similar public liabilities, minus inter-bank dues and specified refinance placements.
- CRR, SLR and the MSF limit are all percentages of NDTL, measured **two fortnights back**.

Topic 5 — The Liquidity Adjustment Facility (LAF) Corridor (RBI Act, Section 17)

The **Liquidity Adjustment Facility (LAF)** is RBI's day-to-day tool for adding or removing cash from the banking system through short-term lending and borrowing operations.

Why it matters

- **Corridor** — LAF rates form a corridor: a band with a **floor** and a **ceiling**.
- **Range** — The corridor sets the range in which short-term money-market rates move.
- **Transmission** — It is the main channel through which the MPC's rate decision reaches banks and, through them, the wider economy.

Three layers of the corridor

Layer	Instrument	Rate rule	Current value
Ceiling (top)	**Marginal Standing Facility (MSF)**	Repo + 0.25%	**5.75%**
Midpoint	**Policy repo rate**	Fixed by the MPC	**5.50%** (raised from 5.25% on 7 Oct 2026)
Floor (bottom)	**Standing Deposit Facility (SDF)**	Repo − 0.25%	**5.25%**

Main rules

- **Corridor width** — **50 basis points (0.50%)**. It stays **symmetric** — an equal gap on both sides of the repo rate.
- **Policy repo rate** — The rate at which RBI lends money **overnight** to eligible banks against **government securities**.
- **How repo works** — The bank sells securities to RBI and agrees to buy them back the **next business day** at a pre-agreed price.
- **Effect of a rise** — If the repo rate rises, borrowing from RBI becomes costlier, and banks usually raise their own lending rates.
- **SDF** — Lets RBI **absorb** surplus cash from banks overnight, **without any collateral** (security).
- **SDF as floor** — SDF has been the operative floor since **8 April 2022**. Before that, a **reverse repo**, which needed government securities as collateral, was the floor.
- **Fixed-rate reverse repo** — Still available at RBI's **discretion**. Its rate has stayed at **3.35%** since **May 2020**. It is no longer the operative floor.
- **Term repo and reverse repo** — RBI also runs **term auctions** when banks need funds for more than a day. The current tenor structure is explained under the revised Liquidity Management Framework (last topic).

Example: On a day of tight cash, a bank borrows ₹**100 crore** overnight from RBI under the LAF repo at **5.25%**, against government securities. The next business day, the bank buys back the securities and pays ₹100 crore plus **one day's interest** at 5.25%.

Important difference

Often confused	Difference
SDF vs **fixed-rate reverse repo**	SDF needs **no collateral** and is the current floor; reverse repo needs collateral and is now a **backup tool at 3.35%**
Repo vs **MSF**	Repo is the everyday LAF midpoint rate; MSF is an **emergency overnight** facility priced **0.25% above repo**

Remember this

- Corridor: SDF **5.25%** (floor) — repo **5.50%** (mid) — MSF **5.75%** (ceiling), from 7 Oct 2026; width **50 basis points**.
- SDF has been the corridor floor since **8 April 2022**; fixed-rate reverse repo is a backup tool at **3.35%** since **May 2020**.

Topic 6 — Cash Reserve Ratio (CRR) (RBI Act, Section 42)

Cash Reserve Ratio (CRR) is the percentage of NDTL a bank must keep as **cash with RBI**. Banks earn **no interest** on this cash.

Main rules

- **Current rate** — CRR is **3.00% of NDTL**.

LEARNING SESSIONS

- **No floor or ceiling** — Since a **2006** amendment to the RBI Act, there is no statutory minimum or maximum. RBI can fix any rate it decides.
- **No interest** — RBI has paid no interest on CRR balances since the fortnight beginning **31 March 2007**.
- **Daily minimum** — A bank need not keep the exact CRR amount every day. It must keep at least **90%** of the required CRR on each day of the fortnight.
- **Average** — The fortnight's **daily average** must meet the full **3.00%**.

Example: A bank's NDTL for the relevant fortnight is **₹40,000 crore**. Required CRR = 3.00% × ₹40,000 crore = **₹1,200 crore**, kept with RBI as cash over the fortnight. On any single day, the bank must hold at least 90% of ₹1,200 crore = **₹1,080 crore**.

Remember this

- CRR = **3.00% of NDTL**, held as cash with RBI, and it earns **no interest**.
- No statutory floor or ceiling since **2006**; daily minimum is **90%** of the requirement.

Topic 7 — Statutory Liquidity Ratio (SLR) (Banking Regulation Act, Section 24)

Statutory Liquidity Ratio (SLR) is the percentage of NDTL a bank must keep in safe, liquid assets — **cash, gold**, or **unencumbered** (free of any charge or claim) approved securities such as government securities.

Main rules

- **Current rate** — SLR is **18.00% of NDTL**.
- **Statutory ceiling** — The Banking Regulation Act fixes an outer limit of **40% of NDTL**. There is **no statutory floor**.
- **Eligible assets** — Cash in hand, gold, and unencumbered approved securities (mainly **Government of India securities** and **State Development Loans**).
- **Purpose** — SLR assets stay **with the bank itself**, unlike CRR, which goes to RBI. They give a buffer of safe, sellable assets to meet depositor demand.

Example: A bank's NDTL is **₹40,000 crore**. Required SLR = 18.00% × ₹40,000 crore = **₹7,200 crore**, to be kept in cash, gold or unencumbered approved securities.

Important difference

Often confused	Difference
CRR vs **SLR**	CRR is **cash kept with RBI**, earning no interest; SLR is **safe assets kept by the bank itself**, earning a market return

Remember this

- SLR = **18.00% of NDTL**; statutory ceiling **40%**; no statutory floor.
- Eligible assets: cash, gold, unencumbered approved securities.

Topic 8 — Marginal Standing Facility (MSF)

Marginal Standing Facility (MSF) is an **emergency overnight window**. Banks use it when they need funds urgently but have run out of spare government securities for a normal LAF repo.

Main rules

- **Borrowing limit** — Up to **2% of NDTL**, based on NDTL of the second preceding fortnight.
- **Collateral** — Eligible government securities, **including** securities in the bank's own **SLR portfolio**. No separate approval is needed to dip into the SLR quota for this.
- **Rate** — Repo + 0.25% = **5.75%** (from 7 Oct 2026), the same value as the current **Bank Rate**.
- **Availability** — Open on **every day**, including weekends and holidays.
- **Minimum bid** — **₹1 crore**, and multiples of ₹1 crore after that.

How the limit changed over time

From	MSF limit
9 May 2011 (introduced)	**1%** of NDTL
17 April 2012	Raised to **2%** of NDTL
27 March 2020	Raised temporarily to **3%** of NDTL as a COVID-19 relief measure
1 January 2022	Restored to **2%** of NDTL — still 2% today

Example: A bank's NDTL (second preceding fortnight) is **₹70,000 crore**. MSF limit = 2% × ₹70,000 crore = **₹1,400 crore**. On a Sunday, it needs **₹300 crore** overnight and has no spare non-SLR securities. It borrows ₹300 crore under MSF by dipping into its SLR portfolio, at the MSF rate of **5.75%**.

Remember this

- MSF limit: **2% of NDTL**; rate = repo + 0.25% = **5.75%**; open every day; minimum bid **₹1 crore**.
- History: **1%** (from 9 May 2011) → **2%** (from 17 April 2012) → **3%** COVID relief (from 27 March 2020) → back to **2%** (from 1 January 2022).

Topic 9 — Bank Rate, Open Market Operations and the Market Stabilisation Scheme

These three tools work differently from the LAF corridor. **Bank Rate** is a reference rate. **Open Market Operations (OMO)** and the **Market Stabilisation Scheme (MSS)** use direct buying or selling of government securities.

Main rules

- **Bank Rate** — The rate at which RBI is ready to lend, or to **rediscount** (buy before maturity) eligible bills of exchange and commercial paper from banks.
- **No repurchase** — Bank Rate involves no repurchase agreement, unlike repo.
- **Current level** — Bank Rate equals the MSF rate, **5.75%** (from 7 Oct 2026; earlier 5.50%), and moves automatically whenever MSF changes.
- **Penal links** — Several penal-interest provisions in banking rules are linked to the Bank Rate.
- **OMO** — RBI **buys** government securities to add **durable** (long-lasting) liquidity, or **sells** them to remove it.
- **OMO use** — A **discretionary** tool for structural liquidity needs, not day-to-day cash management.
- **MSS** — When large **capital inflows** create excess rupee liquidity, RBI issues government securities (Treasury Bills and dated securities) under MSS to absorb it.
- **MSS account** — The money raised is kept in a **separate MSS account**. It is used only to redeem MSS securities — it does **not** fund government expenditure.

LEARNING SESSIONS

Important difference

Often confused	Difference
OMO vs **MSS**	OMO proceeds are part of the usual government account; MSS proceeds sit in a **separate account**, used only to redeem MSS securities
Repo vs **Bank Rate**	Repo needs a repurchase agreement on government securities; Bank Rate has **no repurchase agreement** and today equals the MSF rate

Example: Large foreign investment inflows push extra rupee liquidity into the banking system. RBI issues Treasury Bills under MSS to absorb ₹**20,000 crore**. The proceeds go into the separate MSS account and are used only to redeem those MSS securities later.

Remember this

- Bank Rate equals the MSF rate today (**5.75%**); used for lending, rediscounting bills, and penal-interest references.
- OMO: RBI buys or sells government securities for **durable** liquidity.
- MSS: absorbs inflow-driven liquidity; proceeds in a **separate account**, used only for MSS redemption.

Topic 10 — Revised Liquidity Management Framework and Monetary Transmission (MCLR and EBLR)

- **Liquidity Management Framework (LMF)** — The set of rules RBI follows for day-to-day liquidity operations. RBI revised it in **September 2025**.
- **Monetary transmission** — How a change in the repo rate reaches the interest rate a borrower actually pays.

Main rules — revised Liquidity Management Framework (from September 2025)

- **Operating target** — Stays the **Weighted Average Call Rate (WACR)**, the average rate on overnight inter-bank borrowing.
- **Corridor** — Stays symmetric, at **plus or minus 0.25%** around the repo rate.
- **Main operation** — The main **Variable Rate Repo/Reverse Repo (VRR/VRRR)** is now **7-day**, replacing the earlier **14-day** operation.
- **Other tenors** — RBI may still run operations from **overnight to 14 days**, at its discretion, with at least **one day's** advance notice.
- **Standalone Primary Dealers** — Dealers who trade only in government securities now get direct access to **SDF**, overnight reverse repo, and all repo operations.
- **Durable-liquidity tools** — OMO, long-term VRR/VRRR, and USD/INR buy-sell swaps remain **unchanged**.

Main rules — transmission benchmarks

Benchmark	Introduced	Scope
MCLR (Marginal Cost of Funds based Lending Rate)	**1 April 2016**	Internal benchmark; still used where a loan is not compulsorily linked to an external benchmark
EBLR (External Benchmark Lending Rate)	**1 October 2019**	Compulsory for all new **floating-rate** loans to **personal, retail and MSME** (micro, small and medium enterprise) borrowers

- **Eligible external benchmarks** — The **policy repo rate**, the **91-day or 182-day** Treasury Bill yield, or any other benchmark published by **Financial Benchmarks India Limited (FBIL)**.
- **Spread reset** — The spread (the bank's margin over the benchmark) can be changed **once every 3 years**.
- **Interest reset** — The reset period is **3 months**. The EMI (equated monthly instalment) changes at least **once every quarter** whenever the benchmark moves.

Example: In **January 2026**, a bank sanctions a floating-rate **MSME term loan**. Because the loan is new and floating-rate, it must be linked to **EBLR**, not MCLR. If the MPC later raises the repo rate, the borrower's EMI changes within the **next reset quarter**.

Remember this

- Revised LMF (from **September 2025**): main VRR/VRRR is now **7-day** (was 14-day); WACR and the **±0.25%** corridor unchanged; Standalone Primary Dealers get SDF and repo access.
- MCLR from **1 April 2016** (internal); EBLR compulsory from **1 October 2019** for new floating retail/MSME loans.
- EBLR reset: spread once every **3 years**, interest every **3 months**.

BP Vol 4 | CH-01 | MCQs

Q1. At a scheduled meeting, only 3 of the 6 MPC members are present. What is the minimum number needed for a valid meeting (quorum)? *[Ref: Topic 2, p. 2]*

(a) 2 (b) 3 (c) 6 (d) 4

Q2. Statement I: The RBI Act requires the MPC to hold at least 4 meetings a year. Statement II: RBI's actual practice is to hold 6 bi-monthly meetings a year. *[Ref: Topic 2, p. 2]*

(a) Both I and II are correct (b) I is correct, II is incorrect
(c) I is incorrect, II is correct (d) Both are incorrect

Q3. If MPC votes on the repo rate end in a tie, who gets a second, casting vote? *[Ref: Topic 2, p. 2]*

(a) The Finance Secretary
(b) The RBI Governor
(c) The senior-most outside member
(d) The Deputy Governor in charge of monetary policy

Q4. The inflation target notified from 1 April 2026 is valid until: *[Ref: Topic 3, p. 2]*

(a) 31 March 2029 (b) 31 March 2030
(c) 31 March 2028 (d) 31 March 2031

Q5. CPI inflation prints at 6.5%, 6.8% and 6.2% in three back-to-back quarters. RBI must report to the Central Government because inflation stayed outside the 2%–6% band for: *[Ref: Topic 3, p. 2]*

(a) 3 consecutive quarters (b) 1 quarter
(c) 2 consecutive quarters (d) 4 consecutive quarters

Q6. Since 8 April 2022, the operative floor of the LAF corridor is: *[Ref: Topic 5, p. 3]*

(a) Fixed-rate reverse repo
(b) Standing Deposit Facility (SDF)
(c) Bank Rate
(d) Marginal Standing Facility (MSF)

Q7. Under the Standing Deposit Facility, RBI absorbs surplus liquidity: *[Ref: Topic 5, p. 3]*

(a) against government securities as collateral
(b) only from Standalone Primary Dealers
(c) without asking for any collateral
(d) only in 14-day tenors

LEARNING SESSIONS

Q8. If the policy repo rate is 5.25%, the Marginal Standing Facility (MSF) rate is: *[Ref: Topic 5, p. 3]*
(a) 5.00% (b) 5.75% (c) 5.25% (d) 5.50%

Q9. Which statement about the fixed-rate reverse repo is correct? *[Ref: Topic 5, p. 3]*
(a) It was withdrawn completely in 2022
(b) It is retained at RBI's discretion, at 3.35%, unchanged since May 2020
(c) It became the corridor floor again from 2022
(d) Its rate changes automatically with every MPC review

Q10. The statutory ceiling on the Statutory Liquidity Ratio (SLR) under the Banking Regulation Act is: *[Ref: Topic 7, p. 4]*
(a) 25% (b) 30% (c) 50% (d) 40%

Q11. Under the revised Liquidity Management Framework, a bank must keep at least what percentage of its CRR requirement on any single day of the fortnight? *[Ref: Topic 6, p. 3]*
(a) 90% (b) 100% (c) 80% (d) 70%

Q12. A bank's NDTL for the relevant fortnight is ₹70,000 crore. Its borrowing limit under MSF is: *[Ref: Topic 8, p. 4]*
(a) ₹700 crore (b) ₹2,100 crore (c) ₹1,400 crore (d) ₹3,500 crore

Q13. Which of the following statements about the Market Stabilisation Scheme (MSS) is NOT correct? *[Ref: Topic 9, p. 4]*
(a) MSS is used to absorb liquidity created by large capital inflows
(b) Money raised under MSS is used to fund government expenditure
(c) MSS proceeds are kept in a separate account
(d) Securities issued under MSS include Treasury Bills and dated securities

Q14. Under the revised Liquidity Management Framework (from September 2025), the main Variable Rate Repo/Reverse Repo (VRR/VRRR) operation tenor is: *[Ref: Topic 10, p. 5]*
(a) overnight (b) 14 days (c) 7 days (d) 28 days

Q15. Which of the following statements are correct? 1. MCLR was introduced from 1 April 2016. 2. EBLR became compulsory for new floating-rate retail and MSME loans from 1 October 2019. 3. The spread over the external benchmark can be changed once every 3 years. 4. The interest-reset period under EBLR is 3 months. *[Ref: Topic 10, p. 5]*
(a) 1 and 2 only (b) 1, 2 and 3 only
(c) 2, 3 and 4 only (d) All four

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	d	4	d	7	c	10	d	13	b
2	a	5	a	8	d	11	a	14	c
3	b	6	b	9	b	12	c	15	d

CH-2 Money Market Instruments

Topic 1 — Basic Background

- **What the money market is** — Where banks, financial institutions and large corporates borrow and lend funds for **short periods**, mostly under **one year**.
- **Its job** — It keeps day-to-day cash moving between institutions with surplus funds and those that are short.
- **Who runs it** — **RBI** regulates each instrument through its own **Master Direction** (a binding rulebook RBI issues to banks and other regulated entities).
- **Nature of the rules** — These are **RBI Directions**, not sections of a Parliament-made statute like the Banking Regulation Act.
- **Who takes part** — Scheduled Commercial Banks, Small Finance Banks, Payments Banks, Regional Rural Banks, co-operative banks, Primary Dealers, mutual funds, insurance companies, NBFCs (non-banking finance companies) and large companies.
- **Eligibility differs** — Not every instrument is open to every participant; each topic lists who is eligible.

Governing Directions

Instrument	Direction
Call, notice and term money	MD (Call, Notice and Term Money Markets) Directions, **2021**; limits updated **8 June 2023**
Certificate of Deposit	MD (Certificate of Deposit) Directions, **2021**
Commercial Paper and NCDs up to one year	MD (Commercial Paper and NCDs up to one year) Directions, **2024**

A quick map of the main instruments

Instrument	Typical tenor	Mainly used by
Call, notice and term money	Overnight to **1 year**	Banks and similar institutions, to manage daily cash
Certificate of Deposit (CD)	**7 days to 3 years**	Banks raising bulk deposits quickly
Commercial Paper (CP)	**7 days to 1 year**	Companies raising working funds directly
Treasury Bill (T-Bill)	**91 to 364 days**	Government's short-term borrowing
Repo / TREPS	Mostly overnight	Short-term cash management against G-sec collateral

- **Why examiners like this topic** — Several figures changed recently: the **CD minimum denomination** and the **call-money borrowing limits**.
- **The skill** — Old and new figures are easy to mix up. Knowing the exact **current** figure is the main skill this chapter builds.

Topic 2 — Call, Notice and Term Money

Call, notice and term money is short-term money that banks and similar institutions lend to each other **without any security** (an uncollateralised loan). Deals are direct, and the rate moves with demand and supply.

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Additional Resources

—	**Mega Tests — Mega Test 1 — 100 Questions (Full Syllabus)**	**57**
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LEARNING SESSIONS

CH-1 Income Recognition, Asset Classification and Provisioning

Topic 1 — Basic Background

What this rulebook is

- **IRACP** — Income Recognition, Asset Classification and Provisioning (IRACP) is the set of rules that tells a bank three things.
- **Income** — When to stop counting interest on a loan as income.
- **Classification** — When to call a loan a **non-performing asset (NPA)**, a loan that has stopped behaving normally.
- **Provisioning** — How much money to keep aside (provision) for the loss it may cause.

Who runs it

- **Rule-maker** — The Reserve Bank of India (RBI) makes these rules, using its power under the **Banking Regulation Act, 1949**.
- **Old method** — For years RBI issued one **Master Circular** on this subject every year.
- **New method** — On **28 November 2025**, RBI replaced that yearly circular with a standing Direction — the **IRACP Directions, 2025**.
- **Standing Direction** — It stays in force until RBI changes it; it is not reissued every year.

Who it covers

- **Commercial banks** — These Directions apply to commercial banks.
- **Own rules** — Small Finance Banks, Payments Banks and Local Area Banks follow their own separate rules.
- **Parallel Directions** — Co-operative banks and non-banking finance companies (**NBFCs**, lenders that are not banks) follow parallel Directions with similar ideas but different figures in places.

Its guiding ideas in three lines

- **Record of recovery** — Classification follows the record of recovery (has money actually come in on time), not the bank's opinion about the borrower.
- **System-based tagging** — SMA and NPA tagging must be done **automatically** by the bank's core banking system for every loan account, on **every single day**.

Who covers what

Subject	Who decides it	Since
NPA definition, income recognition, provisioning	RBI (Commercial Banks – IRACP) Directions, 2025	**28 November 2025**
SMA stages and the stress-review timeline	RBI (Commercial Banks – Resolution of Stressed Assets) Directions, 2025 (issued the same day)	**28 November 2025**
Project loan phases, DCCO and project provisioning	RBI (Project Finance) Directions, 2025	Effective **1 October 2025**
Compromise settlements and technical write-offs	RBI framework for compromise settlements	**8 June 2023**

Current position and what changes ahead

- **Current rules** — The rules described in this chapter are the current rules.
- **ECL ahead** — A new **Expected Credit Loss (ECL)** framework, described where relevant below, replaces the provisioning method for commercial banks from **1 April 2027**.

Topic 2 — Overdue Amounts, SMA Categories and the Day-End Rule

Meaning

- **Overdue** — An amount is overdue if it is not paid on the **due date** the bank has fixed for it.
- **SMA** — Before a loan turns NPA, it usually passes through **Special Mention Account (SMA)** stages. SMA is an early-warning tag, not an NPA.

SMA stages for a term loan or any non-revolving facility

Stage	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**
NPA	More than **90 days**

SMA stages for cash credit (CC) or overdraft (OD)

- **Revolving facility** — CC/OD is a revolving facility: the borrower draws and repays repeatedly instead of following a fixed repayment schedule.
- **No SMA-0** — There is no SMA-0 for these accounts.
- **SMA-1** — Outstanding balance stays continuously above the sanctioned limit or the **drawing power** (the amount the bank allows to be drawn, usually based on stock held) for **30 to 60 days**.
- **SMA-2** — The same position continues for **60 to 90 days**.

Limits and timelines — the day-end rule

- **Day-end process** — SMA and NPA tagging is done as part of the bank's day-end process: the computer checks run at the close of business for that calendar date.
- **No grace** — There is no grace of a "next working day" or "month-end".
- **NPA date** — The date an account turns NPA is the day-end date on which **90 days** of continuous overdue is completed, counted from the **due date itself**.

Example: An instalment of **₹2 lakh** is due on **15 January 2026** and is not paid. Counting from the due date: the account is tagged **SMA-0** at day-end on 15 January itself (day 0, because the amount was not paid before that day-end). It moves to **SMA-1** at day-end on **14 February 2026** (30 days later). It moves to **SMA-2** at day-end on **16 March 2026** (60 days later). It becomes an **NPA** at day-end on **15 April 2026**, when 90 days of continuous overdue are complete.

Example: A branch does not wait for month-end to update its stress list. If an instalment falls due on any date, the branch's system marks the account **SMA-0 the same evening** if payment does not come in. The NPA date is fixed to that exact day-end **90 days later**, whatever the calendar month.

Remember this

- Overdue = not paid on the due date fixed by the bank.
- SMA-0 up to 30 days, SMA-1 more than 30 up to 60 days, SMA-2 more than 60 up to 90 days; NPA after 90 days.
- No SMA-0 for CC/OD; day-end tagging, no grace period.

LEARNING SESSIONS

Topic 3 — When a Loan Becomes an NPA — Facility-wise Triggers

Meaning

The **90-day rule** is common to most facilities. But each type of facility has its own test for what "90 days overdue" means in practice.

Main rules

Facility	Becomes NPA when
Term loan	Interest and/or instalment of principal remains overdue for **more than 90 days**
Bills purchased or discounted	The bill remains overdue for **more than 90 days**
Cash credit / overdraft	The account is **"out of order"** (see below)
Agriculture — short-duration crop (crop season up to one year)	Instalment or interest overdue for **two crop seasons**
Agriculture — long-duration crop (crop season longer than one year)	Instalment or interest overdue for **one crop season**

The three "out of order" tests for CC/OD — any one is enough

- **Test 1** — The outstanding balance stays continuously more than the sanctioned limit or the drawing power for **90 days**.
- **Test 2** — The balance stays within the limit or drawing power, but there are **no credits** into the account for **90 continuous days**.
- **Test 3** — The balance stays within the limit or drawing power, but the credits received are **less than the interest debited** in the previous **90 days**.
- **Key point** — An account can fail test 2 or test 3 while never once crossing its sanctioned limit. Staying "within limit" does not by itself keep an account standard.

Drawing power and renewal rules

Situation	Rule
Stock statement (a periodic statement of goods held, used to fix drawing power) is older than **three months**	Drawings against it are treated as **irregular**; if the irregularity continues for **90 days**, the account is NPA
Regular or ad hoc credit limit is **not reviewed or renewed** within **180 days** of its due date	The account is **NPA**
Stock statement not filed, or renewal delayed, for a shorter period	Called a **"temporary deficiency"**; it does not by itself make the account NPA, but the 90-day and 180-day outer limits above still apply

Example: A cash-credit account has a sanctioned limit of **₹50 lakh**. The balance stays between **₹30 lakh and ₹45 lakh** throughout — always within the limit. But no fresh credit is received into the account for **95 continuous days**. The account fails out-of-order **test 2** and is NPA, even though it never touched the ₹50 lakh limit.

Example: A branch's last stock statement for a borrower is dated **5 January 2026**. By **5 April 2026** that statement is more than three months old, so any fresh drawing from that date is irregular. If the irregularity continues to **4 July 2026** (90 days), the account turns NPA, even if the borrower stays within the sanctioned limit throughout.

Remember this

- Term loan/bills: more than 90 days overdue. Agriculture: two crop seasons (short-duration) or one crop season (long-duration).
- CC/OD out of order: over limit/DP for 90 days, OR no credits for 90 days, OR credits less than 90 days' interest.
- Stock statement over 3 months + 90 days irregular = NPA. Renewal overdue 180 days = NPA.

Topic 4 — Special Classification Situations

Meaning

A few situations do not fit the plain facility-wise test and need their own rule.

Main rules

Situation	Rule
Borrower-level classification	If one facility of a borrower turns NPA, **all facilities** of that same borrower with the bank turn NPA. The account is upgraded back to standard only when the **entire arrears on every facility** of that borrower are cleared.
Consortium or multiple-banking arrangement (several banks lending to the same borrower)	Each bank classifies the account based on its **own record of recovery**, not the position at other banks. The borrower must pay in a way that services every lending bank.
Central Government guaranteed advance	Treated as NPA only when the Government **refuses (repudiates)** the guarantee after it is invoked. This exemption is only for classification and provisioning; income recognition on the **cash basis** still applies once the amount is overdue.
State Government guaranteed advance	**No special exemption** — the ordinary more-than-90-days rule applies.
Advance against the bank's own **term deposit, NSC, KVP, IVP** (National Savings Certificate, Kisan Vikas Patra, Indira Vikas Patra) or a **life insurance policy**, kept within the surrender value	**Not treated as NPA** as long as adequate margin exists. This exemption does **not** extend to gold ornaments or government securities pledged as cover.
Reporting of large exposures	A bank must report a borrower's credit exposure to the **Central Repository of Information on Large Credits (CRILC)**, an RBI database, once the aggregate fund-based and non-fund-based exposure to that borrower reaches **₹5 crore**.

- **See** — Ch 4 (p. 18) for CRILC reporting, its ₹5 crore threshold and reporting frequency.

Exceptions

- **Time limit** — The Central Government guarantee exemption applies only until the guarantee is invoked and repudiated.
- **Not State guarantees** — It does not cover State Government guarantees.
- **Income still on cash basis** — It does not stop interest from moving to a cash basis once the account is overdue.

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Example: A borrower has a term loan and a CC account with the same bank. The term loan turns NPA on **10 May 2026**. Even though the CC account is fully within its limit and regular, it also becomes NPA on **10 May 2026**, because classification is done at the **borrower level**, not account by account.

Remember this

- One NPA facility of a borrower makes every facility of that borrower NPA.
- Consortium: each bank follows its own recovery record.
- Central Government guarantee delays NPA tagging only until repudiation; State guarantee gets no such delay.
- CRILC reporting starts once exposure to a borrower reaches ₹5 crore.

Topic 5 — Income Recognition on Standard and NPA Accounts

Meaning

Income recognition decides when a bank may book **interest, fees or commission** as its own income.

Main rules

Asset	Basis	What it means
Standard	**Accrual**	Interest is booked as income as it accrues, whether or not it is actually received yet
NPA	**Cash / realisation**	Interest, fees and commission are booked as income only when actually received in cash

- **On the day of slippage** — Any interest, fees or commission already booked as income in the current year or earlier years, but not yet actually received, must be **reversed** (taken out of income and instead provided for).
- **Recoveries in an NPA account** — These are applied according to the bank's **Board-approved policy** (interest first, or principal first).
- **No policy** — If there is no such policy, the recovery is applied against the **oldest dues first**.

Example: A term loan turns NPA on **15 April 2026**. Interest of **₹1.8 lakh** for the January–March 2026 quarter had already been credited to the bank's income before that date but was never received in cash. On 15 April 2026 this ₹1.8 lakh is **reversed out of income**.

Current position and what changes ahead

- **Current position** — When a bank takes over a non-financial asset (property, shares, or similar) from a borrower in settlement of dues, accrued-but-unrealised interest and charges on the loan follow the ordinary NPA income rules above.
- **No separate rule today** — There is no separate rule for income earned from that asset afterward.

From 1 October 2026 — Specified Non-Financial Asset (SNFA) acquired in settlement

- **No income** — Accrued-but-unrealised interest and charges on the loan that was settled are **not recognised** as income.
- **Reversal deadline** — Any such income already booked on an SNFA the bank holds on **30 September 2026** must be reversed by **30 September 2027**.
- **Later receipts** — Money later received from the asset is booked as **non-interest income** only when it is actually received.
- **Holding cost** — The cost of holding and maintaining the asset is **expensed** as it is spent.

Remember this

- Standard = accrual basis; NPA = cash basis.
- On slippage to NPA, unrealised booked income is reversed.
- From 1 October 2026, income rules on assets taken over in settlement change; unrealised income already booked on such assets must be reversed by 30 September 2027.

Topic 6 — Asset Classification — Sub-standard, Doubtful and Loss

Meaning

Once an account is an NPA, it is placed in one of **three further categories**, based on how long it has stayed an NPA.

Main rules

Category	Definition
Standard	Not an NPA; carries no more than normal risk
Sub-standard	Has been an NPA for **not more than 12 months**
Doubtful	Has remained an NPA for **more than 12 months**. Split further into **D1** (up to 1 year in doubtful), **D2** (more than 1 year and up to 3 years in doubtful), **D3** (more than 3 years in doubtful)
Loss	Identified as **unrecoverable** by the bank, its auditors, or an RBI inspection, but **not yet written off**

Conditions

- **Ageing start** — Ageing is counted from the date the account **first became an NPA**, not from the date of the latest inspection.
- **No upgrade by fresh security** — A loan does not move back to a better category merely because the borrower gives fresh security or a fresh guarantee.
- **Upgrade test** — It can only be upgraded when the arrears rule in Topic 3 is met.

Example: A cash-credit account turns NPA on **1 June 2025**. It stays sub-standard until **31 May 2026** (12 months as NPA). From **1 June 2026** it moves to doubtful, category **D1**, and stays D1 until **31 May 2027**. From **1 June 2027** it becomes **D2**.

Remember this

- Sub-standard: NPA up to 12 months. Doubtful: NPA beyond 12 months, split D1/D2/D3 by years.
- Loss: identified as unrecoverable, still on the books.
- Ageing runs from the NPA date, not from the inspection date.

Topic 7 — Erosion of Security and Unsecured Exposure

Meaning

Sometimes the value of the security backing a loan falls sharply. When this happens, the loan is pushed straight into a worse category, **skipping the normal ageing**.

Erosion in the value of security

The **realisable value of security (RVS)** — what the security could actually fetch if sold — is assessed by the bank, an approved valuer, or RBI inspectors.

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If RVS falls to	The account is classified as
Less than **50%** of the value assessed at the last inspection or valuation	**Doubtful** straightaway, skipping the sub-standard stage
Less than **10%** of the outstanding amount	**Loss** straightaway

Unsecured exposure test (used for provisioning, Topic 8)

- **Test** — An exposure is treated as unsecured if the RVS of its security (both the main security and any collateral) is **not more than 10%** of the outstanding exposure, right from the start (*ab initio*).
- **One-time test** — It is taken at the beginning; it is not a running test that changes every quarter.
- **Not security** — Guarantees, including **government guarantees**, and **comfort letters** do not count as security for this test.

Important difference

Often confused	Difference
Erosion below 50% test	Compares RVS today with RVS at the **last valuation**, not with the outstanding amount
Erosion below 10% test	Compares RVS with the **outstanding amount**, not with any earlier valuation
Unsecured exposure test	Compares RVS with the outstanding amount **at the start** of the exposure, and this test, once failed, does not change later

Example: A sub-standard account has security last valued at **₹40 lakh**. A fresh valuation shows the security is now worth only **₹18 lakh** — **45%** of the earlier value. Since this is less than 50%, the account moves **straight to doubtful**, without waiting to complete 12 months as sub-standard.

Remember this

- RVS below 50% of last value → doubtful straightaway. RVS below 10% of outstanding → loss straightaway.
- Unsecured exposure test uses RVS at the start of the loan, not a later date.
- Guarantees and comfort letters are not "security" for the unsecured exposure test.

Topic 8 — Provisioning for Standard Assets and the Provisioning Coverage Ratio

Meaning

- **Provisioning** — Setting aside money from profit to absorb an expected loss.
- **Standard loans too** — Even a loan that is behaving normally (standard) needs a small **general provision**.

Main rules

Portfolio	Standard-asset provision
Direct advances to **agriculture**, individual **housing loans**, **micro and small** enterprises	**0.25%**
Medium enterprises and all other loans not separately listed	**0.40%**
Commercial real estate (CRE)	**1.00%**
Commercial real estate — residential housing (CRE-RH)	**0.75%**
Housing loans at **teaser rates** (a low introductory rate that later rises)	**2.00%**, falling to **0.40%** one year after the rate resets to the normal rate, provided the account is standard on that date

- **Where held** — Standard-asset provisions are held under **"other liabilities and provisions"** in the balance sheet, not against any single account.

Provisioning Coverage Ratio (PCR)

- **Formula** — PCR = (specific provisions held for NPAs + **floating provisions**, provisions not tied to any one account) ÷ gross NPAs.
- **No minimum** — RBI does not prescribe any current minimum PCR.
- **Board decides** — A bank's Board decides its own PCR level and discloses it in the notes to accounts.

Example: A bank's standard-loan book has: agriculture loans **₹200 crore** (0.25%), other loans **₹500 crore** (0.40%), and CRE loans **₹100 crore** (1.00%). Provision = (₹200 crore × 0.25%) + (₹500 crore × 0.40%) + (₹100 crore × 1.00%) = ₹50 lakh + ₹2 crore + ₹1 crore = **₹3.50 crore**.

Example: A bank has gross NPAs of **₹200 crore**. It holds specific provisions of **₹120 crore** and floating provisions of **₹20 crore**. PCR = (₹120 crore + ₹20 crore) ÷ ₹200 crore = **70%**. This 70% is simply this bank's own current ratio; it is not a rule the bank must meet.

Important difference

Often confused	Difference
Standard-asset provision	A small **general cushion** held on a loan that is still performing normally
Specific (NPA) provision	A larger, **case-specific** amount held once a loan has actually turned bad
PCR today	A disclosed ratio the Board decides on its own; **RBI sets no minimum**
PCR history (30 September 2010)	Banks were once told to reach **70%** including floating provisions by that one-time date
PCR history (contd.)	The surplus created was moved into a **countercyclical buffer** (a cushion built up for bad times), usable only for specific provisions during a system-wide downturn and only with **RBI's prior approval**

Remember this

- Standard provisions: 0.25% (agri/housing/micro-small), 0.40% (medium/others), 0.75% (CRE-RH), 1.00% (CRE), 2.00% teaser (falling to 0.40% after one year).
- PCR = (specific + floating provisions) ÷ gross NPA; no current minimum.
- The 70% PCR figure is history, tied to 30 September 2010; do not treat it as today's rule.

LEARNING SESSIONS

Topic 9 — Provisioning for NPAs — Sub-standard, Doubtful and Loss

Meaning

Once a loan is an NPA, the bank must hold a **specific provision** on it, based on its category and on whether it is secured or unsecured.

Main rules

Category	Secured portion	Unsecured portion
Sub-standard	**15%** of total outstanding	**25%** (the extra 10% is added over the 15% base)
Sub-standard — infrastructure loan with an **escrow account** (a dedicated account collecting project cash flows) and a first legal claim on those cash flows	—	**20%** instead of 25%
Doubtful D1 (up to 1 year in doubtful)	**25%**	**100%**
Doubtful D2 (1 to 3 years in doubtful)	**40%**	**100%**
Doubtful D3 (more than 3 years in doubtful)	**100%**	**100%**
Loss	**100%**, or write off the entire outstanding	—

- **Secured/unsecured split** — Worked out using the RVS of the security under the erosion rules in Topic 6.

Example: A doubtful account (**D1**) has an outstanding balance of ₹**60 lakh**. The security is now worth ₹**36 lakh** (secured portion) and the remaining ₹**24 lakh** has no cover (unsecured portion). Provision = (₹36 lakh × 25%) + (₹24 lakh × 100%) = ₹9 lakh + ₹24 lakh = ₹**33 lakh**.

Example: A sub-standard account of ₹**40 lakh** is fully secured (security value well above 10% of the exposure at the start). Provision = 15% × ₹40 lakh = ₹**6 lakh**. No extra 10% applies because the exposure passes the secured test.

Important difference

Often confused	Difference
Sub-standard unsecured (25%)	The 25% already includes the **15% base plus a 10% add-on**; it is not a separate flat rate
Doubtful unsecured (100%)	Applies at **every doubtful stage** (D1, D2, D3); only the secured portion rate rises with age
Old accelerated-provisioning table (sub-standard 25%/40%, doubtful 40%/100% for accounts not reported to CRILC or evergreened, once used as a penalty)	**No longer exists** as a separate table; current supervisory action for such conduct is case-by-case, at RBI's discretion, and not through a fixed extra table

Remember this

- Sub-standard: 15% secured, 25% unsecured, 20% for the infrastructure escrow carve-out.
- Doubtful secured: 25% (D1), 40% (D2), 100% (D3). Doubtful unsecured: always 100%.
- Loss: 100%, or write off in full.
- No separate accelerated-provisioning penalty table exists now.

Topic 10 — Project Loans — DCCO and Project Provisioning

Meaning

- **Project loan** — A loan for building a factory, power plant, road, or similar. It moves through phases before it starts earning revenue.
- **Special rules** — They decide how such a loan is provisioned and when a delay counts as restructuring.

Three phases

Phase	Runs from — to
Design	Start, up to **financial closure** (when funding for the project is finally tied up)
Construction	Financial closure to the **Date of Commencement of Commercial Operations (DCCO)**
Operations	DCCO onward, to full repayment

Standard-asset provision on project loans

Phase	Infrastructure	CRE-RH	CRE (other)
Construction	**1.00%**	**1.00%**	**1.25%**
Operations	**0.40%**	**0.75%**	**1.00%**

DCCO deferment without treating it as restructuring

A standard project loan may have its DCCO pushed back, with the repayment schedule shifted to match, **without being treated as restructured**, up to these outer limits.

Project type	Maximum deferment beyond the original DCCO
Infrastructure	Up to **3 years**
Non-infrastructure, including CRE and CRE-RH	Up to **2 years**

- **Extra loading** — For each **quarter** of such deferment, an extra standard-asset provision applies: **0.375%** for infrastructure projects, and **0.5625%** for non-infrastructure projects (including CRE and CRE-RH).
- **When dropped** — This extra loading is dropped once commercial operations begin.

Conditions

- **Change in scope** — The special (non-restructuring) treatment for a cost overrun caused by a change in the scope of the project applies only if the overrun is at least **25%** of the original project cost.
- **Otherwise restructuring** — A smaller overrun, or any change in other loan terms such as the interest rate, is treated as restructuring instead.

Example: An infrastructure project loan is in its construction phase, provisioned at **1.00%**. Its DCCO is deferred by **3 quarters** because of a genuine cost overrun of **30%** of the original project cost — this qualifies, and the deferment is within the 3-year infrastructure cap. Extra loading = 3 × 0.375% = **1.125%**. Total standard provision during this period = 1.00% + 1.125% = **2.125%**. On an outstanding of ₹**800 crore**, provision = 2.125% × ₹800 crore = ₹**17 crore**.

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Exceptions — consortium minimum exposure

- **Up to ₹1,500 crore** — In a project loan funded by several lenders together (consortium), each lender must hold at least **10%** of the total exposure if the total is up to **₹1,500 crore**.
- **Above ₹1,500 crore** — Each lender must hold at least **5% or ₹150 crore**, whichever is higher.

Remember this

- Three phases: design, construction (to DCCO), operations.
- Construction provision 1.00% (infra, CRE-RH) / 1.25% (CRE); operations 0.40% / 0.75% / 1.00%.
- DCCO deferment: infra up to 3 years, non-infra up to 2 years; loading 0.375% (infra) or 0.5625% (non-infra) per quarter of deferment.
- Change-in-scope cost overrun needs at least 25% of project cost to skip restructuring treatment.
- Consortium: 10% each if aggregate up to ₹1,500 crore; else 5% or ₹150 crore, whichever is higher.

Topic 11 — Compromise Settlements, Technical Write-offs and Restructured Accounts

Meaning

When a borrower cannot pay in full, a bank has structured ways to close or continue the account instead of only chasing recovery through courts.

Main rules — compromise settlement and technical write-off

Term	Meaning
Compromise settlement	A negotiated deal where the bank accepts a **smaller amount in full settlement** of its claim, giving up (waiving) part of the principal, interest or charges
Technical (prudential) write-off	The NPA is removed from the bank's **Head Office books** without giving up the right to recover; the branch account and recovery efforts continue as before; the borrower is not told this has happened as of right

Governance rules for compromise settlements and technical write-offs

Rule	Requirement
Approving authority	Must be at least **one level above** the authority that first sanctioned the loan; no person who took part in the original sanction may approve the settlement
Wilful defaulters and fraud accounts	Compromise is allowed only with **Board approval**, and does not stop any criminal case already started or still to be started
Cooling period before fresh exposure	At least **12 months** before the same borrower gets fresh **non-farm** credit from the bank; farm credit follows the Board's own policy
Board reporting	A **quarterly** report to the Board (or a Board committee) covering the number and amount of settlements and technical write-offs, sacrifice made, and recovery from technically written-off accounts
Payment terms	If the settlement amount is payable over **more than three months**, the concession is treated as **restructuring** for classification purposes, not as a simple settlement

Main rules — restructured and resolution-plan accounts

- **Restructuring** — Granting a concession to a borrower because of financial difficulty — for example, stretching the repayment period, cutting the interest rate, or sanctioning extra credit.

Where a restructuring (resolution plan) is implemented

- **Standard account** — A standard account that is restructured is **downgraded at once to sub-standard** (NPA).
- **NPA account** — An account that is already an NPA keeps the **same classification** it had before the restructuring.
- **Income** — Any interest **capitalised** (added to the loan amount) under the plan is not income until it is actually received.
- **Calamity exception** — Under the calamity chapter of the resolution directions, a standard account restructured for a declared calamity **stays standard**. A repeated calamity restructuring needs an extra **5%** provision each time, reversed after at least 20% repayment.
- **See** — Ch 4 (p. 18) for the monitoring period, the rating test for large accounts and the upgrade rules for restructured accounts.

Example: A branch sanctions a cash-credit loan of **₹15 lakh**. The borrower later proposes a compromise settlement for a related NPA term loan. The Branch Manager, who sanctioned the original loan, **cannot approve** the settlement — it must go to an authority at least **one level above**. Once the settlement is closed, the bank cannot give this borrower fresh non-farm credit for at least **12 months**.

Example: An NPA of **₹25 lakh** is removed from Head Office books as a technical write-off, using the provision already held against it. The branch continues recovery efforts. Two years later, **₹6 lakh** is recovered from the borrower; this ₹6 lakh is booked as **income** at that time.

Remember this

- Compromise settlement: sacrifice accepted, claim reduced. Technical write-off: books cleared at Head Office, right to recover and branch account continue.
- Approving authority: one level above the sanctioning authority; wilful default/fraud needs Board approval.
- Cooling period: at least 12 months before fresh non-farm exposure. Board report: quarterly.
- Restructuring: standard account downgraded to sub-standard; NPA keeps its class; upgrade after satisfactory performance (10% repaid, at least 1 year). Calamity restructuring keeps standard status; repeated calamity restructuring: extra 5%.

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Q1. A term loan instalment is due on 15 January 2026 and stays unpaid. On which date, at day-end, does the account become an NPA? *[Ref: Topic 2, p. 2]*

(a) 15 April 2026 (b) 16 March 2026
(c) 14 February 2026 (d) 15 May 2026

Q2. A cash-credit account has a sanctioned limit of ₹60 lakh. Its balance stays at ₹40 lakh throughout the quarter, but no credit has entered the account for 92 continuous days. What is the correct classification? *[Ref: Topic 3, p. 3]*

(a) Standard, because the balance is within the limit
(b) NPA, because the account is out of order under the "no credits for 90 days" test
(c) SMA-1, because it is an early-warning stage
(d) NPA only if the balance also crosses the limit

Q3. A cash-credit account's regular limit fell due for renewal on 1 January 2026. It has still not been renewed on 5 July 2026. Under the renewal/review rule, what is the position? *[Ref: Topic 3, p. 3]*

(a) It will only turn NPA if the balance also crosses the sanctioned limit
(b) It is a temporary deficiency only, with no outer limit
(c) It became NPA on 30 June 2026, since the overdue crossed 180 days
(d) The renewal rule applies only to term loans, not to cash-credit limits

Q4. A term loan is guaranteed by the Central Government and remains overdue for 150 days. The Government has not yet repudiated the guarantee. What is the classification position? *[Ref: Topic 4, p. 3]*

(a) NPA, because 150 days is more than 90 days
(b) Standard, because government-guaranteed advances are always exempt
(c) NPA, but only for provisioning purposes, not for income recognition
(d) Not NPA, because the exemption applies until the guarantee is repudiated

Q5. An account has remained NPA continuously since 10 March 2022. As of 15 March 2026, in which doubtful sub-category does it fall? *[Ref: Topic 6, p. 4]*

(a) D1 (b) D2
(c) D3 (d) It is still sub-standard

Q6. The realisable value of security on a sub-standard account, last valued at ₹50 lakh, is freshly assessed at ₹22 lakh. The outstanding is ₹45 lakh. What is the correct classification consequence? *[Ref: Topic 7, p. 4]*

(a) The account moves straight to doubtful, skipping the rest of the sub-standard period
(b) The account is upgraded, since a fresh valuation was carried out
(c) The account moves straight to loss
(d) No change, since the fall is less than 60%

Q7. An NPA account has an outstanding balance of ₹90 lakh. Its security, assessed right from the start of the exposure, is worth only ₹6 lakh. What does the unsecured exposure test say about this account? *[Ref: Topic 7, p. 4]*

(a) It is treated as secured, since some security exists
(b) It is treated as unsecured, since ₹6 lakh is not more than 10% of ₹90 lakh
(c) The test does not apply because the security is gold
(d) The test is re-done every quarter and can change later

Q8. A bank's standard-loan book has agriculture loans of ₹200 crore, other loans of ₹500 crore, and commercial real estate loans of ₹100 crore. Using the standard rates in this chapter, the total standard-asset provision is: *[Ref: Topic 8, p. 5]*

(a) ₹2.50 crore (b) ₹3.00 crore (c) ₹4.00 crore (d) ₹3.50 crore

Q9. A bank has gross NPAs of ₹200 crore, specific provisions of ₹120 crore and floating provisions of ₹20 crore. What is its Provisioning Coverage Ratio (PCR)? *[Ref: Topic 8, p. 5]*

(a) 70% (b) 65% (c) 60% (d) 75%

Q10. Provision on the secured portion of a doubtful account in its D2 stage (1 to 3 years in doubtful) is: *[Ref: Topic 9, p. 6]*

(a) 15% (b) 40% (c) 25% (d) 100%

Q11. A doubtful account (D1) has an outstanding of ₹60 lakh, of which ₹36 lakh is secured and ₹24 lakh is unsecured. What total provision is required? *[Ref: Topic 9, p. 6]*

(a) ₹15 lakh (b) ₹24 lakh (c) ₹33 lakh (d) ₹60 lakh

Q12. A project loan's construction-phase standard provision for a commercial real estate (CRE) project, other than CRE-RH, is: *[Ref: Topic 10, p. 6]*

(a) 0.40% (b) 0.75% (c) 1.00% (d) 1.25%

Q13. An infrastructure project loan in its construction phase carries a base provision of 1.00%. Its DCCO is deferred by 3 quarters within the permitted cap. What is the total standard provision during this period? *[Ref: Topic 10, p. 6]*

(a) 1.00% (b) 2.125% (c) 3.00% (d) 1.375%

Q14. In a consortium funding a project with an aggregate exposure of ₹1,200 crore, the minimum exposure each lender must hold is: *[Ref: Topic 10, p. 6]*

(a) 10% of the aggregate exposure
(b) 5% of the aggregate exposure
(c) ₹150 crore, whatever the percentage works out to
(d) There is no minimum exposure rule for consortium lending

Q15. Under the compromise settlement framework, who may approve a settlement proposal for a loan originally sanctioned by the Branch Manager? *[Ref: Topic 11, p. 7]*

(a) The Branch Manager, since they know the account best
(b) Any officer nominated by the borrower
(c) An authority at least one level above the Branch Manager, who was not part of the original sanction
(d) The bank's statutory auditor

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	d	7	b	10	b	13	b
2	b	5	c	8	d	11	c	14	a
3	c	6	a	9	a	12	d	15	c

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CH-2 Wilful and Large Defaulters

Topic 1 — Basic Background

What this rule area is

- **Wilful defaulter** — A borrower who could pay but chose not to, or misused the loan.
- **Large defaulter** — A borrower with a big overdue amount, whether or not wrong conduct is proved.
- **Scope** — This chapter covers the rule that tells banks how to identify and treat both.

Who runs it

- **RBI Direction** — The Reserve Bank of India (RBI) issues this rule as a **Direction** (an RBI order that banks must follow — it is not a law passed by Parliament).
- **Bank committees** — Each bank applies the rule through its own internal committees.

Who it covers

Person	Covered ?	How
Borrower company or individual	Yes	Directly, once the threshold and conduct tests are met
Guarantor	Yes	Treated the same as the borrower if able to pay but refusing
Promoter or whole-time director responsible for the default	Yes	Named individually; the bar also covers companies under that person's control
Nominee director of a lending bank, or an **independent director**	Usually not	Not treated as responsible unless it is proved the director was involved
Borrower with outstanding **below ₹25 lakh**	No	Below the wilful-defaulter threshold

History in brief

- **1999** — The idea of "wilful default" goes back to a working group set up by RBI in 1999, headed by **Shri S.S. Kohli**.
- **Early definition** — It listed only **three** kinds of default and did not fix any committee structure or reply period.
- **Master Direction** — The rule was later written out fully as a Master Direction dated **30 July 2024**, effective from **1 November 2024**.
- **Current Directions** — RBI has since replaced it with the current Directions dated **28 November 2025**, effective at once. This chapter explains the rule as it stands under the 2025 Directions.

Topic 2 — Wilful Defaulter and Large Defaulter — Meaning and Thresholds

Meaning

A bank uses two separate labels for a defaulting borrower. Each label has its own **threshold** (minimum amount) and its own **trigger** (the condition that switches it on).

Main rules

- **Wilful defaulter** — A borrower or guarantor with an outstanding of **₹25 lakh and above**, who has committed a wilful default (one of the five events in Topic 2).
- **Threshold can change** — RBI can change this threshold later by a fresh notification (an official announcement).
- **Large defaulter** — A borrower with an outstanding of **₹1 crore and above**, where either condition below is met.

Large defaulter — either condition

- A **recovery suit** (a court case to recover the money) has been filed against the borrower, or
- the loan account is classified **doubtful or loss** (the two most serious stages of a bad loan).
- **No conduct test** — The large-defaulter label does not need proof of any wrong conduct. It is triggered by amount plus one of these two conditions alone.
- **Both at once** — A borrower can be a wilful defaulter and a large defaulter at the same time, if both tests are met. It is then shown on both lists.
- **Counting the outstanding** — The outstanding is added up across **all banks and lending institutions** that have lent to the same borrower, even though each lender reports only its own share.

Example: XYZ Ltd owes **₹40 lakh** to Bank A and **₹70 lakh** to Bank B — a combined outstanding of **₹1.10 crore**. Bank B has filed a recovery suit. XYZ Ltd crosses ₹1 crore and a suit is filed, so it is a **large defaulter**. If the bank also finds that XYZ Ltd diverted loan money to another purpose, it separately crosses the ₹25 lakh wilful-default test too, and becomes a **wilful defaulter** as well.

Remember this

- Wilful defaulter: ₹25 lakh and above, plus a wilful-default event.
- Large defaulter: ₹1 crore and above, plus a suit filed or a doubtful/loss account.
- A single borrower can appear on both lists.

Topic 3 — The Five Wilful-Default Events

Meaning

A "wilful default" is not just any missed payment. It is deemed to have happened only when the default matches one of **five specific events**.

Main rules — the borrower has defaulted in payment, and any of these is true

- **1. Capacity but no payment** — The borrower had the capacity to pay but did not pay.
- **2. Diversion** — The borrower diverted the loan money to a purpose different from the one for which the loan was given.
- **3. Siphoning** — The borrower siphoned off the money, so it is no longer available with the business as an asset.
- **4. Disposal of security** — The borrower sold or removed the asset or security charged (pledged) to the lender, without the lender's knowledge.
- **5. Non-infusion of equity** — The borrower did not bring in the **promoter's own money**, despite having the capacity to do so, where this was a condition of the loan.
- **Earlier rule** — The older framework listed only **three** events and treated diversion and siphoning as one combined event.
- **Current rule** — It separates diversion and siphoning into two distinct events, and adds a **fifth event** — not bringing in the promoter's own equity when the loan required it.

Example: A firm takes a **₹50 lakh** term loan to buy machinery. It spends **₹20 lakh** on machinery and moves the remaining **₹30 lakh** to a group company that has no

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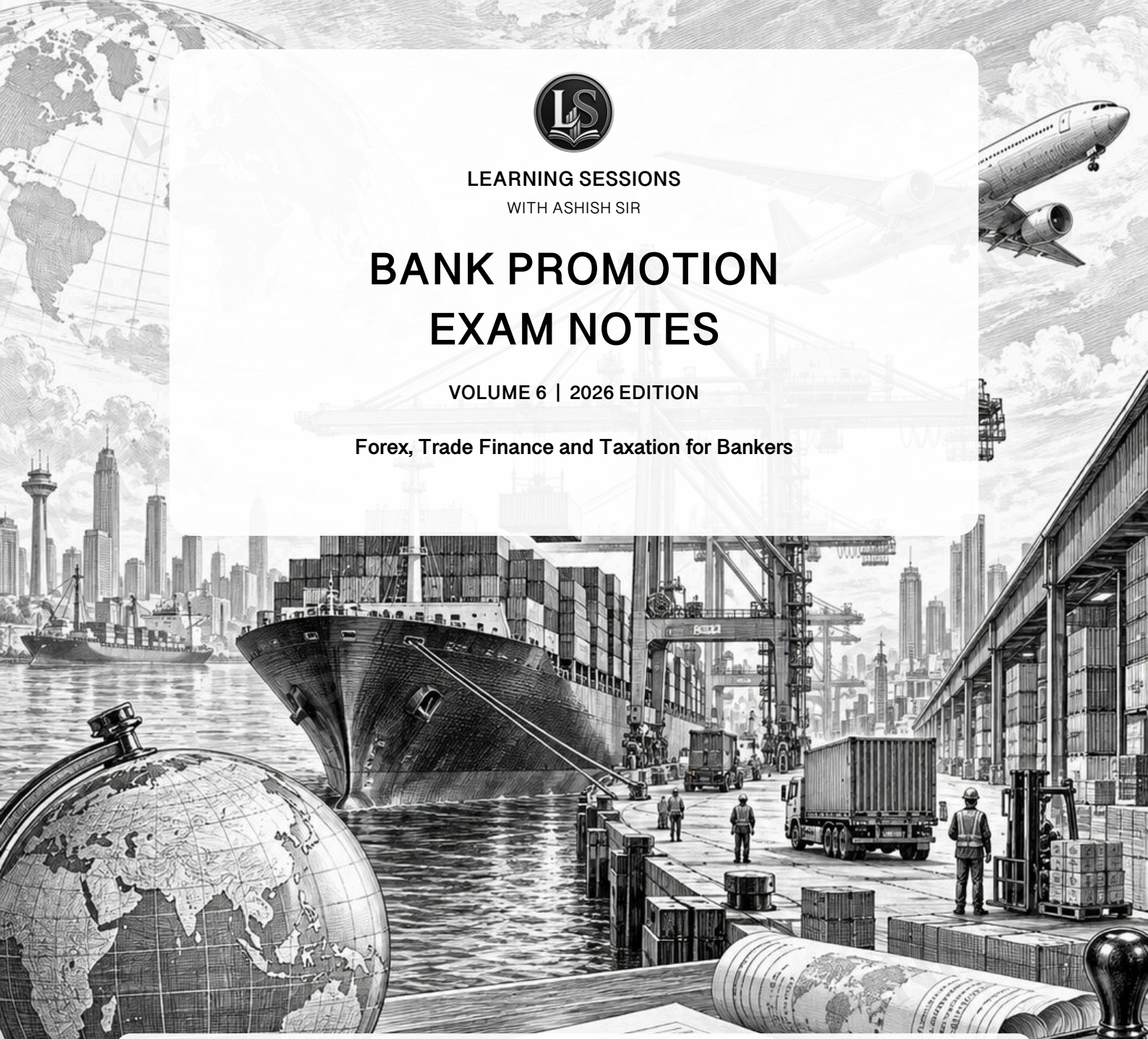

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CH-1 FEMA and NRI Accounts

Topic 1 — Basic background

- **What FEMA is** — The Foreign Exchange Management Act, 1999 (**FEMA**) is the main law for foreign exchange (buying, selling and holding foreign currency) in India.
- **Purpose** — It tells banks and customers how money can move between India and other countries.
- **Who runs it** — The **Reserve Bank of India (RBI)** administers FEMA on a day-to-day basis.
- **Rule-making** — RBI issues Regulations and Master Directions under the Act. Banks apply these through their own internal policies for matters the law and RBI have not fixed.
- **Who it covers** — Every person in India, and every branch, office or agency outside India that a resident of India controls.
- **Also covered** — A branch, office or agency in India of a person resident outside India.

Its history in three lines

- **Start date** — FEMA, 1999 came into force on **1 June 2000**. It replaced the earlier Foreign Exchange Regulation Act (**FERA**), **1973**.
- **Amendments** — RBI keeps amending FEMA Regulations for deposits, remittances and trade. The Deposit Regulations were last amended with effect from **22 June 2026**.

Who decides what

Rule type	Decided by	Example
Statute (law)	Parliament	FEMA, 1999 itself — definitions and broad powers
RBI Regulation or Direction	Reserve Bank of India	Deposit Regulations, FCNR(B) interest ceiling, AD categories
Bank policy	Each bank	Loan pricing against an NRO deposit, RFC account interest rate

Topic 2 — FEMA, 1999 — the legal framework

Meaning

- **Civil law** — FEMA is a civil law, not a criminal one. A person who breaks a FEMA rule usually pays a **money penalty**.
- **Contrast** — This is different from the old FERA, which had jail terms.

Why it matters

- **Aim** — The Act aims to make foreign trade and payments easier.
- **Market** — It also aims to help the foreign exchange market in India grow in an orderly way.
- **Source of all rules** — Every NRI account rule and every forex rule in this chapter flows from this Act.

Main rules — key definitions

FEMA gives plain meanings to a few key terms. These meanings decide which transactions are allowed and which need approval.

Term	Meaning
Capital account transaction [Section 2(e)]	A deal that changes the assets or liabilities (including possible future liabilities) **outside India** of a person resident in India.
Capital account transaction (contd.)	It also covers a deal that changes assets or liabilities **in India** of a person resident outside India. Buying a flat abroad, or investing in shares abroad, are examples.
Current account transaction [Section 2(j)]	Any transaction that is **not** a capital account transaction. It covers payments for foreign trade, other current business, and short-term banking or credit facilities used in the ordinary course of business.
Current account transaction (contd.)	It also covers interest payments, remittance of a person's living expenses, foreign travel, education and medical care.
Foreign exchange [Section 2(n)]	Foreign currency, and deposits, credits and balances payable in a foreign currency.
Foreign exchange (contd.)	It also includes a draft, traveller's cheque (TC), letter of credit (LC) or bill of exchange (B/E) written in Indian currency but payable in a foreign currency, or written abroad but payable in Indian currency.
Authorised Persons [Section 10]	RBI runs FEMA through persons and firms it authorises. They include Authorised Dealers (banks and other approved entities), money changers and offshore banking units. Only an Authorised Person may deal in foreign exchange (Topic 4).

Example: A resident Indian buys shares of a US company. This changes his assets outside India, so it is a **capital account transaction**. His son abroad pays his college fee in India through a bank transfer. This is a **current account transaction**, because it is a payment for education, not a change in assets or liabilities.

Remember this

- FEMA in force from **1 June 2000**; replaced FERA, 1973; breach draws a money penalty, not automatic jail.
- Capital account transaction changes assets/liabilities; current account transaction is everything else, including trade, travel, education and medical payments.
- Only an Authorised Person under **Section 10** may deal in foreign exchange.

Topic 3 — Residential status — the FEMA test and the Income-tax Act, 2025 test

Meaning

- **Why status matters** — Residential status decides which bank accounts and forex facilities a person may use, and how much of his income is taxed.
- **Two tests** — FEMA and the Income-tax Act, 2025 use two separate tests. A candidate should never mix the two.

Why it matters

- **Different answers possible** — The same person can be non-resident under FEMA and still resident under tax law in the same year, or the other way round.
- **Who checks what** — Banks check the **FEMA test** for account opening. Tax officers check the **Income-tax Act test** for taxability.

Main rules — the FEMA test

- **Basic rule [Section 2(v)]** — A person is "resident in India" if he stayed in India for **more than 182 days** in the financial year right **before** the year in question.
- **Financial year** — Runs from **1 April to 31 March**.
- **Purpose carve-out** — FEMA also looks at intention. A person is non-resident from the date he leaves India, or

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starts staying outside India, for employment, business or vocation abroad.

- **Other purposes** — The same applies to any other purpose showing an intention to stay outside India for an uncertain period.
- **Reverse case** — A person becomes resident from the date he comes to India, or starts staying in India, for such a purpose.

Main rules — the Income-tax Act, 2025 test

- **Basic rule [Section 6]** — A person is "resident" for tax if he is in India for **182 days or more** in the tax year.
- **Second limb** — He is also resident if he is in India for **60 days or more** in the tax year, and for **365 days or more** in the four tax years right before that.
- **Relaxed to 182 days** — The 60-day limb becomes 182 days for an Indian citizen or a crew member who leaves India for employment abroad.
- **Visitors** — It is also relaxed to 182 days for a citizen or a Person of Indian Origin (PIO) who is visiting India.
- **Relaxed to 120 days** — For a visiting citizen or PIO whose India income is **more than ₹15 lakh**.
- **Deemed resident** — An Indian citizen with India income of more than **₹15 lakh**, who is not liable to pay tax in any other country, is a "deemed resident". He is classified as **RNOR**.
- **RNOR** — "Resident but not ordinarily resident": a resident who still gets some non-resident tax treatment.
- **RNOR test** — Non-resident in **9 of the last 10 years**, or in India for **729 days or less** in the last **7 years**.

Important difference

Feature	FEMA test	Income-tax Act, 2025 test
Period counted	Financial year right before the year in question	The current tax year
Basic threshold	More than 182 days, plus a purpose test	182 days, or 60 days plus 365 days in the last four years
Governing purpose	Decides which bank accounts and forex facilities apply	Decides how much income is taxed
Special status	No such concept	RNOR — non-resident in 9 of last 10 years, or ≤729 days in last 7 years

Example: Ms Verma left India on **5 April 2025** for a job in Singapore. Under FEMA, she is non-resident from 5 April 2025 because of the employment purpose test — her day count does not matter. Under the Income-tax Act, she is a citizen who left for employment, so her 60-day limb is relaxed to 182 days. She was in India for only **20 days** that year, so she is non-resident for tax too. Both tests give the same answer here, but they are checked separately.

Remember this

- FEMA: more than 182 days in the preceding financial year, plus a purpose test; status changes from the date of departure or arrival.
- Income-tax Act, 2025: 182 days in the current year, or 60 plus 365 days over four years; the 60-day limb relaxes to 182, or to 120 for high India income.
- Deemed resident: India income above **₹15 lakh**, no tax liability abroad; this person is RNOR.
- FEMA status and tax status are separate. Never assume one from the other.

Topic 4 — NRI, PIO and OCI — who is who

Meaning

Bankers deal with three overseas categories every day: Non-Resident Indian (**NRI**), Person of Indian Origin (**PIO**) and Overseas Citizen of India (**OCI**). Each has a different meaning and different rights.

Main rules

- **NRI** — Not defined in the Income-tax Act. It is a FEMA and banking term: an Indian citizen who is a person resident outside India, under the FEMA test in Topic 2.
- **PIO** — A person of Indian origin, by birth or by descent, who lives outside India and holds a foreign passport.
- **PIO exclusion** — Not a passport holder of Pakistan, Bangladesh, Afghanistan, Bhutan, Sri Lanka, Nepal or China.
- **PIO card, now history** — The Government withdrew the PIO card scheme from **9 January 2015**. It was merged into the OCI card scheme.
- **OCI** — A foreign citizen, other than of Pakistan or Bangladesh, and not a person who has served in a foreign military, who gets a lifelong right to enter India many times.
- **OCI eligibility** — Includes a former citizen of India, a person whose parent, grandparent or great-grandparent was a citizen, or one married to an Indian citizen or OCI for at least **two continuous years**.
- **OCI rights** — Most banking, economic and financial rights of an NRI. No right to vote or contest an election in India.

Important difference

Term	Meaning	Key limit
NRI	Indian citizen, non-resident under FEMA	No card; status follows the FEMA test
PIO	Foreign passport holder of Indian origin	Card scheme withdrawn 9 January 2015
OCI	Foreign citizen with lifelong India entry	No voting or political rights

Remember this

- NRI is not tax-defined; it is a FEMA/banking term.
- PIO card withdrawn **9 January 2015**, merged into OCI.
- OCI has most NRI banking rights, but no vote.
- Account eligibility is checked against FEMA residential status at the time of opening the account, not against the passport or visa type alone.

Topic 5 — Authorised Persons — AD Category I, II, III and money changers

Meaning

Only an entity that RBI has authorised under **FEMA Section 10** may deal in foreign exchange. Such an entity is an **Authorised Person**. There are different categories, with different scope.

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Main rules

Category	Who and what
AD Category-I	Scheduled commercial banks, and some co-operative and regional rural banks approved by RBI.
AD Category-I (contd.)	Full range of current and capital account transactions of a bank customer, including NRE, NRO, FCNR(B) and SNRR deposits, trade finance and remittances.
AD Category-II	Upgraded Full-Fledged Money Changers (FFMCs) and some other approved entities. Only specified non-trade current account remittances — e.g. private visit, gift, medical, education or business travel remittance.
AD Category-II (contd.)	Cannot handle capital account business or trade finance.
AD Category-III	Selected financial or other institutions, for example some non-banking finance companies. Forex work that forms part of their own approved business only.
FFMC (not upgraded)	May buy foreign currency notes, coins and traveller's cheques from the public. May sell forex only for private and business travel.
FFMC (contd.)	Cannot handle remittances such as gifts, education fees or medical bills — those need an AD Category-I, or an upgraded AD Category-II.

Limits and timelines

- **Cash limit** — An AD may accept cash up to **₹50,000** against a sale of foreign exchange.
- **Beyond purpose limits** — Release of foreign exchange beyond the limits set for a purpose needs RBI's prior approval.

Remember this

- AD Category-I: full range, including NRI deposits and trade finance.
- AD Category-II: specified non-trade current account remittances only.
- AD Category-III: forex work tied to the institution's own business.
- Plain FFMC: buy notes/TCs; sell only for private and business travel; no remittance business.
- Cash acceptance by an AD against forex sale: up to **₹50,000**.

Topic 6 — NRE, NRO, FCNR(B) and SNRR accounts — features

Meaning

NRE, NRO, FCNR(B) and SNRR are the four deposit accounts an NRI, OCI or other non-resident can use in India. Each has its own currency, purpose and repatriation rule (repatriation = sending money out of India).

Main rules

- **NRE (Non-Resident External Rupee Account)** — In Indian rupees. Any NRI or OCI can open it.
- **NRE funding** — Money must come from abroad, or by transfer from another NRE or FCNR(B) account.
- **NRE types** — Savings, current, recurring or fixed deposit. A term deposit needs a minimum tenor of **1 year**. Principal and interest are freely repatriable.
- **NRO (Non-Resident Ordinary Rupee Account)** — In Indian rupees. Holds income earned in India, such as rent, dividend or pension. Money can come from India or abroad.
- **NRO rules** — A term deposit can be for the same short minimum period as a normal domestic term deposit. Current income is freely remittable after tax. The balance is capped for repatriation (Topic 7).
- **FCNR(B) (Foreign Currency Non-Resident (Bank) Account)** — In a foreign currency chosen by the customer. Only an NRI or OCI can open it.
- **FCNR(B) type** — Term deposit only — not savings, current or recurring. Minimum tenor **1 year**, maximum **5 years**. Principal and interest are freely repatriable.
- **SNRR (Special Non-Resident Rupee Account)** — In Indian rupees. Any person resident outside India may open it, for a permitted current or capital account transaction with a resident.
- **SNRR tenor** — Fixed by the underlying transaction.
- **SNRR change** — From **22 June 2026**, the Deposit Regulations amendment removed the earlier condition of a "business interest in India".

Feature table

Feature	NRE	NRO	FCNR(B)	SNRR
Currency	Indian rupee	Indian rupee	Foreign currency chosen by customer	Indian rupee
Who can open	NRI/OCI	NRI/OCI	NRI/OCI	Any person resident outside India
Source of funds	Remitted from abroad, or from another NRE/FCNR(B)	Local India income, or funds from abroad	Remitted from abroad	Permitted transaction with a resident
Account type	SB / current / RD / TD	SB / current / RD / TD	Term deposit only	Current or term, per the transaction
Minimum tenor (TD)	1 year	As per a normal domestic term deposit	1 year	As per the transaction
Maximum tenor	Bank's own domestic TD ceiling	Bank's own domestic TD ceiling	5 years	As per the transaction
Joint holding	With another NRI/OCI, or a resident close relative	With another NRI/OCI, or a resident	Same as NRE	As permitted for the transaction
Repatriation — principal	Freely repatriable	Capped — Topic 7	Freely repatriable	Repatriable per the transaction
Repatriation — interest	Freely repatriable	Freely remittable after tax	Freely repatriable	As permitted
Nomination	Permitted	Permitted	Permitted	Not a standing feature
Loan against deposit	No ceiling now (Topic 10)	Per bank policy	No ceiling now (Topic 10)	Per bank policy

Example: A branch opens an **NRE savings account** for a customer working in Dubai who wants his salary

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remittances kept fully repatriable. For his India-earned rent, it opens a separate **NRO account**, because rent is India income and cannot go into an NRE account.

Remember this

- NRE and FCNR(B): fully repatriable, both principal and interest.
- NRO: current income freely remittable; balance capped at **USD 1 million** a year (Topic 7).
- FCNR(B): term deposit only, in a foreign currency, **1 to 5 years**.
- SNRR: widest eligibility — any person resident outside India; "business interest in India" test removed from **22 June 2026**.

Topic 7 — RFC, RFC (Domestic) and EEFC accounts

Meaning

Three more foreign-currency accounts sit alongside NRE, NRO, FCNR(B) and SNRR. **RFC** is for a returning Indian. **RFC (Domestic)** and **EEFC** are for residents who hold foreign exchange for specific reasons.

Main rules

- **RFC (Resident Foreign Currency Account)** — For a returning Indian who held NRI or OCI status for at least **1 year** and has now become resident.
- **RFC features** — Funded by foreign inward remittance, or transfer of FCNR(B) or NRE balances on return. Savings, current or fixed deposit. No loan or overdraft. Interest at the bank's discretion.
- **RFC (Domestic)** — For a resident individual. Holds forex earned during a visit outside India — e.g. unspent travel forex above **USD 2,000**, which must otherwise be surrendered within **180 days**.
- **RFC (Domestic) features** — Current account only. No interest. No loan or overdraft.
- **EEFC (Exchange Earners' Foreign Currency Account)** — For any person resident in India who earns foreign exchange, such as an exporter or a professional earning fees from abroad.
- **EEFC features** — Holder may retain up to **100%** of eligible forex earnings. Current account only. No interest. No loan or overdraft.
- **See** — Ch 2 (p. 8) for the rules on carrying, retaining and surrendering travel forex.

Important difference

Feature	RFC	RFC (Domestic)	EEFC
Who opens it	Returning NRI/OCI (minimum 1 year abroad)	Resident individual	Resident foreign-exchange earner
Source of funds	Foreign remittance; transfer of FCNR(B)/NRE balance	Forex earned on a foreign visit	Foreign exchange earnings, for example export proceeds
Account type	SB / current / TD	Current only	Current only
Interest	Bank's discretion	None	None
Loan / overdraft	Not permitted	Not permitted	Not permitted

Example: Mr Fernandes worked abroad as an NRI for **four years** and has now returned to India for good. Because he held NRI status for more than 1 year, he can open an **RFC account** and move his FCNR(B) and NRE balances into it. He cannot take a loan against this balance, because none of RFC, RFC (Domestic) or EEFC allows a loan or overdraft.

Remember this

- RFC: returning Indian, NRI/OCI status held for at least **1 year**; interest at bank's discretion.
- RFC (Domestic): resident, forex from foreign visits; no interest.
- EEFC: resident forex earner; retains up to **100%** of earnings; no interest.
- None of the three permits a loan or overdraft against the balance.

Topic 8 — NRO account — repatriation and the USD 1 million rule

Meaning

An NRO account is not fully "non-repatriable". Current income can move abroad freely. The balance, or sale proceeds of an asset, can move abroad only up to a yearly ceiling.

Main rules

- **Current income** — Rent, dividend, pension, interest and similar India income in an NRO account is freely remittable abroad, after the applicable Indian tax.
- **No dollar cap** — There is no dollar ceiling on current income.
- **Balance and asset-sale proceeds** — Can be remitted abroad up to **USD 1 million** in one financial year (April to March), for each NRI or PIO.
- **Per person** — The ceiling is per person and counts across all of that person's NRO accounts together — not per account.

Conditions

- **Documents** — A Chartered Accountant's (CA) certificate and Income-tax **Forms 15CA and 15CB**, confirming that tax has been paid.
- **Inherited assets** — For money from an inherited or legacy asset, extra documents proving title or inheritance are needed.
- **Bona fide dues** — A returning NRI, or a foreign national with a special NRO account, can remit genuine dues abroad, again capped at **USD 1 million** a financial year. The account is closed once the money is sent.

Example: Mr Iyer, an NRI, holds **₹1.4 crore** across two NRO accounts at different branches — one with rental income, the other with sale proceeds of an inherited flat. He wants to remit **₹90 lakh** in one financial year. The ceiling is per person, so the branches must add up his NRO holdings before certifying. He needs a CA certificate (Forms 15CA/15CB), and extra title and inheritance papers for the flat proceeds.

Remember this

- Current income in an NRO account: freely remittable after tax, no dollar ceiling.
- Balance / asset-sale proceeds: capped at **USD 1 million** per financial year, per person, across all NRO accounts.
- Needs CA certificate plus Forms 15CA/15CB; inherited assets need extra title papers.
- Never call NRO principal simply "non-repatriable" — that ignores the USD 1 million route.

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Topic 9 — FCNR(B) interest rate ceiling

Meaning

FCNR(B) deposits are in foreign currency, so RBI caps the interest rate a bank can offer. The old benchmark, LIBOR, has been retired. The current ceiling uses a newer benchmark.

Main rules

- **Reference rate** — The Overnight Alternative Reference Rate (**ARR** — the benchmark used after LIBOR ended) for the deposit currency, or the **Swap rate**.
- **1 to under 3 years** — Ceiling = reference rate + **250 basis points** (a basis point is one-hundredth of one per cent).
- **3 to 5 years** — Ceiling = reference rate + **350 basis points**.
- **Rate source** — The reference rate is the one quoted by **FBIL** (Financial Benchmarks India) on the last working day of the month before.
- **Interest basis** — Worked out on a **360-day year**, rounded to two decimal places, at a fixed or floating rate.
- **NRE and NRO** — No fixed formula ceiling. Their rate cannot be higher than the bank's own rate for a comparable domestic rupee deposit.
- **No extra interest** — Staff and senior-citizen extra interest is not paid on NRE or NRO deposits.

Limits and timelines — temporary relaxation, now history

- **Start** — From **17 June 2026**, RBI temporarily removed the FCNR(B) ceiling for fresh or renewed deposits of **3 to 5 years**.
- **NRE too** — It also removed the "not higher than domestic" cap on fresh or renewed NRE deposits of **3 years and above**.
- **Planned end** — First planned to run until **30 September 2026**.
- **Cut short** — An amendment dated **25 August 2026** cut the window to **31 August 2026**. Normal ceilings apply again from **1 September 2026**.
- **Never relaxed** — The 1-to-under-3-year FCNR(B) band was never relaxed.

Example: A bank offers a fresh **4-year** FCNR(B) deposit on **15 September 2026**. The relaxation window has closed, so the normal 3-to-5-year ceiling applies: reference rate + **350 basis points**. Had the deposit been booked on **20 July 2026**, during the window, the bank could have priced it without that ceiling.

Remember this

- FCNR(B) ceiling: reference rate + **250 bps** (1 to under 3 years); + **350 bps** (3 to 5 years).
- Interest basis: 360-day year, two-decimal rounding.
- NRE/NRO: no formula ceiling, just "not higher than domestic".
- Relaxation ran **17 June 2026 to 31 August 2026** (cut short from a planned 30 September 2026); normal ceilings resumed **1 September 2026**.

Topic 10 — Tax treatment of NRE, FCNR(B) and NRO interest

Meaning

NRE and FCNR(B) interest can be exempt from tax, but only while a condition is met. NRO interest is always taxable. None of this is a blanket exemption "from all taxes".

Main rules

- **NRE interest** — Exempt under the Income-tax Act, 2025, in place of the old NRE exemption.
- **NRE condition** — Applies only while the holder is a person resident outside India under FEMA, or is specially permitted by RBI to keep the account.
- **On becoming resident** — The account must be re-designated (reclassified as a resident account). Interest earned after that is taxable.
- **FCNR(B) interest** — Exempt under the Income-tax Act, 2025, in place of the old FCNR(B) exemption. Available to non-residents and also to an **RNOR** (Topic 2).
- **NRO interest** — Fully taxable. TDS at **30%**, plus surcharge, plus **4%** health-and-education cess.
- **DTAA relief** — A lower rate applies if a Double Taxation Avoidance Agreement (a treaty that stops the same income being taxed twice) covers the case, with a Tax Residency Certificate and **Form 10F**.

Important difference

Account	Exemption basis	Condition
NRE interest	Exempt, Income-tax Act, 2025	Holder is non-resident under FEMA, or RBI-permitted
FCNR(B) interest	Exempt, Income-tax Act, 2025	Holder is non-resident or RNOR
NRO interest	Fully taxable	TDS at 30% plus surcharge plus 4% cess, or DTAA rate

Example: Ms Verma keeps her NRE savings interest tax-free as long as she stays non-resident under FEMA. If she moves back permanently and becomes resident, her bank must re-designate the account, and interest from then on is taxable. Her rental income in her NRO account is taxable from day one, with TDS deducted before credit.

Remember this

- NRE interest exempt only while non-resident under FEMA; re-designation needed on return.
- FCNR(B) interest exempt for non-residents and for RNOR persons.
- NRO interest always taxable; TDS **30%** plus surcharge plus **4%** cess, or DTAA rate.
- "Exempt from all taxes" is not correct — the exemption is on interest income only, and it depends on status.

Topic 11 — Nomination, loans against deposits and change of status

Meaning

Three practical matters come up often at the branch counter: naming a nominee, lending against an NRI deposit, and handling a customer whose residential status changes.

Main rules

- **Nomination** — A depositor can name a nominee (who receives the balance after his death) on NRE, NRO and FCNR(B) accounts, as in Topic 5.
- **Loan against deposit** — A bank can lend against an NRE or FCNR(B) deposit. There is **no ceiling** today. The earlier cap of **₹1 crore** has been removed.
- **Becoming resident** — NRE and FCNR(B) accounts must be re-designated. An NRE savings or current account becomes a normal resident rupee account.
- **FCNR(B) on return** — Deposits usually run to maturity, or the balance moves into an RFC account, as bank rules allow (Topic 6).
- **Becoming non-resident** — Existing resident accounts must be re-designated as NRO accounts.

LEARNING SESSIONS

- **New accounts** — He can then open NRE and FCNR(B) accounts for money earned abroad, so it is not stuck under NRO repatriation limits.

Example: A customer who has been an NRI for **six years** returns to India for a permanent job. The branch re-designates his NRE savings account as a resident account from the date he becomes resident under FEMA. His **3-year** FCNR(B) deposit, not yet matured, runs to maturity; he may then move the proceeds into an RFC account.

Exceptions

- **Own loan** — A loan against an FCNR(B) deposit in the holder's own name, for his own use, needs no special RBI approval today, as the earlier ceiling is removed.
- **Third-party loan** — A loan for a third party, or for a purpose the bank's policy does not allow, still needs the bank's own sanction process.

Remember this

- Nomination: allowed on NRE, NRO and FCNR(B).
- Loan against NRE/FCNR(B) deposit: no ceiling now; earlier ceiling was ₹**1 crore**.
- Becoming resident: NRE/FCNR(B) accounts re-designated; FCNR(B) may run to maturity, then move to RFC.
- Becoming non-resident: resident accounts re-designated as NRO.

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Q1. Which of these are "current account transactions" under FEMA? 1. Payment due for foreign trade 2. A short-term banking facility used in the ordinary course of business 3. Remittance of a person's living expenses abroad 4. A resident buying a flat abroad with his own funds *[Ref: Topic 2, p. 2]*

(a) 1 and 4 only (b) All four
(c) 1, 2 and 3 only (d) 2 and 3 only

Q2. Mr Rao, an Indian citizen, leaves India on 10 May 2026 to take up a job abroad. Under FEMA, he becomes non-resident — *[Ref: Topic 3, p. 2]*

(a) from the date he leaves, 10 May 2026, because of the employment purpose test
(b) only after he completes 182 days abroad
(c) only from the start of the next financial year
(d) never, because he intends to return to India someday

Q3. The 60-day limb under the Income-tax Act, 2025 is relaxed — *[Ref: Topic 3, p. 2]*

(a) to 60 days for every foreign national visiting India
(b) to 90 days for Indian companies with a branch abroad
(c) to 182 days for a citizen/crew leaving for employment abroad and a citizen/PIO visiting India; further to 120 days if the visiting citizen/PIO has India income above ₹15 lakh
(d) only for an OCI cardholder living permanently abroad

Q4. Statement I: An Indian citizen with India-source income above ₹15 lakh, not liable to tax in any other country, is treated as a "deemed resident". Statement II: A person who becomes a deemed resident under this rule is classified as RNOR (resident but not ordinarily resident). *[Ref: Topic 3, p. 2]*

(a) Statement I is incorrect, Statement II is correct
(b) Statement I is correct, Statement II is incorrect
(c) Both statements are incorrect
(d) Both statements are correct

Q5. An OCI (Overseas Citizen of India) cardholder gets — *[Ref: Topic 4, p. 3]*

(a) full voting rights, same as an Indian citizen
(b) the right to contest elections in India
(c) most banking and financial rights of an NRI, but not voting or political rights
(d) no banking rights at all in India

Q6. A Full-Fledged Money Changer (FFMC) that has not been upgraded to AD Category-II may — *[Ref: Topic 5, p. 3]*

(a) open NRE and FCNR(B) deposit accounts
(b) buy foreign currency notes, coins and traveller's cheques, and sell forex only for private and business travel
(c) handle education and medical treatment remittances
(d) do capital account transactions for its customers

Q7. Among NRE, NRO, FCNR(B) and SNRR accounts, which one can be opened only as a foreign-currency term deposit? *[Ref: Topic 6, p. 4]*

(a) NRE (b) NRO (c) FCNR(B) (d) SNRR

Q8. From 22 June 2026, the earlier SNRR account condition of having a — *[Ref: Topic 6, p. 4]*

(a) minimum balance of ₹1 lakh was introduced
(b) minimum tenor of 3 years was introduced
(c) resident guarantor was made mandatory
(d) "business interest in India" was removed by an amendment to the Deposit Regulations

Q9. Which of RFC, RFC (Domestic) and EEFC accounts permits a loan or overdraft against the balance? *[Ref: Topic 7, p. 5]*

(a) RFC only
(b) RFC (Domestic) only
(c) None of them — all three prohibit a loan or overdraft
(d) EEFC only

Q10. Mr Iyer holds NRO accounts at two different branches of the same bank. The USD 1 million per financial year repatriation ceiling on NRO balances applies — *[Ref: Topic 8, p. 5]*

(a) once, across all his NRO accounts together, because the limit is per person
(b) separately to each of his NRO accounts
(c) only to the account with the higher balance
(d) only if RBI gives special permission each time

Q11. Mr Iyer's NRO balance is all rental income already taxed in India, held as current income, not as sale proceeds of any asset. He wants to remit the full amount abroad. Which is correct? *[Ref: Topic 8, p. 5]*

(a) He cannot remit any of it without RBI's special approval
(b) He can remit the full amount, because current income is freely remittable after tax, with no dollar ceiling
(c) He can remit only up to USD 1 million worth
(d) He must first convert it into an FCNR(B) deposit before remitting

Q12. For a fresh FCNR(B) deposit of 4 years, outside any relaxation window, the interest ceiling is — *[Ref: Topic 9, p. 6]*

(a) reference rate (ARR/Swap) plus 350 basis points
(b) reference rate (ARR/Swap) plus 250 basis points
(c) LIBOR plus 300 basis points
(d) no ceiling at all

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Q13. Statement I: The temporary relaxation of the FCNR(B) and NRE rate ceilings started on 17 June 2026. Statement II: The relaxation was first planned to run until 30 September 2026, but a later amendment cut it short to 31 August 2026. *[Ref: Topic 9, p. 6]*

(a) Statement I is correct, Statement II is incorrect
(b) Both statements are correct
(c) Statement I is incorrect, Statement II is correct
(d) Both statements are incorrect

Q14. NRO interest is subject to tax deducted at source, under the Income-tax Act, 2025, at — *[Ref: Topic 10, p. 6]*

(a) 30%, plus surcharge, plus 4% health-and-education cess, or the DTAA rate if lower
(b) a flat 10%
(c) a flat 20%
(d) nil, since NRO interest is fully exempt

Q15. Mr Shah was an NRI for three years and has now returned to India to live permanently. Under FEMA, once he becomes resident, his NRE and FCNR(B) accounts — *[Ref: Topic 11, p. 6]*

(a) continue exactly as before, with no change needed
(b) must be re-designated; his NRE account is converted to a resident rupee account, and FCNR(B) balances may move to an RFC account
(c) must be closed immediately, with no transfer allowed
(d) automatically convert into SNRR accounts

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	c	4	d	7	c	10	a	13	b
2	a	5	c	8	d	11	b	14	a
3	c	6	b	9	c	12	a	15	b

CH-2 Liberalised Remittance Scheme and TCS

Topic 1 — Basic background

- **What LRS is** — The Liberalised Remittance Scheme (**LRS**) lets a resident individual send foreign exchange abroad up to a fixed yearly limit, for many private and business purposes.
- **What TCS is** — Tax Collected at Source (**TCS**) is a small tax the collector deducts and deposits with the government at the time of remittance. It applies on top of many LRS remittances.
- **Who runs LRS** — The Reserve Bank of India (RBI) frames the LRS rules under the Foreign Exchange Management Act, 1999 (**FEMA**, the law that controls foreign exchange dealings in India).
- **Who runs TCS** — The Income-tax Department administers TCS under the Income-tax Act.
- **Entities** — A separate FEMA rule, outside LRS, lets such entities remit a gift or donation up to their own yearly limit.

Its history in brief

- **2004** — RBI introduced LRS with a small annual limit.
- **Current limit** — Revised many times; it has stood at **USD 250,000** per financial year since **26 May 2015**.
- **TCS start** — TCS on foreign remittances was introduced under the Income-tax Act, 1961 (**Section 206C(1G)**), with effect from **1 October 2020**.

LRS and TCS at a glance

Feature	LRS	TCS
Law	FEMA, 1999	Income-tax Act, 2025
Regulator	RBI	Income-tax Department
What it controls	How much foreign exchange a resident may send abroad	How much tax is collected at the time of sending
Who it applies to	Resident individuals only	Any LRS remitter, and buyers of overseas tour packages

Topic 2 — Meaning and eligibility of the Liberalised Remittance Scheme

Meaning

LRS lets a resident individual send foreign exchange abroad for permitted purposes, up to a yearly ceiling, without asking RBI each time.

Main rules

- **Annual limit** — **USD 250,000** per financial year (April to March), per resident individual.
- **Eligible remitters** — Resident individuals, including minors.
- **Minors** — A minor's remittance needs **Form A2** (a self-declaration form used for foreign exchange) countersigned by the natural guardian.
- **Not eligible** — Companies, partnership firms, HUFs and trusts cannot use LRS.
- **Identification** — A Permanent Account Number (**PAN**) is compulsory for every LRS remittance.
- **Facilitator** — Authorised Dealer Category-I banks (banks permitted to deal in foreign exchange) release the money.
- **FFMCs** — Full-Fledged Money Changers (permitted only to buy and sell foreign currency) can also handle some purposes.
- **Beyond the limit** — Any remittance above the limits for the purposes in Topic 2 needs RBI's prior approval, unless a specific carve-out applies.

Conditions

- **Use within 180 days** — Forex bought under LRS must be used within **180 days** of purchase.
- **Surrender** — If not used, it must be surrendered to an Authorised Person (a bank or agency licensed to deal in foreign exchange).

Example: Ms. Nair remits **USD 80,000** for a business trip in April and **USD 60,000** as a gift to a friend abroad in July, in the same financial year. Both draw on the same ceiling. Remaining room = USD 250,000 − 80,000 − 60,000 = **USD 110,000**. She does not get a fresh USD 250,000 for each purpose.

Remember this

- **USD 250,000** per financial year, per resident individual, including minors.
- One single ceiling across all purposes used by that person in the year.
- PAN compulsory; minor's Form A2 needs the natural guardian's signature.

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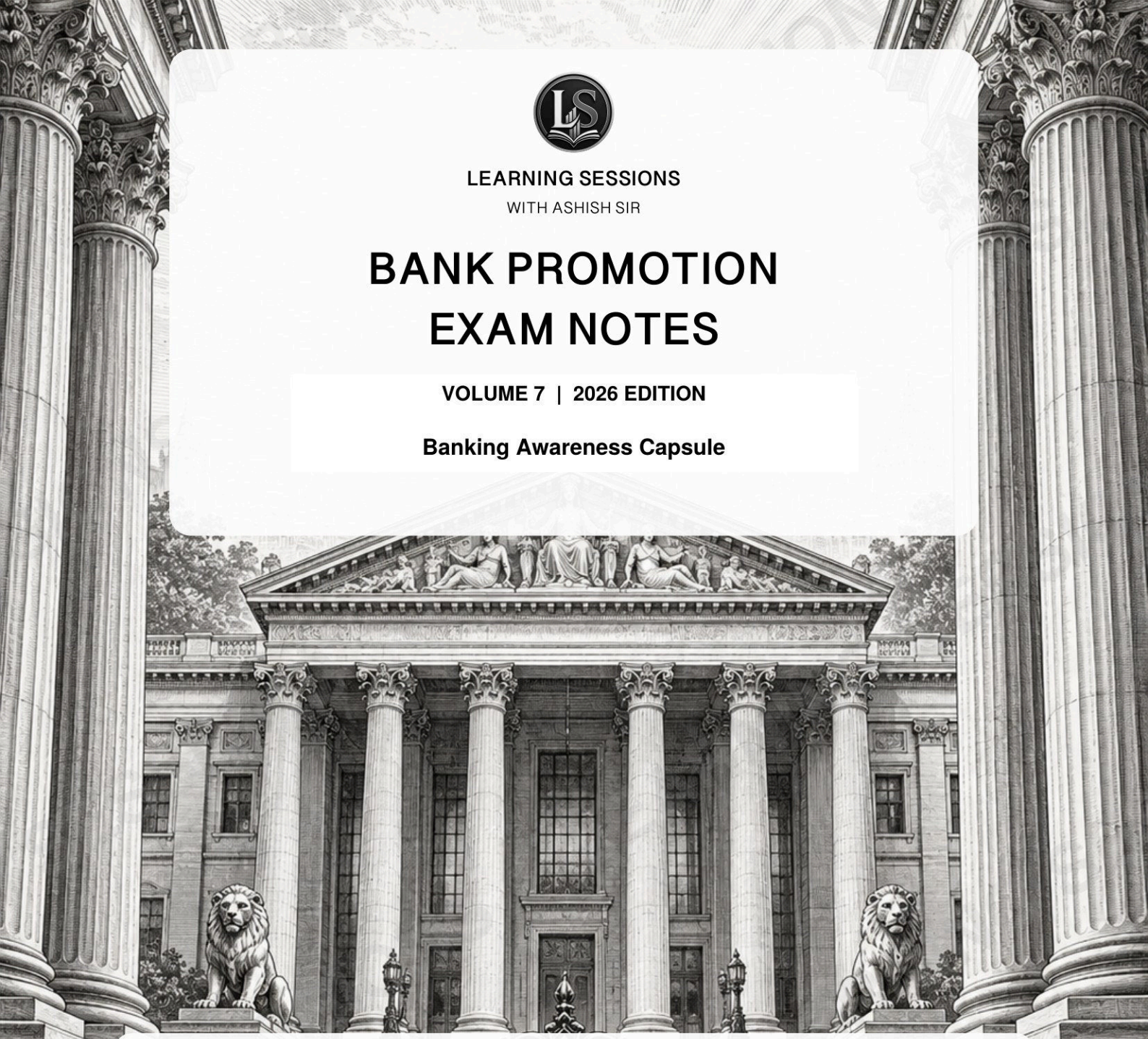

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CH-1 RBI Policy Rates and Liquidity Tools

Topic 1 — Policy Rates at a Glance

RBI raised the repo rate on **7 October 2026**. All corridor rates moved up by 25 basis points.

Rate	Before 7 Oct 2026	From 7 Oct 2026	Change
Policy repo rate	5.25%	**5.50%**	+25 bps
Standing Deposit Facility (SDF)	5.00%	**5.25%**	+25 bps
Marginal Standing Facility (MSF)	5.50%	**5.75%**	+25 bps
Bank Rate	5.50%	**5.75%**	+25 bps
Fixed reverse repo rate	3.35%	**3.35%**	No change
Cash Reserve Ratio (CRR)	3.00%	**3.00%**	No change
Statutory Liquidity Ratio (SLR)	18.00%	**18.00%**	No change

- **Last cut** — The last repo cut was on **5 December 2025**, from 5.50% to 5.25%.
- **Next meeting** — The next MPC decision is due on **4 December 2026**.
- **See** — Ch 2 (p. 4) for the 2026 MPC decisions and the policy stance.

Remember this

- Repo **5.50%**, SDF **5.25%**, MSF and Bank Rate **5.75%**, CRR **3%**, SLR **18%** (from 7 October 2026).

Topic 2 — Repo, Reverse Repo and SDF

Repo rate

- **Repo** — RBI lends short-term money to a bank against government securities.
- **Repurchase** — The bank agrees to buy back the securities later at a fixed price.
- **Policy rate** — The MPC votes on the repo rate; it is the main signal of policy.
- **Effect** — A higher repo rate makes bank borrowing costlier, so loan rates tend to rise.

Reverse repo and SDF

- **Reverse repo** — A bank places surplus money with RBI and receives securities in return.
- **Fixed reverse repo** — It is now a legacy tool at **3.35%** and is rarely used.
- **SDF** — Standing Deposit Facility lets banks park surplus money with RBI **without collateral**.
- **Floor** — SDF replaced fixed reverse repo as the floor of the corridor from **8 April 2022**.
- **Why SDF** — RBI does not need to give securities, so it can absorb any amount of surplus.

Feature	Repo	SDF
Money flows	RBI to bank	Bank to RBI
Collateral	Bank gives government securities	None
Rate now	5.50%	5.25% (repo minus 25 bps)
Use	Inject liquidity	Absorb surplus liquidity

Topic 3 — MSF, Bank Rate and the LAF Corridor

Marginal Standing Facility

- **MSF** — An emergency overnight window for banks when other sources dry up.
- **Rate** — MSF is repo plus 25 bps, now **5.75%**.
- **SLR dip** — Banks may use SLR securities up to **2% of NDTL** for MSF borrowing.
- **Cost** — MSF is the costliest RBI window, so banks use it only when needed.

Example: A bank borrows ₹**500 crore** overnight under MSF at **5.75%**. Interest for one day = 500 × 5.75% ÷ 365 = about ₹**7.88 lakh**.

Bank Rate

- **Bank Rate** — The rate at which RBI rediscounts bills; set under **Section 49** of the RBI Act.
- **Alignment** — Bank Rate is kept equal to the MSF rate, now **5.75%**.
- **Penal use** — CRR and SLR shortfall penalties are linked to the Bank Rate.

The corridor

- **LAF** — Liquidity Adjustment Facility is RBI's set of repo, reverse repo and SDF tools.
- **Corridor** — SDF is the floor, MSF is the ceiling and repo sits in the middle.
- **Width** — The corridor is **50 bps** wide: 5.25% to 5.75% now.
- **Target** — RBI aims to keep the **weighted average call rate (WACR)** close to repo.

Corridor point	Rate	Formula
Ceiling: MSF / Bank Rate	5.75%	Repo + 25 bps
Middle: repo	5.50%	Set by MPC
Floor: SDF	5.25%	Repo − 25 bps

Topic 4 — CRR and NDTL

- **CRR** — Cash Reserve Ratio is the share of NDTL a bank must keep as cash with RBI.
- **Law** — It is kept under **Section 42** of the RBI Act, 1934.
- **Level** — CRR is **3.00%** of NDTL; there is no floor or ceiling in law.
- **No interest** — RBI pays no interest on CRR balances.
- **2025 cut** — CRR came down from 4% to 3% in four steps; the last step was on **29 November 2025**.
- **Effect** — A CRR cut releases cash for lending; a hike locks cash away.

NDTL — the base

- **NDTL** — Net Demand and Time Liabilities: a bank's deposits and other liabilities after allowed deductions.
- **Demand liabilities** — Payable on demand, such as current and savings deposits.
- **Time liabilities** — Payable after a period, such as fixed and recurring deposits.
- **Base date** — CRR for a fortnight uses NDTL of the last day of the **second preceding fortnight**.

Daily maintenance — new rule

- **Average** — CRR is met on average over a fortnight, not every day in full.
- **Old daily minimum** — A bank had to keep at least **90%** of required CRR each day.

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- **New daily minimum** — From the fortnight beginning **16 October 2026**, it is **99%**.
- **Not a rate change** — The CRR rate stays **3%**; only the daily floor is stricter.
- **Penalty** — Shortfall attracts interest at **3% above Bank Rate**, and **5% above** if it continues.

Example: Bank K has NDTL of ₹**80,000 crore**. Required CRR = 3% = ₹**2,400 crore**. Daily minimum now = 99% = ₹**2,376 crore** (earlier 90% = ₹2,160 crore).

Remember this

- Daily CRR minimum is **99% of the required CRR** from 16 October 2026; the CRR rate is still **3%**.

Topic 5 — SLR

- **SLR** — Statutory Liquidity Ratio is the share of NDTL kept in safe liquid assets.
- **Law** — It is kept under **Section 24** of the Banking Regulation Act, 1949.
- **Level** — SLR is **18.00%** of NDTL; the legal maximum is **40%**.
- **Assets** — Cash, gold valued at current price, and approved government securities.
- **Where kept** — With the bank itself, not with RBI as cash.
- **Purpose** — It keeps banks solvent and creates steady demand for government bonds.

Point	CRR	SLR
Law	Section 42, RBI Act	Section 24, BR Act
Form	Cash with RBI	Cash, gold, approved securities
Rate now	3.00% of NDTL	18.00% of NDTL
Interest earned	None	Yes, on securities

Example: Bank S has NDTL of ₹**60,000 crore**. At 18% SLR it must hold ₹**10,800 crore** in eligible assets.

Topic 6 — OMO, VRR and VRRR

Open Market Operations

- **OMO** — RBI buys or sells government securities in the open market.
- **OMO purchase** — RBI pays cash to banks, so liquidity rises.
- **OMO sale** — Banks pay cash to RBI, so liquidity falls.
- **Use** — OMOs adjust lasting (durable) liquidity, not just day-to-day needs.

Variable rate auctions

- **VRR** — Variable Rate Repo: RBI lends to banks through an auction to **add** liquidity.
- **VRRR** — Variable Rate Reverse Repo: RBI borrows from banks through an auction to **absorb** liquidity.
- **Rate** — Banks bid; the cut-off rate is set by the auction, usually near repo.
- **Tenor** — Auctions run from overnight to a few days or weeks.
- **Other tools** — Forex buy/sell swaps and changes in CRR also move liquidity.

Tool	Liquidity effect	Nature
OMO purchase	Adds	Durable
OMO sale	Absorbs	Durable
VRR auction	Adds	Temporary
VRRR auction / SDF	Absorbs	Temporary
CRR cut	Adds	Durable

Topic 7 — Basis Points and Rate Arithmetic

- **Basis point** — One basis point (bp) is **0.01** percentage point.
- **Scale** — 100 bps = 1 percentage point; 25 bps = 0.25 percentage point.
- **October 2026** — Repo moved from 5.25% to 5.50%, a rise of **25 bps**.
- **Corridor** — SDF and MSF each sit **25 bps** from repo.

Move	In bps	In percentage points
5.25% → 5.50%	+25	+0.25
6.50% → 5.25% (Feb 2025–Dec 2025)	−125	−1.25
4.00% → 3.00% (CRR, 2025)	−100	−1.00

Example: A bank parks ₹**1,000 crore** overnight under SDF. At 5.00% it earned about ₹13.70 lakh a day; at 5.25% it earns about ₹**14.38 lakh**.

Remember this

- 100 basis points = 1 percentage point.

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Q1. From 7 October 2026, a bank that wants to park surplus funds with RBI without receiving any securities will earn — *[Ref: Topic 2, p. 2]*

(a) 5.25% under SDF (b) 3.35% under reverse repo
(c) 5.50% under repo (d) 5.75% under MSF

Q2. Which pair forms the floor and ceiling of the LAF corridor from 7 October 2026? *[Ref: Topic 3, p. 2]*

(a) Reverse repo 3.35% and repo 5.50%
(b) SDF 5.25% and MSF 5.75%
(c) Repo 5.50% and Bank Rate 5.75%
(d) SDF 5.25% and repo 5.50%

Q3. Bank K has NDTL of ₹80,000 crore and CRR is 3%. Under the rule effective from the fortnight beginning 16 October 2026, the minimum CRR balance it must keep on any day is — *[Ref: Topic 4, p. 2]*

(a) ₹2,160 crore (b) ₹2,400 crore (c) ₹2,376 crore (d) ₹1,200 crore

Q4. The change in daily CRR maintenance effective 16 October 2026 means — *[Ref: Topic 4, p. 2]*

(a) CRR rate rises to 99% of NDTL
(b) Banks must keep at least 99% of their required CRR every day
(c) SLR rises to 99%
(d) CRR is now kept only on the last day of the fortnight

Q5. A bank can dip into its SLR securities for MSF borrowing up to — *[Ref: Topic 3, p. 2]*

(a) 1% of NDTL (b) 2% of NDTL (c) 3% of NDTL (d) 5% of NDTL

Q6. Bank Rate is 5.75%. A bank's CRR shortfall on the first day of default attracts penal interest at — *[Ref: Topic 4, p. 2]*

(a) 5.75% (b) 10.75% (c) 3.00% (d) 8.75%

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Q7. SLR is maintained under which law? *[Ref: Topic 5, p. 3]*
(a) Section 24 of the Banking Regulation Act, 1949
(b) Section 42 of the RBI Act, 1934
(c) Section 49 of the RBI Act, 1934
(d) Section 45ZB of the RBI Act, 1934

Q8. When RBI buys government securities through an OMO, the effect on banking-system liquidity is — *[Ref: Topic 6, p. 3]*
(a) Liquidity falls (b) No effect
(c) Liquidity rises (d) Only SLR changes

Q9. Which statement about the SDF is correct? *[Ref: Topic 2, p. 2]*
(a) Banks must give government securities to RBI
(b) It is the ceiling of the corridor
(c) It is set at repo plus 25 bps
(d) RBI absorbs funds without giving collateral

Q10. Repo moved from 5.25% to 5.50% on 7 October 2026. This change equals — *[Ref: Topic 7, p. 3]*
(a) 2.5 bps (b) 25 bps (c) 0.025 bps (d) 250 bps

Q11. Bank S has NDTL of ₹60,000 crore. With SLR at 18%, the eligible assets it must hold are — *[Ref: Topic 5, p. 3]*
(a) ₹1,800 crore (b) ₹10,800 crore
(c) ₹18,000 crore (d) ₹1,080 crore

Q12. A Variable Rate Reverse Repo (VRRR) auction is used by RBI to — *[Ref: Topic 6, p. 3]*
(a) Absorb surplus liquidity (b) Lend long-term money to banks
(c) Change the repo rate (d) Buy foreign currency

Q13. Which statement about CRR is correct? *[Ref: Topic 4, p. 2]*
(a) RBI pays interest at repo rate on CRR balances
(b) CRR can include government securities
(c) CRR is held as cash with RBI and earns no interest
(d) CRR has a legal floor of 3%

Q14. A bank borrows ₹500 crore overnight under MSF at 5.75%. The one-day interest is about — *[Ref: Topic 3, p. 2]*
(a) ₹7.88 lakh (b) ₹28.75 lakh (c) ₹78.8 lakh (d) ₹2.88 crore

Q15. For the fortnight starting 16 October, CRR is calculated on NDTL as on — *[Ref: Topic 4, p. 2]*
(a) The same day
(b) The last day of the second preceding fortnight
(c) 31 March of the year
(d) The first day of the previous month

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	b	7	a	10	b	13	c
2	b	5	b	8	c	11	b	14	a
3	c	6	d	9	d	12	a	15	b

CH-2 Monetary Policy, Inflation and the MPC

Topic 1 — The Monetary Policy Committee

- **MPC** — A six-member committee that fixes the policy repo rate.
- **Law** — It works under **Section 45ZB** of the RBI Act, 1934.
- **Set up** — The first MPC was formed on **29 September 2016**.
- **Meetings** — At least **four** a year; in practice six (every two months).
- **Quorum** — Four members, including the Governor or, in his absence, the Deputy Governor.
- **Voting** — Each member has one vote; in a tie, the Governor has a **casting vote**.

Member type	Current members (October 2026)
Chairperson: RBI Governor	Sanjay Malhotra
Deputy Governor in charge of monetary policy	Poonam Gupta
RBI officer nominated by the Central Board	Indranil Bhattacharyya (Executive Director)
Three external members (appointed by the Government)	Nagesh Kumar, Saugata Bhattacharya, Ram Singh

- **External term** — External members serve **four years** and cannot be re-appointed.
- **Minutes** — Published on the **14th day** after the meeting.
- **Report** — RBI publishes a **Monetary Policy Report** every six months (April and October).

Topic 2 — Inflation Target and Accountability

- **Framework** — India follows **flexible inflation targeting**.
- **Who sets it** — The Central Government, in consultation with RBI, under **Section 45ZA**.
- **Target** — **4%** CPI inflation with a band of **2% to 6%**.
- **Period** — Retained for **1 April 2026 to 31 March 2031**.
- **Measure** — Headline CPI (Combined), now on base year **2024=100**.

When the target is missed

- **Failure** — Average inflation above 6% or below 2% for **three consecutive quarters**.
- **Report** — RBI must explain to the Government the reasons, remedial steps and the time to return to target.
- **Growth** — The objective is price stability while keeping growth in mind.

Remember this

- Inflation target: **4% ± 2%** for 1 April 2026 to 31 March 2031; failure = **three quarters** in a row outside the band.

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LEARNING SESSIONS

CH-1 English Reading Comprehension: Passages 1–2

Topic 1 — How to Solve a Passage

Read carefully. Answer from the passage.

- **First reading** — Read the passage once for its overall meaning, then read the questions.
- **Go back to the line** — Return to the relevant sentence before choosing an answer.
- **Stay inside the passage** — Do not add facts from outside the passage.
- **Time** — Suggested time is 8–10 minutes per passage; each passage has five questions.
- **Marks** — Award one mark for each correct answer; this practice uses no negative marking, but an actual examination may use different rules.
- **Review** — Check the answers and reasons, write why a wrong answer was wrong, and solve the question again later.

Extra tips

- **Question types** — Expect four kinds: facts, inference, vocabulary and main idea.
- **Vocabulary questions** — Put each option in place of the word in the sentence and keep the one that fits.
- **Main-idea questions** — Look at the first and last paragraphs; they usually hold the central message.
- **Extreme words** — Options with “always”, “never”, “only” or “all” are often wrong.
- **Eliminate** — Cut the clearly wrong options first, then compare the remaining two with the passage.
- **Half-true options** — An option may use words from the passage but change their meaning; check it fully.

Remember this

- Every correct answer has a proof line in the passage. Find it before you mark.

Topic 2 — Passage 1 — A Library That Learned to Listen

Passage 1 — A Library That Learned to Listen

When a town library extended its opening hours, the staff expected more visitors. Instead, attendance remained almost unchanged. The librarian, Meera, decided to speak with people who rarely entered the building. Several workers said that they could visit only on Sundays, when the library was closed. Students wanted a quiet place to study, while older residents found the small print in many books difficult to read.

The library had little money, so Meera could not meet every request immediately. She moved one weekly closure to Monday and opened on Sunday. An unused storeroom became a reading area after volunteers cleaned it and repaired its lights. A local association donated a small collection of large-print books.

Within three months, visits increased. However, Meera did not treat the number of visitors as the only measure of success. She also asked whether people could find useful material and whether the new timetable suited them. Some requests remained unresolved, including the need for a ramp at the entrance. Meera recorded these needs in the next budget proposal.

The experience taught the staff that improving a public service begins with understanding the people it is meant to serve. A longer timetable alone cannot solve a problem that has not been properly identified.

Q1.1. Why did longer opening hours initially fail to attract visitors?

(a) They did not address the main needs of potential users.
(b) Visitors mainly needed later weekday evenings.
(c) The reading area was already too crowded.
(d) Residents preferred keeping Sunday closed.

Q1.2. Which change required volunteers?

(a) Extending the weekday timetable
(b) Approving the proposed ramp budget
(c) Converting a storeroom into a reading area
(d) Selecting the large-print collection

Q1.3. What remained unresolved?

(a) A ramp at the entrance (b) Sunday opening
(c) A large-print collection (d) A repaired reading room

Q1.4. The word “identified” most nearly means:

(a) Forgotten (b) Financed (c) Hidden (d) Recognised

Q1.5. Which title best expresses the central idea?

(a) Why Libraries Should Close
(b) The End of Printed Books
(c) A Town Without Volunteers
(d) Listening Before Improving a Service

LEARNING SESSIONS

Answers & explanations

1.1 — (a) Sunday access, study space and readable print were the actual needs. The first paragraph says workers could visit only on Sundays, students wanted a quiet place and older residents found small print difficult.

1.2 — (c) Volunteers cleaned the room and repaired its lights. Paragraph 2 says an unused storeroom became a reading area “after volunteers cleaned it and repaired its lights”.

1.3 — (a) The ramp was included in a future budget proposal. Paragraph 3 says some requests remained unresolved, “including the need for a ramp at the entrance”.

1.4 — (d) The staff first needed to recognise the real problem. The last line says a longer timetable cannot solve a problem that has not been properly identified, that is, recognised.

1.5 — (d) Consulting users led to useful changes. The last paragraph says improving a public service begins with understanding the people it is meant to serve.

Word meanings	Simple meaning	Hindi meaning
attendance	number of people who come	उपस्थिति
closure	a time when a place is shut	बंदी
donated	gave free of cost	दान किया
measure	a way to judge something	मापदंड
unresolved	not yet solved	अनसुलझा
proposal	a written plan put forward	प्रस्ताव
identified	recognised; found out	पहचाना गया

Topic 3 — Passage 2 — The Missing Receipt

Passage 2 — The Missing Receipt

Arun bought a small printer for his stationery shop. A month later, the machine stopped working. He remembered the seller promising a warranty, but he could not find the receipt. The seller asked for proof of purchase before arranging a repair. Arun felt annoyed, although he realised that he had stored bills in several different places.

His assistant suggested checking the payment record on the shop's bank statement. That record showed the date and amount, but it did not describe the product. Fortunately, the seller found a copy of the invoice using those details and the printer's serial number. The repair was then arranged under the warranty.

After this experience, Arun created a simple filing system. Every purchase invoice went into a folder marked with the month. He also saved a clear digital copy, using the supplier's name and date as the file name. Once a week, he checked whether important documents had been added.

The system took only a few minutes to maintain. It helped him compare expenses and answer questions from his accountant. Arun understood that a payment record and an invoice serve related but different purposes. Good record-keeping does not guarantee that equipment will never fail; it makes dealing with problems easier and reduces unnecessary uncertainty.

Q2.1. What initially delayed the repair?

(a) Missing proof of purchase
(b) A disagreement about the repair price
(c) A missing description on the original invoice
(d) An expired warranty

Q2.2. What did the bank record fail to describe?

(a) The payment date (b) The product purchased
(c) The amount paid (d) The existence of payment

Q2.3. How was the invoice located?

(a) Using payment details and the serial number
(b) By using the payment amount alone
(c) By relying only on Arun’s recollection
(d) By checking the new monthly folders

Q2.4. “Maintain” in the passage means:

(a) Destroy completely (b) Borrow briefly
(c) Hide permanently (d) Keep in working order

Q2.5. Which conclusion is supported?

(a) Organised records can make problem-solving easier.
(b) A bank statement always replaces an invoice.
(c) All warranties last one month.
(d) Digital copies prevent mechanical failure.

Answers & explanations

2.1 — (a) The seller first requested proof of purchase. Paragraph 1 says the seller asked for proof of purchase before arranging a repair, and Arun could not find the receipt.

2.2 — (b) It showed date and amount, but not the product. Paragraph 2 says the record showed the date and amount, “but it did not describe the product”.

2.3 — (a) The seller used those details to find a copy. Paragraph 2 says the seller found a copy of the invoice using those details and the printer's serial number.

2.4 — (d) Arun regularly kept the filing system up to date. Paragraph 4 says the system took only a few minutes to maintain, that is, to keep it working.

2.5 — (a) The passage links record-keeping with easier handling of problems. The last line says good record-keeping makes dealing with problems easier and reduces unnecessary uncertainty.

Word meanings	Simple meaning	Hindi meaning
warranty	a promise to repair or replace a faulty product	वारंटी
receipt	a paper that shows payment was made	रसीद
proof of purchase	evidence that you bought an item	खरीद का प्रमाण
invoice	a bill listing goods and their price	बीजक
supplier	a person or firm that sells goods to a shop	आपूर्तिकर्ता
maintain	keep in good working order	बनाए रखना
uncertainty	a state of not being sure	अनिश्चितता

LEARNING SESSIONS

CH-2 English Reading Comprehension: Passages 3–4

Topic 1 — Passage 3 — A Better Queue

Passage 3 — A Better Queue

At a busy bank branch, customers often complained about waiting. The manager first considered buying more chairs, but a staff member suggested observing the queue before spending money. Over several mornings, the team recorded the kinds of help customers needed. Many people required only a form or a short explanation. Others needed longer assistance with documents.

The branch placed a help desk near the entrance. An employee guided customers to the appropriate counter and explained which documents were necessary. The branch also displayed clear signs in two languages. Customers who needed detailed discussions received appointment slots during quieter hours, while urgent work continued to be handled at the counters.

Waiting times fell, but the manager noticed another issue. Some older customers were uncomfortable describing personal matters at an open desk. The team therefore arranged a separate space for private conversations. Staff were reminded that faster service should not come at the cost of confidentiality.

After a month, the branch reviewed both waiting times and customer feedback. It retained the useful changes and adjusted the appointment schedule. The improvement did not depend on a single expensive purchase. It came from understanding how work moved through the branch and making small changes that addressed different needs without ignoring dignity or privacy.

Q3.1. What did the team do before making changes?
(a) Stopped all counter services
(b) Observed the kinds of assistance customers needed
(c) Bought more chairs immediately
(d) Reduced opening hours

Q3.2. What was the purpose of the help desk?
(a) To handle only customers with appointments
(b) To move every detailed discussion to busy hours
(c) To guide customers and explain document requirements
(d) To remove the need for documents

Q3.3. Why was a separate space arranged?
(a) To shorten every customer conversation
(b) To limit help to appointment holders
(c) To protect privacy during personal discussions
(d) To replace the entrance help desk entirely

Q3.4. “Confidentiality” means:
(a) Completing every task instantly
(b) Making information public
(c) Keeping personal information private
(d) Removing all paperwork

Q3.5. What is the main message?
(a) Speed is the only measure of service.
(b) Every customer needs an appointment.
(c) More chairs always eliminate queues.
(d) Service improvements should consider efficiency and dignity.

Answers & explanations

3.1 — (b) The team recorded customer needs over several mornings. Paragraph 1 says, “Over several mornings, the team recorded the kinds of help customers needed.”

3.2 — (c) It directed customers to suitable counters and explained documents. Paragraph 2 says an employee guided customers to the appropriate counter and explained which documents were necessary.

3.3 — (c) Some customers were uncomfortable discussing personal matters openly. Paragraph 3 says the team arranged a separate space for private conversations for this reason.

3.4 — (c) The term refers to protecting private information. Paragraph 3 uses it right after the arrangement of a separate space for private conversations.

3.5 — (d) The branch improved waiting times while protecting privacy. The last line says the small changes addressed different needs “without ignoring dignity or privacy”.

Word meanings	Simple meaning	Hindi meaning
observing	watching carefully	ध्यान से देखना
assistance	help	सहायता
appropriate	suitable; right for the purpose	उपयुक्त
appointment slot	a fixed time booked for a meeting	मिलने का निर्धारित समय
confidentiality	keeping personal information private	गोपनीयता
retained	kept	बनाए रखा
dignity	respect a person deserves	गरिमा

LEARNING SESSIONS