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BANK PROMOTION EXAM NOTES

VOLUME 5 | 2026 EDITION

NPA, Stressed Assets, Fraud, Recovery and Insolvency

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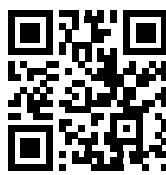
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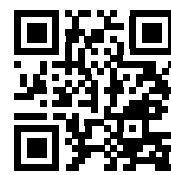
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Page numbers refer to this edition. Questions identifies the first question in each chapter; a dash means there is no question set.



Chapter 1 — Income Recognition, Asset Classification and Provisioning

Topics covered

1. Overdue amounts, SMA categories and the day-end rule (SMA-0/1/2)
2. When a loan becomes an NPA — facility-wise triggers (90-day norm, out-of-order test)
3. Special classification situations (borrower-level rule, consortium, guaranteed advances)
4. Income recognition on standard and NPA accounts (cash basis, SNFA)
5. Asset classification — sub-standard, doubtful and loss (ageing)
6. Erosion of security and unsecured exposure (50% and 10% rules)
7. Provisioning for standard assets and the Provisioning Coverage Ratio (0.25% to 2.00%, PCR)
8. Provisioning for NPAs — sub-standard, doubtful and loss (15% to 100%)
9. Project loans — DCCO and project provisioning (deferment limits)
10. Compromise settlements, technical write-offs and restructured accounts (cooling period)

Basic background

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

Who runs it. The Reserve Bank of India (RBI) makes these rules. It used this power under the Banking Regulation Act.

1949. For years RBI issued one Master Circular on this subject every year. On 28 November 2025, RBI replaced that yearly circular with a standing Direction — the IRACP Directions, 2025. A standing Direction stays in force until RBI changes it; it is not reissued every year.

Who it covers. These Directions apply to commercial banks. Small Finance Banks, Payments Banks and Local Area Banks

follow their own separate rules. 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.

- Classification follows the record of recovery (has money actually come in on time), not the bank's opinion about the borrower.
- If one loan of a borrower turns NPA, every loan of that same borrower with the bank turns NPA too (subject to the consortium rule in Topic 3).
- SMA and NPA tagging must be done automatically by the bank's computer system (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. The rules described in this chapter are the current rules. A new Expected

Credit Loss (ECL) framework, described where relevant below, replaces the provisioning method for commercial banks from 1 April 2027.

Topic 1 — Overdue amounts, SMA categories and the day-end rule

Meaning

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

**Main rules****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), a facility that is revolving (the borrower draws and repays repeatedly

instead of a fixed repayment schedule). There is no SMA-0 for these accounts. SMA-1 and SMA-2 apply when the

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, and 60 to 90 days.

Limits and timelines

The day-end rule. 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. There is no grace of a "next working day" or "month-end". 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.

Simple 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.

Practical banking application

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, and 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.

Topic 2 — 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. An account is out of order if any one of these is true:

1. The outstanding balance stays continuously more than the sanctioned limit or the drawing power for 90 days.
2. The balance stays within the limit or drawing power, but there are no credits into the account for 90 continuous days.
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.

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.