



Norms for Classification of Assets as Non-Performing in the books of UCBs

Prudential Norms for classification of assets as NPAs in the books of UCBs

- An asset becomes non-performing when it ceases to generate income for the bank.
- The classification of assets as non-performing has to be done on the basis of objective criteria to ensure a uniform and consistent application of the norms.
- To align with international best practices and ensuring greater transparency, '90 days' overdue norms for classification of NPAs were introduced in India from March 31, 2004.

A. Some Basic Definitions used in classification of advances as NPA

- **Overdue:** Any amount due to the bank under any credit facility, if not paid by the due date fixed by the bank, becomes overdue.
- **Out of Order:** A CC/ OD account becomes 'out of order' in the following circumstances;
 - a) If the outstanding balance *remains continuously in excess of* the sanctioned limit/ drawing power for more than 90 days.
 - b) In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/ drawing power, but there are *no credits continuously for 90 days or credits are not enough to cover the interest debited* during the same period.
- **Crop Season:** It is the period from sowing to harvesting. It is determined by State Level Bankers Committee (SLBC) in each state, for all types of crops.
- **Long & Short duration Crops:** Crops with 'crop season' longer than one year are treated as "long duration crops" while all other crops are treated as "short duration crops".

B. Criteria for classification of various credit facilities as NPA

- **Term Loans:** Interest and/ or instalment remain '**overdue**' for more than 90 days
- **Working Capital (CC/ OD):** If the account remains '**out of order**' as defined above
- **Bills Purchased/ Discounted:** If the bill remains '**overdue**' for more than 90 days
- **Direct agricultural advance:** Long and Short duration crops – If the instalment of principal or interest thereon remains '**overdue**' for one or two crop seasons *respectively*.

C. General guidelines for classification of advances as NPA

- **Non-submission of Stock Statements:** In case of CC accounts, outstanding based on the DP calculated from stock statements older than three months are deemed as irregular



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and if such irregular drawings are permitted for a continuous period of 90 days, then the account is treated as NPA.

- **Non-renewal of accounts:** If credit limits are not reviewed & renewed within 90 days from the due date, the accounts should be treated as NPA.
- **Accounts regularised near balance-sheet date:** Where a solitary or a few credits before the balance sheet date extinguishes the overdues of interest and/ or instalment, but the account indicates inherent weakness on the basis of the available data/ information, the account should be deemed as a NPA.
- **Loan against term deposits/ NSCs/ IVPs/ KVPs or Life policies:** Need not be treated as NPAs although interest thereon may not have been paid for more than 90 days provided *adequate margin* is available in the accounts.
- **Advances under consortium or multiple-banking arrangements:** Need to be classified based on the 'record of recovery' of the individual member banks.
- **Dues in respect of invoked BGs or devolved LCs:** If parked in a separate account, the balance outstanding in that account/s should also be treated as a part of the borrower's principal operating account for the purpose of asset classification norms.
- **Classification of NPAs to be borrower-wise and not facility wise.**
- **Identification of NPAs to be done on an ongoing basis** by the system, without any manual intervention.

For detailed information, the reader may refer to:

RBI Master Circular on Income Recognition, Asset Classification, Provisioning - for UCBs, [DCBR.BPD.(PCB) MC.No.12/09.14.000/2015-16 dated July 01, 2015]