

National Conference on Statutory Audit of Bank Branches

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Income Recognition, Asset Classification and Provisioning (IRAC) Norms

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CA Dhananjay J. Gokhale

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Circular References

Date	Circular
28.Nov.2025	Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 (Updated as on January 01, 2026)
28.Nov.2025	Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Directions, 2025
17.Oct.2018	Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 – SCBs
28.Nov.2025	Reserve Bank of India (Commercial Banks – Credit Facilities) Directions, 2025
28.Nov.2025	Reserve Bank of India (Commercial Banks – Credit Risk Management) Directions, 2025

Chapter III - B of Master Direction

Automation of Income Recognition, Asset Classification and Provisioning processes in banks

A] Coverage

- i) All borrowal accounts, including TODs, irrespective of size, sector, type of limits & Investments
- ii) IRAC norms w.r.t.
 - a) Asset classification
 - b) Asset upgradation
 - c) Provisioning
 - d) Income reversal

Chapter III - B of Master Direction

Automation of Income Recognition, Asset Classification and Provisioning processes in banks

B] Expectation

- i) STP: Straight Through Process
- ii) Pre-set rules configured in the system
- iii) Ongoing exercise of upgradation & downgradation
- iv) Frequency: Part of EoD process
- v) Board Approved policy for manual intervention & requisite to maintain the trail

IRAC Master Direction dated 28.Nov.2025

Objective

The classification of assets of banks has to be done on the basis of objective criteria, which would ensure a uniform and consistent application of the norms.

The provisioning should be made on the basis of the **classification** of assets based on the **period** for which the asset has remained non-performing and the **availability of security** and the **realisable value** thereof

Vitality of IRAC norms and responsibility of Auditors

The **primary responsibility** for making adequate provisions for any diminution in the value of loan assets, investment or other assets is that of the **management of the bank and the statutory auditors**.

What is the difference between a NPA and PA?

- *Higher risk than normal banking risk*
- *Ceases to generate income for the bank*
- *Vital aspect of record of recovery*
- *Inherent weakness*
- *90 days norms / exception to norms as defined in MD*

Concepts relevant to IRAC Norms

'Overdue' status – any amount due to a bank under any credit facility shall be treated as 'overdue' if it is not paid on the due date fixed by the bank.

'Reversal of Income'

- *Applicability only upon 'classification as NPA'*
- *Accounting concept of realisation*
- *Reversal of unrealised concept*

Key Fact Statement (KFA)

- *Vital contents*

IRAC Master Direction dated 28.Nov.2025

IRAC Norms related with TL

A] Term Loan

Interest and/or installment remains overdue for a period of more than 90 days in respect of a term loan

1. Specification of due date / repayment date (KFS)
2. Concept of 'Overdue'
3. Accounting vis-à-vis treatment of advance installments
4. Possibility of dynamic EMIs structure
5. Accounting vis-à-vis order of recovery for PAs
6. Demand satisfaction / Overdue since date
7. Reversal of Income / Charges incl Penal Charges
8. Charges recoverable subsequent to date of NPA
9. Moratorium period / Staff Loans / PACs

Examples of NPA TL

Advance Installments Paid

Rol	12%	Advance Installments paid by borrower					Unrealised Interest					
Tenor	12 Months					8	Month in which A/C turns NPA					
Limit	10,000	Calculation of Drawing Power				11	Month in which account is upgraded					
EMI	₹ 888											
Ideal Repayment Calender					Ledger Account					Overdue = Actual - Ideal	Overdue EMI	Classification
Month	EMI	Prin	Int	Balance	Month	EMI	Prin	Int	Balance			
0				10,000	0				10,000			
1	888	788	100	9,212	1	3,552	3,452	100	6,548	(2,664)	(3.00)	PA
2	888	796	92	8,416	2	-	-	65	6,613	(1,803)	(2.03)	PA
3	888	804	84	7,612	3	-	-	66	6,679	(933)	(1.05)	PA
4	888	812	76	6,800	4	-	-	67	6,746	(54)	(0.06)	PA
5	888	820	68	5,980	5	-	-	67	6,813	833	0.94	SMA 0
6	888	828	60	5,152	6	-	-	68	6,881	1,729	1.95	SMA 1
7	888	836	52	4,316	7	-	-	69	6,950	2,634	2.97	SMA 2
8	888	845	43	3,471	8	-	-	70	7,020	3,549	4.00	SSA
9	888	853	35	2,618	9	-	-	70	7,090	4,472	5.04	SSA
10	888	862	26	1,756	10	4,000	3,929	71	3,161	1,405	1.58	SSA
11	888	870	18	886	11	2,500	2,468	32	693	(193)	(0.22)	PA
12	888	879	9	7	12	-	-	7	700	693	0.78	SMA 0

Examples of NPA TL

Dynamically changing EMI

Rol	12%	EMI Dynamic nature								Postponement of Prin. Repayment	
Tenor	12 Months							8		Month in which A/C turns NPA	
Limit	10,000	Overdue changes							11	Month in which account is upgraded	
EMI	₹ 888										
Ideal Repayment Calender					Revised EMI / Repayment Calender					System Overdue	Actual Overdue
Month	EMI	Prin	Int	Balance	Month	EMI	Prin	Int	Balance		
0				10,000	0				10,000		
1	888	788	100	9,212	1	888	768	120	9,232	-	20
2	888	796	92	8,416	2	888	778	110	8,454	-	38
3	888	804	84	7,612	3	888	787	101	7,667	-	55
4	888	812	76	6,800	4	888	797	91	6,870	-	70
5	888	820	68	5,980	5	888	806	82	6,064	-	84
6	888	828	60	5,152	6	888	816	72	5,248	-	96
7	888	836	52	4,316	7	888	826	62	4,422	-	106
8	888	845	43	3,471	8	888	836	52	3,586	-	115
9	888	853	35	2,618	9	888	846	42	2,740	-	122
10	888	862	26	1,756	10	888	857	31	1,883	-	127
11	888	870	18	886	11	888	866	22	1,017	-	131
12	888	879	9	7	12	888	877	11	140		133

Examples of NPA TL

Order of Recovery Vs Interest Realisation

Rol	12%	Order of Recovery Vs Interest realisation				Partial Recovery						
Tenor	12 Months					Full Recovery						
Limit	10,000	Difference between Order of Recovery				Interest realisation						
EMI	₹ 888											
Ideal Repayment Calender					Ledger Account					Overdue = Actual - Ideal	Overdue EMI	Classification
Month	EMI	Prin	Int	Balance	Month	EMI	Prin	Int	Balance			
0				10,000	0				10,000			
1	888	788	100	9,212	1	888	788	100	9,212	-	-	PA
2	888	796	92	8,416	2	-	-	92	9,304	888	1.00	SMA 1
3	888	804	84	7,612	3	-	-	93	9,397	1,785	2.01	SMA 2
4	888	812	76	6,800	4	-	-	94	9,491	2,691	3.03	SSA
5	888	820	68	5,980	5	-	-	95	9,586	3,606	4.06	SSA
6	888	828	60	5,152	6	184	-	96	9,498	4,346	4.89	SSA
7	888	836	52	4,316	7	500	-	95	9,093	4,777	5.38	SSA
8	888	845	43	3,471	8	-	-	91	9,184	5,713	6.43	SSA
9	888	853	35	2,618	9	-	-	92	9,276	6,658	7.50	SSA
10	888	862	26	1,756	10	4,000	3,907	93	5,369	3,613	4.07	SSA
11	888	870	18	886	11	-	-	54	5,423	4,537	5.11	SSA
12	888	879	9	7	12	-	-	54	5,477	5,470	6.16	SSA

Examples of NPA TL

EMI is of Rs. 10,000/- and RoI is 6% (interest considered on approximate basis) and date of NPA is 30.Sep.2022

Date	Narration	Dr	Cr	Balance
01.Mar.2022	Balance b/fd	10,30,000.00		10,30,000.00
03.Mar.2022	Receipt		30,000.00	10,00,000.00
31.Mar.2022	Interest	5,000.00		10,05,000.00
30.Apr.2022	Interest	5,000.00		10,10,000.00
31.May.2022	Interest	5,000.00		10,15,000.00
30.Jun.2022	Interest	5,000.00		10,20,000.00
31.Jul.2022	Interest	5,000.00		10,25,000.00
31.Aug.2022	Interest	5,000.00		10,30,000.00
30.Sep.2022	Interest	5,000.00		10,35,000.00

Examples of NPA TL

EMI is of Rs. 10,000/- and RoI is 6% (interest considered on approximate basis) and date of NPA is 29.Jul.2022)

Date	Narration	Dr	Cr	Balance
01.Mar.2022	Balance b/fd	10,00,000.00		10,00,000.00
31.Mar.2022	Interest	5,000.00		10,05,000.00
30.Apr.2022	Interest	5,000.00		10,10,000.00
01.May.2022	Recovery		10,000.00	10,00,000.00
31.May.2022	Interest	5,000.00		10,05,000.00
30.Jun.2022	Interest	5,000.00		10,10,000.00
29.Jul.2022	NPA Date			10,10,000.00
31.Jul.2022	Interest	5,000.00		10,15,000.00

IRAC Master Direction dated 28.Nov.2025

IRAC Norms related with CCOD & LCBD

B] CC / OD (out of order)

- *Outstanding Balance remains continuously in excess of sanctioned limit / drawing power for more than 90 days*
- *No credit continuously for 90 days as on EoD*
- *Credits in the account are not sufficient to cover interest debited during the same period (90 days) as on EoD*

IRAC Master Direction dated 28.Nov.2025

IRAC Norms related with CCOD & LCBD

B] CC / OD (out of order)

1. Impact of Penal interest considered as penal charges
2. EoD process for out of order
3. Effective date of stock statement
4. Reversal of Income / Charges
5. Validity of drawing power / frequency of stock statement

IRAC Master Direction dated 28.Nov.2025

IRAC Norms related with CCOD & LCBD

B] CC / OD (out of order)

6. No credits in the account for last 90 days wherein account is in credit balance for larger portion
7. Drop-line OD – Housing Loan
8. Comparison of Audited FS (March) vis-à-vis March stock statement
9. Whether Trade creditors are required to be reduced in calculation of DP?
10. 'Coverage of interest' vis-à-vis 'realization of interest'

Examples of NPA CC/OD

Date of NPA on 31.Mar.2023 - Unrealized interest should be Rs. 3,000/- and not Rs. 1,000/- (look-back period)

Date	Narration	Dr	Cr	Balance
01.Jan.2023	Disbursal	1,00,000.00		1,00,000.00
03.Jan.2023	Receipt		2,000.00	98,000.00
31.Jan.2023	Interest	1,000.00		99,000.00
28.Feb.2023	Interest	1,000.00		1,00,000.00
31.Mar.2023	Interest	1,000.00		1,01,000.00

IRAC Norms related to LCBD

C] Bill Discounting / LCBD Exposures

Bill remains overdue for a Discounted period of more than 90 days

LCBD Exposures:

1. Exposure on borrowers vis-à-vis on bank
2. CBS data availability / Inter-bank exposure impact
3. FLC / Domestic LC

IRAC Norms related with Agricultural Advances

D] Agricultural advances - basis for Asset classification

Interest or installment remains overdue for two crop seasons for short duration crop, one crop season for long duration crop.

**Definitions (1) Farm Credit*

(2) Crop season – ‘period up to harvesting of crops raised’ as determined by SLBC

(3) Long duration crop – Crops wherein crop season is more than 12 months

IRAC Master Direction dated 28.Nov.2025

IRAC Norms related with Agricultural Advances

D] Agricultural advances – Vital Aspects

1. Master Data updation and completeness
2. Interest calculation methodology
3. Relief Measures by Banks in Areas Affected by Natural Calamities
 - A. Short Term Agricultural Advances (No overdues)
 - i. 33% to 50% - 2 Years
 - ii. More than 50% - 5 Years
 - B. Long Term Agricultural Advances (Max 5 years)

IRAC Master Direction dated 28.Nov.2025

IRAC Norms related with Gold Loans

E] Gold Loans

1. LTV of 85/80/75% (throughout tenor – 2.5/5L)
2. Multiple loans in the name of borrower
3. Loans closed and new loans opened on same date
4. Income sufficiency – Loans above Rs. 2.5L
5. End-use of Gold Loan
6. Precautions to be taken while roll-over / renewals
 - a) Sealed Gold packets
 - b) Gold Valuer

IRAC Master Direction dated 28.Nov.2025

IRAC Norms – Exemptions / Income Reversal

F] Exemptions

1. Central Government Guaranteed Accounts - date validation & income recognition
2. Advance against FDR / IVP / KVP / LIP / NSC – income recognition

G] Fees / commission on renegotiation / reschedulement

1. Staggered over period covered under renegotiation

H] Reversal of Income

1. To be reversed if the same is not realised
2. Fees / commission accrued but uncollected

IRAC – IR / OIR and Technical w/off

I] Appropriation of Recoveries (system driven)

1. Uniform and consistent manner

J] Interest Application

1. *'banks may continue to record such accrued interest in a Memorandum account in their books'. 'Such interest would be excluded from calculation of Gross Advances'*
2. *Technical write off vis-à-vis control over interest*

IRAC Master Direction dated 28.Nov.2025

IRAC – Security Value / Non-financial parameters

K] Availability of security and valuation (realisability)
(*Rs. 5 Crores and above exposures*)

1. Mandatory valuation – Stock & Book Debts /
Immovable Properties
2. Other assets (movable assets and others below
mandatory threshold)

L] Accounts with temporary deficiency

1. Non-submission of stock statements (large borrower
accounts) – Validity of Drawing Power
2. Non-renewal / TODs / Adhocs / Short Reviews – 180
days criteria

IRAC – Inherent Weakness

M] Accounts with inherent weakness

- a) Inherent weakness is a subjective concept
- b) Test source of fund for regularization of an account – whether only at year end?
- c) Infusion of funds by promoters
- d) Sale of Fixed Assets
- e) Sale of collateral security
- f) Liquidation of FDRs

IRAC – Upgradation of Accounts

N] Upgradation of accounts

1. Entire arrears of all credit facilities to be repaid
2. Reversal of (unrealized) income to be restored
3. Ever-greening of accounts / Round-tripping of funds

IRAC Master Direction dated 28.Nov.2025

Master Direction - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

O] Devolvement of LCs / BGs

1. Parking in separate accounts
2. Provisioning of NFB of NPAs

P] M2M Derivatives receivable position (Trade Finance package linkage with CBS)

Q] Linkage of NPA and NPI

R] Inter-changeable limits

IRAC Master Direction dated 28.Nov.2025

Master Direction - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

S] Straightaway classification norms

1. 50% erosion in value – SAs / SSAs
2. Security value less than 10%

T] Advances to PACS / FSS

U] Loans with moratorium period for interest payment

V] Projects under implementation (DCCO) – Repeated restructuring / Deemed date of DCCO

IRAC Norms – Project Loans

W] Projects under implementation (DCCO) – Repeated restructuring / Deemed date of DCCO

- Deferment of DCCO (wef 01.Oct.2025)
 1. Infrastructure Loans – 3 Years
 2. Non-Infrastructure Projects (including CRE and CRE-RH) – 2 Years
- Cost Over-run (10%)
- Change in size and scope beyond 25%

IRAC Master Direction dated 28.Nov.2025

Master Direction - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

X] Provisioning norms

1. ECGC Guarantee / CGTMSE / CRGF TLIH

Y] FITL

Z] Realisation in cash / in kind & NBA

AA] Accounting of SRs

IRAC Master Direction dated 28.Nov.2025

Master Direction - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

AB] Availability of granular data in CBS

AC] SMA classification

AD] Resolution Plan

AE] Linkage with Treasury / Trade Finance Modules / Packages

AF] Relational Accounts vis-à-vis Co-Borrowers

IRAC Master Direction dated 28.Nov.2025

Master Direction - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

AG] Identification of restructuring / Additional Finance

1. Provisioning & asset classification
2. ~~Sacrifice calculation~~ Not required
3. Satisfactory performance and upgradation

AH] Willful defaulters / Red flag account

AI] Adverse balance in deposit accounts / outstanding assets other than advances



Thank you !!!

CA Dhananjay J. Gokhale

Mobile: 9820047669 / 9322229740

Email: dhan_gokhale@hotmail.com

