

# **Draft Reserve Bank of India (Regional Rural Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025**

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## **Reserve Bank of India (Regional Rural Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025**

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## **Introduction**

Reserve Bank is statutorily mandated to operate the credit system of the country to its advantage. In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of banks so as to move towards greater consistency and transparency in the published accounts.

In exercise of powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949, and Section 6 of the Factoring Regulation Act, 2011, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest to do so, hereby issues these Directions hereinafter specified.

## **Chapter I - Preliminary**

### **1. Short title and commencement**

- (1) These directions shall be called the Reserve Bank of India (Regional Rural Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.
- (2) These directions shall come into force with immediate effect.

### **2. Applicability**

- (1) These Directions shall be applicable to Regional Rural Banks (hereinafter collectively referred to as 'RRBs' and individually as a 'RRB').
- (2) A RRB shall also follow the prudential guidelines on income recognition, asset classification and provisioning of advances for restructured accounts as prescribed in the Reserve Bank of India (Regional Rural Banks – Resolution of Stressed Assets) Directions, 2025, in addition to these Directions.

### **3. Definitions**

- (1) In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:

- (i) ‘*crop season*’ for each crop, shall mean the period up to harvesting of the crops raised, as determined by the State Level Bankers’ Committee (SLBC) in each State;
- (ii) ‘doubtful asset’ shall mean an asset which has remained in the substandard category for a period of twelve months; A loan classified as doubtful has all the weaknesses inherent in that classified as sub-standard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. Here too, as in the case of sub-standard assets rescheduling does not entitle a bank to upgrade the quality of an advance automatically.
- (iii) ‘*exposure*’ shall include all funded and non-funded exposures (including underwriting and similar commitments).
- (iv) “*long duration crops*” shall mean crops with crop season longer than one year;
- (v) ‘loss asset’ shall mean an asset where loss has been identified by a RRB or internal or external auditors or the inspection conducted by NABARD, but the amount has not been written off wholly or partly by the RRB; In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
- (vi) “*non-performing asset*” shall mean an asset, including a leased asset, which has ceased to generate income for a RRB;
- (vii) “*out of order status*” – a cash credit / overdraft (CC / OD) account shall be treated as ‘out of order’ if any of the following conditions are satisfied:
  - (i) the outstanding balance in the CC / OD account remains continuously in excess of the sanctioned limit / drawing power for ninety days;
  - (ii) the outstanding balance in the CC / OD account is less than the sanctioned limit / drawing power but there are no credits continuously for ninety days;

- (iii) the outstanding balance in the CC / OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous ninety days period.

**Explanation 1:** ‘Previous ninety days period’ referred to in Sl. No. (iii) above shall be inclusive of the day for which the day-end process is being run.

**Explanation 2:** The definition of “out of order” shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purpose and/or which entail interest repayments as the only credits.

(viii) ‘*overdue*’ status – any amount due to a RRB under any credit facility shall be treated as ‘overdue’ if it is not paid on the due date fixed by the RRB.

(ix) ‘*provisioning coverage ratio (PCR)*’ shall mean the ratio of provisioning to gross non-performing assets and indicates the extent of funds kept aside to cover loan losses;

(x) ‘*security*’ shall mean tangible security properly charged to the RRB and will not include intangible securities like guarantees (including State government guarantees), comfort letters, etc.

(xi) “*short duration crops*” shall mean crops which are not “long duration” crops;

(xii) ‘*substandard asset*’ shall mean an asset, which has remained NPA for a period less than or equal to twelve months; In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the bank in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected. An asset where the terms of the loan agreement regarding interest and principal have been renegotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in such category for at least two years of satisfactory performance under the renegotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of the above condition.

- (2) The definitions of the terms Micro Enterprises, Small Enterprises, and Medium Enterprises shall be in terms of the circular FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020 on '[Credit flow to Micro, Small and Medium Enterprises Sector](#)' as updated from time to time.
- (3) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, or the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by the Reserve Bank of India or the Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.

## **Chapter II - General Instructions**

### **4. General Instructions**

- (1) A RRB shall comply with the following instructions in respect of all loans sanctioned on or after December 31, 2021:
  - (i) The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of dates of classification as special mention account / non-performing asset, etc. shall be clearly specified in the loan agreement.
  - (ii) The borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan.
  - (iii) In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements.
- (2) In case of loans sanctioned before December 31, 2021, compliance to the instructions in sub-paragraph (1) shall be ensured as and when such loans become due for renewal/review.
- (3) A RRB shall apply the following principles in respect of working capital accounts sanctioned by them:
  - (i) Ensure that drawings in the working capital accounts are covered by the adequacy of current assets.
  - (ii) Stock statements relied upon by the RRB for determining drawing power should not be older than three months.
  - (iii) The outstanding in the account based on drawing power calculated from stock statements older than three months, shall be deemed as irregular.
- (4) Regular and *ad hoc* credit limits shall be reviewed / regularised not later than three months from the due date / date of *ad hoc* sanction.

- (5) In case of constraints such as non-availability of financial statements and other data from the borrowers, a branch of the RRB should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon.
- (6) Notwithstanding sub-paragraph (5), delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/adhoc credit limits have not been reviewed/renewed within 180 days from the due date/date of ad hoc sanction should be treated as NPA.
- (7) If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of these Directions.
- (8) A RRB shall flag a borrower account as overdue, if so, as part of their day-end processes for the due date, irrespective of the time of running such processes.
- (9) Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. Thus, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

**Illustration:** If due date of a loan account is March 31, 2021, and full dues are not received before the RRB runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

- (10) A RRB should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect

of high value accounts. The RRB shall fix a minimum cut-off point to decide what would constitute a high value account depending upon their respective business levels. The cut-off point should be valid for the entire accounting year.

- (11) The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines.
- (12) Responsibility and validation levels for ensuring proper asset classification shall be fixed by the RRB.
- (13) A RRB shall implement the following instructions to increasing awareness among the borrowers:
  - (i) place consumer education literature on its websites, explaining with examples, the concepts of date of overdue, special mention account and non-performing asset classification and upgradation, with specific reference to day-end process;
  - (ii) consider displaying such consumer education literature in its branches by means of posters and / or other appropriate media;
  - (iii) ensure that front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction / disbursal / renewal of loans.

## **5. Disclosure Requirements**

A RRB shall make suitable disclosures in its Notes to Accounts as per the requirements contained in the Reserve Bank of India (Regional Rural Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

## **Chapter III - Asset Classification**

### **6. Asset Classification Norms**

- (1) A RRB shall classify a loan or an advance as a Standard asset or a non-performing asset, as the case may be.
- (2) Standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to the business. Such an asset is not a NPA.
- (3) A RRB shall classify a loan or an advance as non-performing asset (NPA) if any of the following conditions are satisfied:
  - (i) interest and / or instalment of principal remain overdue for a period of more than ninety days in respect of a term loan;
  - (ii) the account remains 'out of order' in respect of an Overdraft / Cash Credit (OD / CC);
  - (iii) a working capital borrowing account where irregular drawings are permitted in the account for a continuous period of 180 days even though the unit may be working or the borrower's financial position is satisfactory;
  - (iv) the bill remains overdue for a period of more than ninety days in the case of bills purchased and discounted;
  - (v) the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
  - (vi) the instalment of principal or interest thereon remains overdue for one crop season for long duration crops; and
  - (vii) any amount to be received remains overdue for a period of more than ninety days in respect of other accounts.
- (4) The asset classification norms specified at Sl. Nos. (iv) and (v) in sub-paragraph (3) shall be applicable only to the following agricultural advances:
  - (i) Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided the

bank maintains disaggregated data of such loans], directly engaged in Agriculture only. This shall include:

- (a) crop loans to farmers, which shall include traditional / non-traditional plantations, and horticulture;
  - (b) medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery and other developmental activities undertaken in the farm);
  - (c) loans to farmers for pre and post-harvest activities, viz., spraying, harvesting, grading and transporting of their own farm produce;
  - (d) loans to farmers up to ₹60 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding twelve months;
  - (e) loans to distressed farmers indebted to non-institutional lenders;
  - (f) loans to farmers under the Kisan Credit Card Scheme;
  - (g) loans to small and marginal farmers (SMFs) for purchase of land for agricultural purposes.
- (ii) Loans to corporate farmers, farmers' producer organizations / companies (FPOs) / (FPCs) of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture only up to an aggregate limit of ₹4 crore per borrower. This will include:
- (a) crop loans to farmers which shall include traditional / non-traditional plantations and horticulture;
  - (b) medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements, technological solutions, machinery and developmental activities undertaken in the farm);
  - (c) loans to farmers for pre and post-harvest activities, viz., spraying, harvesting, sorting, and transporting of their own farm produce;

- (d) loans up to ₹2.5 crore against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding twelve months.
- (iii) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
- (5) Depending upon the duration of crops raised, the above NPA norms would also be made applicable to agricultural term loans availed of by an agriculturist.
- (6) A RRB shall ensure that while granting agricultural loans and advances, realistic repayment schedules are fixed on the basis of cash flows / fluidity with the borrowers.
- (7) In respect of agricultural loans, other than those specified in sub-paragraph (4) and term loans given to non-agriculturists, identification of NPAs would be done on the same basis as non-agricultural advances which is the ninety days delinquency norm.
- (8) Where natural calamities impair the repaying capacity of agricultural borrowers for the purposes specified in sub-paragraph (4), a RRB may decide on its own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to [Master Direction – Reserve Bank of India \(Relief Measures by Banks in Areas affected by Natural Calamities\) Directions 2018 – RRBs dated October 17, 2018](#), as updated from time to time.
- (9) Asset classification shall be borrower-wise and not facility-wise. All the facilities granted by a RRB to a borrower and investment in all the securities issued by the borrower shall have to be treated as NPA / NPI and not the particular facility / investment or part thereof which has become irregular.
- (10) The availability of security or net worth of borrower / guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise.
- (11) The asset classification of borrowing accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and

without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the RRB must furnish satisfactory evidence to the Statutory Auditors / Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

## **7. Specific cases of asset classification**

(1) Advances against Term Deposits, NSCs, KVPs, etc.

- (i) Advances against term deposits, NSCs eligible for surrender, KVPs and life insurance policies need not be treated as NPAs, provided adequate margin is available in the accounts.
- (ii) Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

(2) The credit facilities backed by guarantee of the Central Government though overdue shall be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption is not for the purpose of recognition of income.

(3) State Government guaranteed advances and investments in State Government guaranteed securities shall attract asset classification and provisioning norms if interest and / or principal or any other amount due to the RRB remains overdue for more than ninety days.

(4) Asset classification of accounts under consortium shall be based on the record of recovery of the individual member and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one consortium member and / or where the consortium member receiving remittances is not parting with the share of other members, the account will be treated as not serviced in the books of the other members and therefore, be treated as NPA. A RRB participating in the consortium should, therefore, arrange to get its share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of its share of recovery, to ensure proper asset classification in its books.

## **8. Valuation of Security**

- (1) The current assets and their valuation shall be looked into at the time of Statutory Audit / Concurrent audit.
- (2) To bring down divergence arising out of difference in assessment of the value of security the following shall apply in cases of NPAs with balance of ₹15 lakh and above:
  - (i) To enhance the reliability on stock valuations, stock audit at annual intervals by external agencies may be considered in case of larger advances.
  - (ii) Collaterals such as immovable properties charged in favour of the RRB should be valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

## **9. Categories of non-performing assets**

- (1) A RRB shall classify non-performing assets further into 'substandard assets', 'doubtful assets' and 'loss assets' categories, as the case may be.
- (2) An NPA classified as substandard asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the RRB will sustain some loss, if deficiencies are not corrected.
- (3) An NPA classified as doubtful asset has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full – on the basis of currently known facts, conditions and values – highly questionable and improbable.
- (4) An NPA classified as loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
- (5) An asset need not go through the various stages of classification in case of serious credit impairment and such assets should be straightaway classified as a doubtful / loss asset as appropriate. Erosion in the value of security shall be reckoned as significant when the realisable value of security is less than 50 per

cent of the value assessed by the RRB or accepted by NABARD at the time of last inspection, as the case may be. Such NPAs shall be straightaway classified under 'doubtful category' and provisioning should be made as applicable to 'doubtful assets'. Further, if the realisable value of the security, as assessed by the RRB /approved valuers / RBI / NABARD is less than 10 percent of the outstandings in the borrowing accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset. It shall be either written off or fully provided for by the RRB.

## **10. Upgradation of loan accounts classified as NPAs**

- (1) The loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.
- (2) In case of borrowers having more than one credit facility from a lending institution, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.
- (3) With regard to upgradation of accounts classified as NPA due to restructuring, the instructions as specified in the Reserve Bank of India (Regional Rural Banks – Resolution of Stressed Assets) Directions, 2025 shall be applicable.

## **11. Automation of Income Recognition, Asset Classification and Provisioning processes**

- (1) A RRB had to conform with the instructions contained in this Paragraph latest by June 30, 2021.
- (2) Coverage of automation:
  - (i) All borrowing accounts, including temporary overdrafts, irrespective of size, sector or types of limits, shall be covered in the automated IT based system ('System') for asset classification, upgradation, and provisioning processes. An RRB's investments shall also be covered under the System.
  - (ii) Asset classification rules shall be configured in the System, in compliance with the regulatory stipulations.

- (iii) Calculation of provisioning requirement shall also be System based as per pre-set rules for various categories of assets, value of security as captured in the System and any other regulatory stipulations issued from time to time on provisioning requirements.
  - (iv) In addition, income recognition / derecognition in case of impaired assets (NPAs / NPIs) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention.
  - (v) The System shall handle both down-grade and upgrade of accounts through Straight Through Process (STP) without manual intervention.
- (3) The System based asset classification shall be an ongoing exercise for both down-gradation and up-gradation of accounts. A RRB should ensure that the asset classification status is updated as part of day end process. The RRB should also be able to generate classification status report at any given point of time with actual date of classification of assets as NPAs / NPIs.
- (4) Exceptions to automation: Exceptions may be granted from System driven classification in certain circumstances, which are expected to be minimum and temporary. These exceptions shall be from automated classification and not from income recognition, asset classification and provisioning norms under these Directions and shall be subject to the conditions specified below.
- (i) A RRB shall not resort to manual intervention / over-ride in the System based asset classification process.
  - (ii) In any exceptional circumstance where manual intervention is required to override the System classification, it must have at least two level authorisation. Such delegation of powers for authorising the exceptions should be as per the Board approved policy of the RRB (by CEO, in case of unavailability of Board) and preferably should be done from the centralised location and suitably documented. Further, any such intervention shall have appropriate audit trails and subjected to audit by concurrent and statutory auditors. Detailed reports of such manual

intervention shall be placed before the Audit Committee / Audit Head (RRBs having no Board) regularly.

- (iii) A RRB shall maintain logs for all exceptions i.e. manual interventions / over-rides including, but not limited to, the date and time stamp; purpose/reason; user-IDs, name and designation of those making such manual intervention and necessary account details. These logs shall also be stored for a minimum period of three years and not be tampered with during the storage period. These logs shall be system generated.

(5) System Requirements and System Audit:

- (i) In case a separate application outside the CBS is used as the System for NPA / NPI identification and / or classification, the System must have access to the required data from the CBS and / or other relevant applications of the RRB and the borrower / investment accounts shall be updated back into the CBS automatically, wherever applicable, through STP.
- (ii) A RRB shall keep the business logic and other parameters / configurations of the System updated to ensure that the System based identification, classification, provisioning and income recognition are strictly in compliance with the regulatory guidelines on an ongoing basis.
- (iii) There should be periodic system audit, at least once in a year, by Internal / External Auditors who are well versed with the system audit both on system parameters as also from the perspective of compliance to Income Recognition, Asset Classification and Provisioning norms as per these Directions.

(6) A RRB shall adhere to the following baseline requirements while designing and maintaining the NPA classification Solution:

- (i) Data Input
  - (a) Data Input in the system by any means should be fully captured and stored without truncation (For example, time stamp - with date and time, narration field, or any other text data captured).

- (b) Ensure presence of necessary validation / verification checks in the solution for the user inputs, wherever applicable. Such validations, among other things should check for data type validations, min/max value, exceptions, etc.
- (c) Ensure necessary data validation / checks in the system for the data keyed in manually, wherever applicable. For example, such validations with master data (or parameters used in asset classification fed into the system as per the internal policy of the bank) could prevent issues related to incorrect entries generally seen (illustrative but not exhaustive list) in margin setting, moratorium period, security valuation, repayment schedule, products mapped / linked to different categories of account holders (as per applicability) etc.
- (d) Data input shall be effected only after authentication and authorisation.

(ii) User Access Management

- (a) Ensure that all ‘user-ids’ in the solution have unique identification. If there are any generic user-ids used, it should only be used under exceptional circumstances and such ids should be mandatorily mapped to the employee ID of the user to fix accountability of the activities carried-out under the generic ID.
- (b) Provide for two-factor or higher level of authentication for the users of the application.
- (c) Restrict the access to the solution on ‘need to have / least privilege’ basis for all users.
- (d) Provide for maker checker authorisation / control for transactions (an illustrative list of transactions includes updating / modifying the internal accounts, customer accounts, parameters – both financial and non-financial that affect the status of the credit portfolio / loan / asset) entered in the solution. This shall also include transactions / activities carried out by administrator accounts in the application. (For example: activities such as create / update / modify user-ids, roles, privileges including access rights to various modules; system related activities including

updates to master data, etc. should have at least two individuals to complete the activity).

(iii) Straight Through Processing (STP): Provide for straight-through processing (STP) and support for STP integration with all critical systems / add-on sub-systems / modules etc., in a seamless and secure manner for NPA / NPI classification as per extant guidelines on IRAC. Such STP mechanism shall seamlessly take into account all the facilities availed by a given customer (in case of advances) and all the instruments of an entity (where bank has made investments in an entity), maintained across multiple systems of the RRB without any manual intervention. Further, a RRB shall also ensure that the updated account status, including asset classification of the customer accounts, flow to the CBS automatically, if NPA classification process is performed outside CBS.

(iv) Back-end Data Access Restriction

(a) Any changes to the data, parameters from backend shall be avoided.

The solution should provide for changes to the data items only through front end (from the application (Ex: CBS) itself and not through the backend database update) after requisite authorisation. Audit trails / logs of access, changes to any data, parameters, if any, should be captured with specific user details in the system.

(b) In case of exceptions in rare circumstances, such changes should be duly approved at an appropriate level and documented. Provision for MIS report should be available to auditors to generate complete list of back-end access and changes made.

(v) Audit Logs

(a) Provisions of audit trails / logs to capture details of mandatory fields (that are essential to complete the transaction and essential to identify the transaction for audit / forensic purpose in the future) of all the transactions (financial and non-financial) shall be made.

- (b) Logs should be maintained for changing the master data. System generated activity logs of the users with administrative privileges should also be maintained.
  - (c) Secure storage and retention of logs in encrypted format with access controls in an archival solution.
- (vi) System Generated NPAs: All parameters required for NPA / NPI identification shall be captured in the CBS or associated sub-system(s) / module(s) meant for NPA / NPI identification / classification of asset codes as per these Directions. It should provide for separate MIS report capturing all parameters for NPA / NPI identification. Such parameters could either be configured in database or application itself as per the architecture of the solution / sub-system.
- (vii) Test Environment: The existing test environment in the RRB with dummy data and functional logic similar to that of the product environment of the solution shall be made available to the supervisors during their onsite supervisory visit(s) as per the requirements. This shall be required, *inter alia*, to perform sample transactions review to assess whether the solution adheres in complying with regulatory prescriptions in the extant environment for NPA / NPI identification as per applicability.
- (7) A RRB shall draw up their standard operating procedure (SOP) for System based NPA classification for usage by the operating staff.
- (8) The adherence to these instructions will be examined as part of supervisory assessment of a RRB and in case of non-compliance, suitable enforcement action shall be initiated against the concerned RRB.

## Chapter IV - Provisioning Norms

### 12. Provisioning Requirements

- (1) A RRB shall make provisions of 0.25% in respect of direct advances to agricultural and SME sectors in the standard category and 1.00% in respect of advances to the CRE Sector classified as 'standard asset'.
- (2) In respect of all other loans and advances in the standard category, provisions of 0.40% of the funded outstanding on a portfolio basis shall be made.
- (3) . A general provision of 10% of total outstanding shall be made in respect of all other loans and advances in the sub-standard category. While arriving at the provisioning requirement, value of security in any form including term deposits, NSCS, surrender value of life policies, etc. should not be deducted.
- (4) The provisions in respect of doubtful assets shall be as follows:
  - (i) 100% of the extent to which the advance is not covered by the realisable value of the tangible security to which the RRB has a valid recourse and the realisable value is estimated on a realistic basis.
  - (ii) If Over and above Sl. No. (i) above, depending upon the period for which the asset has remained doubtful, 20% - 50% of the secured portion (i.e., estimated realisable value of the outstandings) on the following basis:

Period for which the advance has been considered as doubtful	Provision requirements
Up to one year	20%
One to three years	30%
More than three years	100%

*Illustration:*

The outstanding amount as on March 31, 2017: ₹10,000

Realisable value of security: ₹8,000

Period for which the advance has remained in 'doubtful' category as on March 31, 2007: 2.5 years

Provisioning requirement:

As on	Asset Classification	Provisions on secured portion	Provisions on unsecured portion	Total
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		%	Amount	%	Amount	
March 31, 2017	Doubtful 1-3 years	30	2400	100	2000	4400
March 31, 2018	Doubtful > 3 years	100	8000	100	2000	10000

- (iii) In case of the advances guaranteed by DICGC/ECGC, provision shall be made only after the realisable value of securities is deducted from the outstanding balance.
- (5) In the case of loss assets, the entire assets should be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstandings should be provided for.
- (6) A RRB is urged to voluntarily set apart provisions much above the minimum prudential levels as a desirable practice.
- (7) Where provisions are required to be made as per this Paragraph, the amounts held in Interest Suspense Account shall not be reckoned as part of provisions. Amounts lying in the Interest Suspense Account shall be deducted from the relative advances and provisioning as per the norms should be made on the balances after such deductions.

## **Chapter V - Income Recognition**

### **13. Income Recognition**

- (1) Income from non-performing assets is not recognised on accrual basis but it is to be booked only when it is actually received. Once an account is classified as NPA, the entire interest accrued and credited to income account in the past periods, must be reversed to the extent it remains unrealised.
- (2) A RRB should not take to the Income account interest on non-performing assets. Non-booking of interest on non-performing assets is prudent internal accounting practice to avoid inflation of income by addition of interest which is not likely to be realised. It does not in any way affect the right of the RRB to recover the full interest due from the borrowers in due course. In other words, it should not be construed in any manner as waiver of interest due from the borrowers.
- (3) Notwithstanding sub-paragraph (2), interest on advances against Term Deposits, National Savings Certificates (NSCs), Kisan Vikas Patras (KVPs) and life insurance policies may be taken to income account on the due date, provided adequate margin is available in the accounts.
- (4) In cases of loans where moratorium has been granted for repayment of interest, income may be recognised on accrual basis for accounts which continue to be classified as 'standard'. This shall be evaluated against the definition of 'restructuring' provided in Reserve Bank of India (Regional Rural Banks – Resolution of Stressed Assets) Directions, 2025.
- (5) In the absence of a clear agreement between the RRB and the borrower for the purpose, the RRB should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.
- (6) If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

## **Chapter VI - Repeal and Other Provisions**

### **14. Repeal and saving**

- (1) With the issue of these Directions, the existing directions, instructions, and guidelines relating income recognition, asset classification and provisioning as applicable to Regional Rural Banks stand repealed, as communicated vide notification dated XX, 2025. The directions, instructions and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above notification shall continue to remain repealed.
- (2) Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

### **15. Application of other laws not barred**

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

### **16. Interpretations**

For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Resere Bank shall be final and binding.