

# Indian Banking Industry

RBI releases final ECL framework;  
impact on banks' capitalisation  
profile likely to be moderate

April 2026





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*The ECL directions would shift banks from the traditional 'incurred loss' approach to a predictive framework.*

*Given the slightly higher floors than the current norms, the overall provisioning requirement is set to increase from the current level. Nevertheless, the improvement in the asset quality in the recent past is expected to lessen the impact versus the likely effect had implementation of the norms been instituted a few years ago.*



- The Reserve Bank of India (RBI) released the final directions – [Reserve Bank of India \(Commercial Banks - Asset Classification, Provisioning and Income Recognition\) Directions, 2026](#) – on April 27, 2026, which is largely in line with the [draft directions](#).
- Principally, the overdue ageing-based classification\* will be replaced by a forward-looking, risk-based model (Stage 1: low risk, Stage 2: significant increase in credit risk (SICR), and Stage 3: credit impaired).
- The expected credit loss (ECL) guidelines would shift banks from the traditional 'incurred loss' approach to a predictive framework and is a step towards Ind-AS implementation. Banks must now estimate losses based on probability of default (PD), loss given default (LGD), and exposure at default (EAD). This allows the early recognition of credit deterioration, improving risk visibility and enabling proactive portfolio management.
- One of the important changes would be the inclusion of loans, which are 31-90 days past due (dpd), in the Stage 2 classification. This approach would be in line with that being followed by non-banking financial companies (NBFCs).
- The specified ECL floors are slightly higher than the current Income Recognition and Asset Classification and Provisioning (IRAC) norms. Accordingly, the overall provision requirements are set to increase for the majority of the product segments. The significant improvement in the asset quality in the recent past would lessen the impact versus the likely effect had implementation of the norms been instituted a few years ago. As per ICRA's estimates, the impact of the ECL norms on the reported core capital ratios of banks as of the transition date would be less than 150 basis points (bps).
- In ICRA's view, banks, particularly those operating with thinner capital cushions and higher overdue books, significant sanctioned but undisbursed limits and large non-fund based exposures, are likely to see more transitioning pain and would need to raise capital and/or avail the transition period till FY2031 to phase out the impact on CET-I. Banks availing such forbearance are not expected to be viewed favourably by investors, making it even more difficult for them to raise capital in such a situation.

\* <90 dpd classified as standard; thereafter, classification changes to non-performing advances (NPAs), eventually reaching up to loss assets



Implementation of ECL framework is expected to increase the provisioning requirement for banks, though impact would be manageable



- Lending institutions, including banks, are required to maintain sufficient provisions on loan assets, investments and other assets to account for any diminution in the value of such assets. It is the responsibility of the management to maintain sufficient provisions. However, the provisions are subject to meeting the minimum thresholds prescribed by the regulator.



- The existing approach defines fixed rates to make provisions for different loans/investments/assets with the same depending on the type of asset and its overdue ageing status. The rate of provision to be made is directly proportional to the overdue ageing of the asset.



- Under the final circular, the RBI has finalised the implementation of the ECL framework for making provisions starting April 1, 2027. Banks will be required to fair value their entire loan portfolio, including all outstanding advances, on the date of transition to the ECL framework, i.e., April 1, 2027. Thereafter, the ECL norms are to be followed on a yearly basis.
- A bank shall recognise the lifetime ECL for all financial instruments, evidencing SICR since initial recognition. For this, it shall adopt a '3-stage' approach, based on the credit quality of the financial instrument at the time of initial recognition or on any subsequent reporting date. The approach is similar (with suitable changes) to what NBFCs currently follow under Ind-AS. Thus, it may be considered a precursor to banks eventually shifting to Ind-AS, going forward.

# Asset classification; 3-stage approach to replace overdue ageing-based classification

Parameters	Existing provision	Draft provisions	Final provisions (same as draft)	ICRA's comments
<b>Guiding principle</b>	<p>Under the current norms, asset classification is based on overdue ageing with 90 days overdue getting tagged as non-performing advances (NPAs). Advanced overdue status leads to a further downgrade of the category.</p>	<p>Banks will follow a 3-stage classification, basis the level of credit risk. They are required to make an assessment on each reporting date if the credit risk on a financial instrument has increased significantly since the initial recognition. If so, the bank must make a loss allowance, estimated on the basis of the lifetime expected credit losses.</p>		<ul style="list-style-type: none"> <li>Asset classification is set to become more forward looking. The ECL model shifts from the traditional 'incurred loss' approach to a predictive framework. Banks must now estimate losses based on PD, LGD, and EAD. This allows for early recognition of credit deterioration, improving risk visibility and enabling proactive portfolio management.</li> </ul>
<b>Classification</b>	<p>Standard assets comprise all borrower accounts, which have been regular in servicing and are not regarded as NPAs.</p> <p>Accounts under special mention status (1-90 days overdue) or restructured accounts are also considered standard unless they slip to 90 days overdue and are classified as NPAs.</p> <p>Accounts are classified as NPAs if the overdue status exceeds 90 days for any loan account held by the borrower. NPAs are further downgraded, depending on overdue ageing, and are finally classified as a loss asset (refer Exhibit 3).</p> <p>Provisioning norms vary, depending on the asset classification in the above categories.</p>	<p>All assets with low credit risk and no significant increase therein since their initial recognition are to be classified as Stage 1.</p> <p>Assets with an SICR since the initial recognition but which are not credit impaired are to be classified as Stage 2. While special mention accounts (SMA) and restructured assets are not specifically required to be categorised here, these may be included herein.</p>	<p>A financial instrument is said to be under Stage 3, when it is considered to be 'credit impaired' on the reporting date. Though there could be other means to identify/classify financial instruments as Stage 3, one of the important parameters would be overdue status. Accounts that are 90 days overdue (NPAs) would come under this category. For such instruments, the lifetime ECL shall be recognised.</p>	<ul style="list-style-type: none"> <li>ECL would bring Indian banks in line with international standards, facilitating better integration with global financial systems and improving investor confidence.</li> <li>The mandated disclosures in financial statements would provide more transparency, enhancing comparability among banks.</li> </ul>

- The ECL model primarily calculates the expected loss from an asset/financial instrument, which is based on PD, LGD and EAD, making it a product of these three factors.
- ECL provisioning will be based on the bank's own historical data on PD and LGD. The final directions do not mention the requirement of at least five years of data, which was stipulated in the draft directions. Nevertheless, the RBI has specified the floors (refer Exhibits 2 and 4) and the ECL provisioning cannot go below the same.
- The bank's board and senior management would be responsible for credit risk practices and adequacy of the ECL framework.
- Stage 2 classification would include loans that are 31-90 dpd, which is in line with the approach followed by NBFCs. In addition, Stage 3 classification is to be applied at the borrower level while Stage 2 is applicable at the facility level. NPA outstanding as on March 31, 2027 cannot be upgraded only upon ECL implementation.
- The 12-month PD for any instrument, applicable for the purpose of ECL computation, shall be subject to a minimum regulatory floor of 0.03% (0.05% as per draft directions). Also, if a bank is unable to estimate its own LGD on historical information, it can use the regulatory LGD, i.e., 65% for the secured portion and 70% for the unsecured portion.
- ECL provisioning will be extended to off-balance sheet items and sanctioned but undisbursed limits as well.
- ECL allowances in respect of Stage 3 financial instruments shall be treated as specific provisions while ECL allowances in respect of Stage 1 and Stage 2 assets shall be eligible to be treated as general provisions to be included in the Tier II capital, subject to the extant prescribed limits.
- Banks would be permitted a glide path from FY2027 to FY2031 to smoothen the impact of the additional required provision on capital.
- Banks need to provide detailed credit risk disclosures, which will increase transparency.
- Banks are also required to measure financial assets originated on or after April 1, 2027 at fair value at initial recognition and subsequently at amortised cost, using the effective interest rate (EIR) method. Moreover, all loans outstanding as on March 31, 2027 shall be brought under the EIR regime no later than March 31, 2030. The draft guidelines mentioned EIR transition, but no timeline was mentioned.

# ECL floors for Stage 1 and Stage 2 assets to increase provisioning requirement

## Exhibit 1: ECL floors under draft directions

Loan product*	Stage 1 floor	Stage 2 floor
Corporate loans	0.40%	5.00%
Secured retail loans	0.40%	5.00%
Small and micro enterprises (SME)	0.25%	5.00%
Medium enterprises	0.40%	5.00%
Home loan (HL)/Loan against property (LAP)	0.40%	1.50%
Unsecured retail loans	1.00%	5.00%
Loan against fixed deposits (FDs)	0.40%	0.40%
Gold loans	0.40%	1.50%
Credit equivalents for off-BS exposures	0.40%	5.00%
Farm loans	0.25%	5.00%
Others	0.40%	5.00%

\*Under current IRAC norms, most of the product segments carry a provision requirement of 0.40% except for SME, HL/LAP and farm loans at 0.25%, commercial real estate (CRE) at 1.0% and CRE (residential) at 0.75%

Source: RBI; BS – Balance sheet

## Exhibit 2: ECL floors under final directions – More elaborative than draft

Loan product	Stage 1 floor	Stage 2 floor
Corporate loans	0.40%	5.00%
Secured retail loans	0.40%	5.00%
SME	0.25%	5.00%
Medium enterprises	0.40%	5.00%
HL/LAP	0.25%	1.50%
Loan to banks, NBFCs and other regulated FIs	0.40%	5.00%
Loan against term deposits, LIC policy, KVP	0.40%	0.40%
Direct exposure to Central Government and exposures guaranteed by state government	0.40%	2.50%
Exposures guaranteed by Central Government	0.25%	0.25%
Unsecured retail loans	1.00%	5.00%
Gold loans	0.40%	1.50%
Farm credit for agricultural activities	0.25%	5.00%
Others	0.40%	5.00%

Credit equivalents for off-BS exposures will be as applicable to corresponding loan product category after applying credit conversion factor (CCF)

Source: RBI; KVP – Kisan Vikas Patra; FIs – Financial institutions

- The final framework has retained the floors for most product segments as outlined in the draft guidelines, while adding more categories explicitly.
- Compared to the existing IRAC norms (for standard assets), the stated minimum provisioning requirements are largely similar for Stage 1 but higher for Stage 2. The major impact will be on Stage 2 assets as most of these are currently a part of standard assets, attracting lower provisioning requirements than the specified floors. However, some of the loan products, like unsecured retail and commercial real estate, would carry higher ECL floors in Stage 1 as well vis-à-vis the current norms.
- Thus, the overall provisions for Stage 1 and Stage 2 are likely to increase from the current standard asset provisions. Nevertheless, the floors specified do not seem to be very high, as NBFCs usually carry higher provisions given that the typical borrower profile of banks tends to be better than NBFCs.

# ECL floors for real estate exposures and project loans

**Exhibit 3: ECL floors for project loans as per draft guidelines**

Loan product	Stage 1 floor		Stage 2 floor	
	Construction	Operational	Construction	Operational
CRE	1.25%	1.00%	^Additional 0.375%/0.5625%	
CRE – Residential	1.00%	0.75%		
Other projects	1.00%	0.40%		

*^For project finance exposures [other than CRE (ADC) & CRE-RH (ADC)], which have availed DCCO deferment as per extant norms, a bank shall maintain additional account-wise specific provisions of 0.375% for infrastructure project loans and 0.5625% for non-infrastructure project loans, for each quarter of deferment, over and above the applicable Stage 1 provision*

**Exhibit 4: ECL floors for project loans as per final guidelines**

Loan product	Stage 1 floor	Stage 2 floor
Housing loans to individuals	0.25%	1.50%
CRE –Acquisition, development & construction (ADC)		
<ul style="list-style-type: none"> <li>• CRE (ADC), other claims secured by non-qualifying commercial/residential real estate, where applicable, risk weight as per the extant norms is 150%</li> </ul>	1.25%	DCCO deferment: Additional provision: 0.5625%*
<ul style="list-style-type: none"> <li>• CRE-Residential housing (ADC) (CRE–RH ADC) and other claims secured by non-qualifying commercial/residential real estate, where counterparty risk weights are applicable as per the extant norms</li> </ul>	1.00%	Other than DCCO deferment: 5.00%
Other claims secured by residential real estate	0.40%	1.50%
Other claims secured by commercial real estate	0.40%	5.00%
Project loans – Pre-operational phase	1.00%	DCCO deferment: Additional provision: 0.375% / 0.5625%^ Other than DCCO deferment: 5%
Project loans – Operational phase	0.40%	5%

*\*For CRE (ADC) & CRE-RH (ADC) accounts, which have availed DCCO deferment as per extant norms, a bank shall maintain account-wise additional specific provisions of 0.5625%, for each quarter of deferment, over and above the applicable Stage 1 provision*

- In case of a credit event related to the date of commencement of commercial operations (DCCO), the Stage 2 floor starts at a lower level and builds up gradually. However, for other credit events, the higher Stage 2 floor becomes applicable. Overall, the provisioning requirement for project loans is set to increase under ECL norms. Project loans and loans and exposure to a foreign counterparty shall attract additional requirements as per the respective guidelines on infrastructure financing and country risk premium.

# Stage 3 assets – Higher floor, except for specified loans

**Exhibit 5: Existing provisions under IRAC**

NPA ageing	IRAC provisions	
	Secured	Unsecured
0-1 year	15% <sup>&amp;</sup>	25%
1-2 year(s)	25%	100%
2-3 years	40%	100%
3-4 years	40%	100%
>4 years	100%	100%
Loss asset	100%	100%

Source: RBI, ICRA Research; <sup>&</sup>25% for lease assets

**Exhibit 6: Proposed ECL floors under final guidelines – Same as draft**

Stage 3 ageing	ECL floors			
	Secured	Unsecured – Other than retail	Retail – Unsecured	Secured portion of specified loans*
0-1 year	25%	40%	25%	10%
1-2 year(s)	40%	100%	100%	20%
2-3 years	55%	100%	100%	30%
3-4 years	75%	100%	100%	40%
>4 years	100%	100%	100%	100%

Source: RBI, ICRA Research; \*For loans against FD, LIC policy, KVP, gold loans, direct exposure to Central Government and exposures guaranteed by state government housing loans to individuals for residual unsecured portion, floors specified for retail unsecured portion would apply

- Exemptions to the ECL provisions for all stages and thus the floors mentioned above are as follows:
  - Statutory liquidity ratio (SLR) investments, loans or direct claims on Government of India (GoI)
  - GoI guaranteed portion of loan, including any guarantee by Credit Guarantee Fund Trust for Micro and Small Enterprises/National Credit Guarantee Trustee Company Limited/Credit Risk Guarantee Fund Trust for Low Income Housing, etc.
- Stage 3 asset provisioning requirements are set to increase for the majority of the products. However, there is partial comfort for Stage 3 assets secured against safer assets, which would have a lower proportion ECL than the general category. Given that banks currently have a provision cover of ~78%, the additional provisioning requirement for Stage 3 assets is expected to be limited.
- The addition of the step levels for the intermittent years of Stage 3 assets would require banks to provide for this category more consistently during their transition to loss asset status.

# Transitional provisions until FY2031 to provide relief for banks

## Exhibit 7: Glidepath transition up to FY2031 allowed for transitional difference as on April 1, 2027

Financial year	Maximum transitional adjustment allowed to CET-I capital	Illustration for CET-I capital with transitional arrangement	Illustration for CET-I % with transitional arrangement	Illustration for CET-I capital without transitional arrangement	Illustration for CET-I% without transitional arrangement
FY2028	4/5	Rs. 9,600 crore	9.6%	Rs. 8,000 crore	8.0%
FY2029	3/5	Rs. 9,200 crore	9.2%	Rs. 8,000 crore	8.0%
FY2030	2/5	Rs. 8,800 crore	8.8%	Rs. 8,000 crore	8.0%
FY2031	1/5	Rs. 8,400 crore	8.4%	Rs. 8,000 crore	8.0%
FY2032	nil	Rs. 8,000 crore	8.0%	Rs. 8,000 crore	8.0%

**Assumptions for the Illustration: One-time transitional hit to be Rs. 2,000 crore on a CET-I capital base of Rs. 10,000 crore and risk-weighted assets (RWAs) of Rs. 1.0 lakh crore, resulting in base CET-I of 10.0%. The above calculation excludes the impact of incremental profits/capital raise and yearly provisions**

Source: RBI, ICRA Research

- The guidelines shall be effective from April 1, 2027 (FY2028). For the additional ECL provision on the existing exposures (above the current provisions), banks may choose to phase out the effect of the same on CET-I over the transition period until March 31, 2031.
- Going forward, banks must create provisions as per the ECL methodology on existing as well as new exposures, irrespective of the initial incremental provisions being adjusted till FY2031. They are also required to fair value their entire loan portfolio, including all outstanding advances, on the date of transition to the ECL framework, i.e., April 1, 2027, with the difference being routed through retained earnings.
- Additional disclosures for banks in their financial statements shall include:
  - Whether transitional arrangements have been applied; and,
  - Impact on the bank's regulatory capital and leverage ratios had these transitional arrangements not being availed.

# Impact of ECL framework on CET expected to be manageable

- **Stage 1** – As most of the products carry ECL floors similar to the current IRAC norms, the additional requirement is likely to be limited.
- **Stage 2** – Most of the impact will be visible in this segment as these are currently classified as standard assets and carry lower provisions vis-à-vis the specified ECL floors. ICRA expects the effect of this to be in the range of 10-20 bps on the reported CET-I ratio of the sector.

## Exhibit 8: Expected reduction in CET-I% at different levels of SMA and ECL

		SMA as % of loan book		
		2.0%	2.5%	3.0%
ECL	5.00%	0.11%	0.14%	0.16%
	7.50%	0.16%	0.20%	0.24%
	10.00%	0.22%	0.27%	0.33%

- **Stage 3** – Given the improvement in the asset quality in the recent past and the high provision coverage ratio of ~78% as on December 31, 2025, the incremental provisioning requirement is expected to be limited.
- **Sanctioned but undisbursed exposures** would also lead to an additional provisioning requirement. Assuming the same to be 10-20% of the fund-based exposures of banks and considering the applicable ECL on the same, the impact could be in the range of 5-20 bps on the reported CET-I ratio.
- In addition, provisioning for **off-balance sheet items** like non-fund based limits and derivatives, etc., would have some impact on the capital ratios; however, it is difficult to quantify the same at this stage.

Overall, ICRA estimates the impact of the proposed ECL norms on reported core capital ratios below 150 bps

# Annexure I: Recent research reports published in the banking sector

- [RBI's risk-based premium framework for deposit insurance to enhance profitability of stronger banks](#) (February 2026)
- [RBI's draft guidelines enhance dividend flexibility for banks with high core capital; actual dividend payout unlikely to rise materially](#) (January 2026)
- [Retail and MSMEs drove credit growth in YTD FY2026; trend to continue in the medium term](#) (December 2025)
- [Impact of RBI's proposed ECL framework on banks' capitalisation profile likely to be moderate](#) (October 2025)
- [RBI's draft framework on capital charge for credit risk hints at relief for banks](#) (October 2025)
- [GST rate cuts to support consumption, which along with surplus liquidity, would drive bank's credit growth](#) (September 2025)
- [Margins to be under pressure, given repo rate cuts; asset quality remains monitorable](#) (June 2025)
- [Final guidelines on liquidity coverage ratio to support credit growth](#) (April 2025)



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