All NBFCs

Dear sir,

**Provision of 0.25% for standard assets of NBFCs**

In terms of Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, and Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, all NBFCs are required to make necessary provisions for non-performing assets. In the interests of counter cyclical and so as to ensure that NBFCs create a financial buffer to protect them from the effect of economic downturns, it has been decided to introduce provisioning for standard assets also.

2. Accordingly
   
   i) NBFCs should make a general provision at 0.25 per cent of the outstanding standard assets.
   
   (ii) The provisions on standard assets should not be reckoned for arriving at net NPAs.
   
   (iii) The provisions towards Standard Assets need not be netted from gross advances but shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.
   
   (iv) NBFCs are allowed to include the ‘General Provisions on Standard Assets’ in Tier II capital which together with other ‘general provisions/loss reserves’ will be admitted as Tier II capital only up to a maximum of 1.25 per cent of the total risk-weighted assets.

3. Accompanying Notifications No. DNBS. 222 CGM(US)2011 and No. DNBS. 223 CGM (US) 2011 both dated January 17, 2011 are enclosed for meticulous compliance.

Yours sincerely,

(Uma Subramaniam)
Chief General Manager-in-Charge

Encl: as above

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 contained in Notification No. DNBS. 192/DG(VL)-2007 dated February 22, 2007 in exercise of the powers conferred by section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said directions shall be amended with immediate effect as follows, namely -

i) The following paragraph may be added after Para 9 of the directions as Para 9A.

“9A. Every Non Banking Financial Company shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.”

ii) The para (2)(xx)(c) of the above Directions may be modified to read as follows:

"General Provisions (including that for standard assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;"

(Uma Subramaniam)
Chief General Manager

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i) The following paragraph may be added after Para 9 of the directions as Para 9A. “9A. Every Non Banking Financial Company shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as ‘Contingent Provisions against Standard Assets’ in the balance sheet.”

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(Uma Subramaniam)
Chief General Manager