

RBI/2005-06/394

DBOD.No.BP.BC. 85 / 21.04.048 / 2005-2006

May 29, 2006

All Scheduled Commercial Banks
(Excluding RRBs)

Dear Sir,

Annual Policy Statement for the year 2006-07-Additional Provisioning Requirement for Standard Assets

Please refer to paragraph 185 of the [Annual Policy Statement for the year 2006-07](#) enclosed to Governor's letter No.MPD.BC.279/07.01.279/2005-06 dated April 18, 2006 (copy of the paragraph enclosed).

2. The Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) had recommended that, as a prudential measure, a general provision of about one per cent of standard assets of banks would be appropriate and should be implemented in a phased manner. Accordingly, in November 2005, the general provisioning requirement for standard advances, with the exception of banks' direct advances to agricultural and SME sectors, was increased from 0.25 to 0.40 per cent of the funded outstanding on a portfolio basis.

3. In order to ensure that asset quality is maintained in the light of high credit growth, it has now been decided to increase the general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans from the present level of 0.40 per cent to 1.0 per cent.

4. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.

5. Please acknowledge receipt.

Yours faithfully,

(Prashant Saran)
Chief General Manager-In-Charge

Paragraph 185 of the Annual Policy Statement for the year 2006-07

(k) Prudential Provisioning Requirements

185. The Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) had recommended that, as a prudential measure, a general provision of about one per cent of standard assets of banks would be appropriate and should be implemented in a phased manner. The Mid-term Review of October 2005 increased the provisioning requirement on standard assets, with the exception of direct advances to agricultural and SME sectors, from 0.25 per cent to 0.40 per cent of the funded outstanding on portfolio basis. To ensure that asset quality is maintained in the light of high credit growth, it is proposed:

- to increase the general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans from the present level of 0.40 per cent to 1.0 per cent. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent.