

RBI/2006-07/287

DBOD.NO.BP.BC.68/21.04.048/2006-07

March 13, 2007

All Scheduled Commercial Banks  
(Excluding RRBs)

Dear Sir,

**Prudential norms on creation and utilisation of floating provisions**

Please refer to Para 2(i) of Circular DBOD.No.BP.BC.89/21.04.048/2005-06 dated June 22, 2006 on the captioned subject in terms of which banks can use the floating provisions only for contingencies under extra-ordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of RBI.

2. To facilitate banks' boards to evolve suitable policies in this regard, it is clarified that the extra-ordinary circumstances mentioned in our above circular refer to losses which do not arise in the normal course of business and are exceptional and non-recurring in nature. These extra-ordinary circumstances could broadly fall under three categories viz. General, Market and Credit. Under general category, there can be situations where bank is put unexpectedly to loss due to events such as civil unrest or collapse of currency in a country. Natural calamities and pandemics may also be included in the general category. Market category would include events such as a general melt down in the markets, which affects the entire financial system. Among the credit category, only exceptional credit losses would be considered as an extra-ordinary circumstance.

3. The boards of banks may lay down appropriate policies based on the above parameters.

4. Please acknowledge receipt.

Yours faithfully,

(Prashant Saran)  
Chief General Manager-in-Charge