भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI 2008-09/418

DBOD.No.BP.BC. 118 /21.04.048/2008-09 March 25, 2009

The Chairman / CMD / MD / CEO
All Scheduled Commercial Banks (including Local Area Banks)
(Excluding RRBs)

Dear Sir

Prudential treatment of different types of Provisions in respect of loan portfolios

It has been decided to lay down the following guidelines in regard to the prudential treatment of different types of provisions in respect of loans portfolios. It is clarified that the relative provisions **can only** be reckoned for the purpose listed there against.

(i) Additional Provisions for NPAs at higher than prescribed rates:

The regulatory norms for provisioning represent the minimum requirement. Therefore, banks may voluntarily make specific provisions for NPAs at rates which are higher than the rates prescribed under existing regulations if such higher rates are based on a policy approved by the Board of Directors to provide for estimated actual loss in collectible amount and the policy is consistently adopted from year to year. The additional provisions for NPAs, like the minimum regulatory provision on NPAs, may be netted off from gross NPAs to arrive at the net NPAs

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(ii) Excess Provisions on sale of Standard Asset/NPAs :

(a) If the sale is in respect of Standard Asset and the sale consideration is higher than the book value, the excess provisions may be credited to Profit and Loss Account.

(b) Excess provisions which arise on sale of NPAs can be admitted as Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets. Accordingly, these excess provisions that arise on sale of NPAs would be eligible for Tier II status in terms of paragraph 4.3.2 of Master Circular DBOD.No.BP.BC.11/21.06.001/2008-09 dated July 1, 2008 on Prudential guidelines on Capital Adequacy and Market Discipline –Implementation of New Capital Adequacy Framework(NCAF) and paragraph 2.1.1.2.C, of Master Circular DBOD.No.BP.BC.2/21.01.002/2008-09 dated July 1, 2008 on Prudential Norms on Capital adequacy –Basel I Framework.

(iii) Provisions for diminution of fair value: Provisions for diminution of fair value of restructured advances, both in respect of Standard Assets as well as NPAs, made on account of reduction in rate of interest and /or reschedulement of principal amount are permitted to be netted from the relative asset.

(iv) Floating Provisions: In partial modification of our circular DBOD.No.BP.BC.89/21.04.048/2005-06 dated June 22, 2006, while Floating Provisions cannot be netted from gross NPAs to arrive at net NPAs, it is clarified that they could be reckoned as part of Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

The above guidelines are effective from the date of this circular.

Yours faithfully

(Prashant Saran)
Chief General Manager-in-Charge