भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI 2010-11/529

DBOD.No.BP.BC. 94 /21.04.048/2011-12 May 18, 2011

The Chairman and Managing Directors / Chief Executive Officers
All Scheduled Commercial Banks (Excluding RRBs)

Dear Sir/ Madam

Enhancement of Rates of Provisioning for Non-Performing Assets and Restructured Advances

Please refer to paragraph 110 of the Monetary Policy Statement for the year 2011-12 (extract enclosed) wherein it was proposed to enhance the provisioning requirements on certain categories of non-performing advances and restructured advances. Accordingly, the revised provisioning requirements for the following categories of non-performing advances and restructured advances will be as under: (the current provisioning requirements are laid down in paragraph 5 of the Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Ref DBOD.No.BP.BC.21/21.04.048/2010-11 dated July 01, 2010).

1. Sub-Standard Advances :

Advances classified as **"sub-standard"** will attract a provision of 15 per cent as against the existing 10 per cent. The "unsecured exposures" classified as sub-standard assets will attract an additional provision of 10 per cent, *i.e.,* a total of 25 per cent as against the existing 20 per cent. However, "unsecured exposures" in respect of Infrastructure loan accounts classified as sub-standard, in case of which certain safeguards such as escrow accounts are available as indicated in our circular DBOD.No.BP.BC.96/08.12.014/2009-10 dated April 23, 2010, will attract an additional provision of 5 per cent only i.e. a total of 20 per cent as against the existing 15 per cent.

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2. Doubtful Advances :

Doubtful Advances will continue to attract 100% provision to the extent the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. However, in respect of the secured portion, following provisioning requirements will be applicable:

i. The secured portion of advances which have remained in "doubtful" category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);

ii. The secured portion of advances which have remained in "doubtful" category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent); and

iii. The secured portion of advances which have remained in "doubtful" category for more than 3 years will continue to attract a provision of 100%.

3. Restructured Advances:

i. **Restructured accounts classified as standard advances** will attract a provision of 2 per cent in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2 per cent for the period covering moratorium and two years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances); and

ii. **Restructured accounts classified as non-performing advances**, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).

4. All other instructions on provisioning will remain unchanged. The revised provisioning norms vis-à-vis the existing norms are also summarized in **Annex**.

Yours faithfully

(B. Mahapatra)
Chief General Manager - in – Charge

Encls: As above

Annex

Rates of Provisioning for Non-Performing Assets and Restructured Advances

Category of Advances	**Existing Rate (%)**	**Revised Rate (%)**
Sub- standard Advances • Secured Exposures • Unsecured Exposures • Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.	 10 20 15	 15 25 20
Doubtful Advances – Unsecured Portion	100	100
Doubtful Advances – Secured Portion • For Doubtful upto 1 year • For Doubtful > 1 year and upto 3 years • For Doubtful > 3 years	 20 30 100	 25 40 100
Loss Advances	100	100
Restructured accounts classified as standard advances • in the first two years from the date of restructuring ; and • in cases of moratorium on payment of interest/principal after restructuring – period covering moratorium and two years thereafter.	0.25 to 1.00 (depending upon the category of advance)	2
Restructured accounts earlier classified as NPA and later upgraded to standard category • in the first year from the date of upgradation	0.25 to 1.00 (depending upon the category of advance)	2

Extract from the Monetary Policy Statement 2011-12

Enhancement of Rates of Provisioning for Non-Performing Assets

110. In pursuance of the announcement made in the Second Quarter Review of October 2009, banks were advised in December 2009 to achieve a provisioning coverage ratio (PCR) of 70 per cent for their non-performing advances by end-September 2010. This coverage ratio was intended to achieve a counter-cyclical objective by ensuring that banks build up a good cushion of provisions to protect them from any macroeconomic shock in future. In April 2011, banks were advised to segregate the surplus of provisions under the PCR *vis-a-vis* as required as per prudential norms as on September 30, 2010, into an account styled as "counter-cyclical buffer". While the "counter-cyclical buffer" so created would be available to banks for making specific provisions during economic downturns, there is a need for banks to make higher specific provisions also as part of the prudential provisioning framework. Accordingly, It is proposed to enhance the provisioning requirements on certain categories of non-performing advances and restructured advances as under:

- advances classified as "sub-standard" will attract a provision of 15 per cent as against the existing 10 per cent (the "unsecured exposures" classified as sub-standard assets will attract an additional provision of 10 per cent, *i.e.,* a total of 25 per cent as against the existing 20 per cent);
- the secured portion of advances which have remained in "doubtful" category up to one year will attract a provision of 25 per cent (as against the existing 20 per cent);
- the secured portion of advances which have remained in "doubtful" category for more than one year but upto 3 years will attract a provision of 40 per cent (as against the existing 30 per cent);
- restructured accounts classified as standard advances will attract a provision of 2 per cent in the first 2 years from the date of restructuring, or in cases of moratorium on payment of interest/principal after restructuring, for the period covering moratorium and 2 years thereafter (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances); and
- restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of upgradation (as against existing provision of 0.25-1.00 per cent, depending upon the category of advances).

111. Detailed guidelines in this regard will be issued separately.