

Prudential Norms on Asset Classification

DBOD.No.BP.BC 100/21.01.002/2001-02

May 9, 2002

All Commercial Banks (excluding RRBs)

Dear Sir,

Prudential Norms on Asset Classification

Please refer to paragraphs 129 and 130 in the “Statement on Monetary and Credit Policy for the year 2002-03” enclosed to Governor’s letter No.MPD.BC.214/07.01.279/2001-02 dated April 29, 2002.

2. The Committee on Banking Sector Reforms (Narasimham Committee II) had recommended that an asset should be classified as doubtful, if it is in the sub-standard category for 18 months in the first instance and for 12 months subsequently. Accordingly, in terms of para 5(a) of our circular DBOD.No.BP.BC.103/21.01.002/98, dated October 31, 1998, with effect from March 31, 2001, an asset is required to be treated as doubtful if it has remained in the sub-standard category for 18 months. Consistent with the recommendations of the Committee and with a view to move closer to international best practices in regard to provisioning norms, it has been decided that with effect from March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months. Banks are permitted to phase the consequent additional provisioning over a four-year period, commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year.

3. Please acknowledge receipt.

Yours faithfully,

(M.R. Srinivasan)

Chief General Manager-in-Charge