

**Monetary and Credit Policy 2003-04 –
Provisioning for NPAs**

DBOD. BP. BC. 106/ 21.04.048/2002- 2003

May 7, 2003

All Commercial Banks
(excluding RRBs & LABs)

Dear Sir,

**Monetary and Credit Policy 2003-04 –
Provisioning for NPAs**

Please refer to paragraph 130 of the Statement on "Monetary and Credit Policy for the year 2003-04" enclosed with Governor's letter No. MPD. BC. 230/ 07.01.279/ 2002-03 dated April 29, 2003. Paragraph 5(A)(a) of the Annexure to our circular DBOD No. BP.BC 96/21.04.048/2002-03 dated April 23, 2003 provides guidelines on sale of financial assets to securitisation/reconstruction companies by banks/FIs. If the sale of assets to securitisation/reconstruction companies is at a price below the net book value (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year. It is envisaged that banks would be able to sell their NPAs to securitisation/reconstruction companies at considerable discount. With a view to enabling banks to meet the resultant shortfall, if any, banks are advised to build up provisions significantly above the minimum regulatory requirements for their NPAs, particularly for those assets which they propose to sell to securitisation/reconstruction companies.

Yours faithfully,

(M. R. Srinivasan)
Chief General Manager-in-Charge