RBI/2004/88

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August 3, 2004

The CEOs of the all-India Term Lending and Refinancing Institutions (Exim Bank, IDBI, IDFC Ltd., IFCI Ltd., IIBI Ltd., NABARD, NHB, SIDBI and TFCI Ltd.)

Dear Sir,

# Annual Policy Statement for the year 2004-05: Additional Provisioning Requirement for NPAs

At present, FIs are required to make provisions on NPAs on a graded scale based on the age of the NPA. However, in respect of NPAs included in 'doubtful for more than three years' category, the provisioning requirement on the secured portion remains unchanged at 50 per cent, irrespective of its age, till it is identified as a loss asset. With the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the chances / extent of recovery of an asset reducing over a period of time, it is essential that FIs expedite recovery of NPAs. In this connection, please refer to paragraph 122 of the Annual Policy Statement for the year 2004-2005 announced on May 18, 2004 (copy of the paragraph enclosed).

- 2. Accordingly, it has been decided to introduce for FIs also graded higher provisioning according to the age of NPAs in 'doubtful for more than three years' category, with effect from March 31, 2005\*. Consequently, the increase in provisioning requirement on the secured portion would be applied in a phased manner over a three year period in respect of the existing stock of NPAs classified as 'doubtful for more than three years' as on March 31, 2004\*.
- 3. However, in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004 (July 1, 2004 in case of NHB), the provisioning

requirement would be 100 per cent. Accordingly, the provisioning norm for advances identified as 'doubtful for more than three years' will be as under with effect from March 31, 2005\*:

## (a) Unsecured portion

Portion of the advance, which is <u>not</u> covered by the realisable value of tangible security to which the FI has a valid recourse and the realisable value is estimated on a realistic basis, provision will continue to be to the extent of 100 per cent, as hitherto.

## (b) Secured portion

gra fring

Period for which the advance has remained in 'doubtful' category	Provision requirement on secured portion
More than three years	BANK
(i) outstanding stock of NPAs as on March 31, 2004*	(i) 60 per cent as on March 31, 2005* 75 per cent as on March 31, 2006* 100 per cent as on March 31, 2007*
(ii) advances classified as 'doubtful for more than three years' on or after April 1, 2004 (July 1, 2004 in case of NHB)	(ii) 100 per cent

A few illustrations are furnished in Annex for clarity in this regard.

4. Fls are advised to make suitable provisions during the current year to ensure a smooth transition to the revised norm which becomes effective from March 31, 2005\*.

Yours faithfully,

(S. S. Gangopadhyay) Chief General Manager

Encl: 2

(\* In case of NHB, with effect from June 30 of the respective year/s)



# Extract of Annual Policy Statement for the year 2004-05

## ' Provisioning Requirement for NPAs

122. At present, banks are required to make provisions on NPAs on a graded scale based on the age of the NPA. However, in respect of 'doubtful assets for more than three years', the provisioning requirement on the secured portion remains unchanged at 50 per cent, till it is identified as a loss asset. With the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the chances/extent of recovery of an asset reducing over a period of time, it is essential that banks expedite recovery of NPAs. Accordingly, it is proposed:

• To introduce graded higher provisioning requirement according to the age of NPAs, which are included under 'doubtful for more than three years' category, with effect from March 31, 2005.



Annex

#### Illustrations:

## Existing stock of advances classified as 'doubtful for more than 3 years' as on 31 March 2004

The outstanding amount as on 31 March 2004: Rs 25,000

Realisable value of security: Rs 20,000

Period for which the advance has remained in 'doubtful' category as on 31 March 2004: 4 years (

i.e Doubtful > 3 years)

## Provisioning requirement:

As on	Provisions on secured portion		Provisions on unsecured portion		Total (Rs)
	%	Amt	%	Amt	
31 Mar 2004	50	10000	100	5000	15000
31 Mar 2005	60	12000	100	5000	17000
31 Mar 2006	75	15000	100	5000	20000
31 Mar 2007	100	20000	100	5000	25000

# II . Advances classified as 'doubtful for more than three years' on or after 1 April 2004

The outstanding amount as on 31 March 2004: Rs 25,000

Realisable value of security: Rs 20,000

Period for which the advance has remained in 'doubtful' category as on

31 March 2004: 2.5 years

## Provisioning requirement:

As on	Asset classification	Provisions on secured portion		Provisions on unsecured portion		Total (Rs)
		%	Amt	%	Amt	
31 Mar 2004	Doubtful 1 to 3 years	30	6000	100	5000	11000
31 Mar 2005	Doubtful > 3 years	100	20000	100	5000	25000