

**RBI/2005-06/417**

**UBD(PCB).Cir.No. 57 /09.11.600/05-06**

June 15, 2006

The Chief Executive Officers of  
All Primary (Urban) Co-operative Banks

Dear Sir/Madam,

**Annual Policy Statement for the year 2006-07-Additional Provisioning Requirement for Standard Assets-UCBs**

Please refer to paragraph 185 of the Annual Policy Statement for the year 2006-07 (copy of the paragraph enclosed).

2. The Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) had recommended that, as a prudential measure, a general provision of about one per cent of standard assets of banks would be appropriate and should be implemented in a phased manner. Accordingly, the general provisioning requirement for standard advances, with the exception of banks' direct advances to agricultural and SME sectors, was increased from 0.25 to 0.40 per cent of the funded outstanding on a portfolio basis vide our circular UBD.PCB.Cir.No. 20/09.11.600/05-06 dated November 24, 2005.

3. In order to ensure that asset quality is maintained in the light of high credit growth, it has now been decided to increase the general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from the present level of 0.40 per cent to 1.0 per cent. The higher provisioning norm on standard asset will be applicable to Unit banks and banks having multiple branches within a single district with deposit of Rs 100 crore and above and all other UCBs operating in more than one district.

4. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.

5. Please acknowledge receipt to the Regional Office concerned.

Yours faithfully,

(N.S Vishwanathan)  
Chief General Manager-In-Charge

## **Paragraph 185 of the Annual Policy Statement for the year 2006-07**

### ***(k) Prudential Provisioning Requirements***

**185.** The Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) had recommended that, as a prudential measure, a general provision of about one per cent of standard assets of banks would be appropriate and should be implemented in a phased manner. The Mid-term Review of October 2005 increased the provisioning requirement on standard assets, with the exception of direct advances to agricultural and SME sectors, from 0.25 per cent to 0.40 per cent of the funded outstanding on portfolio basis. To ensure that asset quality is maintained in the light of high credit growth, it is proposed:

- to increase the general provisioning requirement on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans from the present level of 0.40 per cent to 1.0 per cent. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent.