

The CEOs of the All-India term-lending and Refinancing Institutions
(Exim Bank, IFCI Ltd., IIBI Ltd., NABARD, NHB, SIDBI and TFCI Ltd.)

Dear sir,

**Income Recognition, Asset Classification, Provisioning
and other related matters – Government Guaranteed Exposures - for FIs**

Please refer to our circular DBS.FID.No.21/01.10.00/97-98 dated December 4, 1997 addressed to All-India term lending institutions and circular DBS.FID.No.C.25/01.10.00/2000-01 dated June 13, 2001 addressed to refinancing institutions, on the captioned subject.

2. Presently, asset classification and provisioning requirements in respect of State Government guaranteed exposures are linked to invocation of State Government guarantee. The Technical Group on Refinancing Institutions (Muniappan Group), which was constituted by the Reserve Bank of India consequent upon announcement by the Governor in the Annual Policy for the year 2004-05, has recommended to delink the requirement of invocation of State Government guarantee for deciding the asset classification and provisioning requirements. The prudential norms pertaining to State Government Guaranteed exposures have been reviewed and it has been decided to delink the requirement of invocation of guarantee for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposures. With effect from the year ending March 31, 2007 State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the FI remains overdue for more than 90 days. The period of default, in respect of agricultural activity would not be 90 days but it would be related to the agricultural cycle, as specified in our circular DBOD No.BP.BC.102/21.04.048/2003-04 dated June 24, 2004 addressed to scheduled commercial banks.

3. The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Central Government guaranteed advances as NPA is not for the purpose of recognition of income. This existing norm would continue.

4. Please acknowledge receipt.

Yours faithfully,

(P.Vijaya Bhaskar)
Chief General Manager