

January 31, 2007

All Scheduled Commercial Banks
(Excluding RRBs)

Dear Sir,

**Third Quarter Review of the Annual Statement on
Monetary Policy for the year 2006-07- Provisioning
Requirement for Standard Assets and Risk Weights for
Capital Adequacy**

Please refer to paragraph 84 of the Third Quarter Review of the Annual Statement on Monetary Policy for the year 2006-07 issued on January 31, 2007 (copy of the paragraph enclosed).

Standard Asset Provisions

2. In order to ensure that asset quality is maintained in the light of high credit growth, the general provisioning requirement on standard advances in certain specific sectors viz. personal loans, loans and advances qualifying as capital market exposure, residential housing loans beyond Rs.20 lakh and commercial real estate loans was raised from 0.40 per cent to 1.0 per cent in May 2006. The continued high credit growth in the real estate sector, personal loans, credit card receivables, and loans and advances qualifying as capital market exposure and a higher default rate in regard to personal loans and credit card receivables, as revealed in the data, is a matter of concern. It has, therefore, been decided to increase the provisioning requirement in respect of the standard assets in the following categories of loans and advances from the present level of one per cent to two per cent with immediate effect:

- a) Personal loans (including credit card receivables);
- b) Loans and advances qualifying as capital market exposure; and
- c) Real estate loans (excluding residential housing loans).

3. It has also been decided to increase the provisioning requirement for loans and advances in the standard assets category to Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFC – ND – SI) from 0.40 per cent at present to two per cent with immediate effect. In terms of paragraph 16(A)(i) of our circular DNBS.PD/ CC.No.86/ 03.02.089/ 2006-07 dated December 12, 2006, a Non-Deposit Taking NBFC with an asset size of Rs.100 crore or more as per the last audited balance sheet is considered as a NBFC – ND – SI.

4. In order to ensure continued and adequate availability of credit to highly productive sectors of the economy, the provisioning requirement for all other loans and advances, which are standard assets, including those to agriculture, SMEs, industry in general, and Asset Finance Companies, shall remain unchanged. The standard asset provisioning requirements for all categories, after the above changes, are summarised below. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.

Sr. No.	Category of standard asset	Rate of provisioning
a	Direct advances to agricultural and SME sectors	0.25 %
b	Residential housing loans beyond Rs. 20 lakh	1.00 %
c	Personal loans (including credit card receivables), Loans and advances qualifying as capital market exposures, Commercial real estate loans, and Loans and advances to Systemically Important NBFCs – ND	2.00 %
d	All other loans and advances not included in a, b and c above	0.40%

Risk weights

5. It has also been decided to increase the risk weights for all exposures to NBFC – ND – SI to 125% from the present level of 100% with immediate effect. The risk weights for all other categories of exposures, including Asset Finance Companies, remain unchanged.

6. Please acknowledge receipt.

Yours faithfully,

(Prashant Saran)
Chief General Manager-In-Charge

**Paragraph 84 of the Third Quarter Review of Annual
Statement on Monetary Policy for the year 2006-07**

The continued high credit growth in the real estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans is a matter of concern. Furthermore, the data reveal higher default rates in regard to credit card receivables and personal loans. It has, therefore, become imperative to increase the provisioning requirement in respect of the standard assets in the aforesaid four categories of loans and advances (excluding residential housing loans) to two per cent from the existing level of one per cent. The provisioning requirement in respect of residential housing loans will remain unchanged at 0.4 per cent for loans up to Rs.20 lakh and at one per cent for loans in excess of Rs.20 lakh. It has also been decided to increase the provisioning requirement for banks' exposures in the standard assets category to the non-deposit taking systemically important non-banking financial companies (NBFCs) to two per cent from the existing level of 0.4 per cent and to increase the risk weight for banks' exposure to such NBFCs to 125 per cent from the existing level of 100 per cent. Provisioning requirements and risk weights for banks' exposures to asset finance companies will remain unchanged. In order to ensure continued and adequate availability of credit to highly productive sectors of the economy, the risk weights for all other categories of exposures also remain unchanged. Similarly, the provisioning requirements in regard to agricultural loans, loans to SMEs and loans to industry, in general, remain unchanged.