RBI.No.2008-09/282
DBOD.BP.BC. 83 / 21.01.002/2008-09

November 15, 2008

All Commercial Banks
(excluding RRBs and LABs)

Dear Sirs,

Review of Prudential Norms – Provisioning for Standard Assets and Risk Weights for Exposures to Corporates, Commercial Real Estate and NBFC- ND-SI

Please refer to paragraph 5.5 of our Master Circular DBOD.No.BP.BC.20/21.04.048/2008-09 dated July 1, 2008 on IRAC Norms indicating the extant general provisioning requirements in respect of various types of standard assets and also paragraph 5.8.1, 5.11.2 and 5.13.5 of our Master Circular DBOD.No.BP.BC.11 / 21.06.001 / 2008-09 dated July 1, 2008 on New Capital Adequacy Framework indicating the risk weights in respect of the claims on corporates, claims secured by the commercial real estate and claims on Non-deposit taking systemically important non-banking financial companies (NBFC-ND-SI), other than asset finance companies (AFCs), respectively.

2. The aforesaid prudential requirements were prescribed in view of the continued high credit growth observed in specific sectors. On a review, it has now been decided, as a countercyclical measure, to effect the following changes in the aforesaid prudential norms, with immediate effect:

a) Provisioning Norms: The provisioning requirements for all types of standard assets stand reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto.

The revised norms would be effective prospectively but the provisions held at present should not be reversed. However, in future, if by applying the revised provisioning norms, any provisions are required over and above the level of provisions currently held for the standard category assets, these should be duly provided for.

b) Risk weights: The risk weights for the banks' claims on corporates, those secured by commercial real estate and the claims on the NBFC-ND-SI stand revised as follows:

(i) Claims on corporates: All unrated claims, long term as well as short term, regardless of the amount of claim, on the corporates shall attract a uniform risk weight of 100 per cent.

(ii) Claims secured by commercial real estate: Such claims would attract a risk weight of 100 per cent as against the extant risk weight of 150 per cent.

(iii) Claims on NBFC-ND-SI: The claims on the rated as well as unrated NBFC-NDSI (other than AFCs), regardless of the amount of claim, shall be uniformly risk weighted at 100 per cent.

As regards the claims on AFCs, there is no change in the risk weights, which would continue to be governed by the credit rating of the AFC, except the claims that attract a risk weight of 150 per cent under the New Capital adequacy Framework, which shall be reduced to a level of 100 per cent.

3. The aforesaid modifications would also apply to banks under the Basel I framework.

Yours faithfully,

(Vinay Baijal)
Chief General Manager