भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

RBI/2009-10/256
UBD.BPD(PCB).Cir.No. 30/09.14.000/2008-09 December 16, 2009

The Chief Executive Officer of
All Primary (Urban) Cooperative Banks

Dear Sir / Madam,

Prudential Treatment of Different Types of Provisions in respect of Loan Portfolios

Please refer to our circular UBD.PCB.Cir.No. 73 / 09.14.000 / 2008-09 dated June 29, 2009 prescribing guidelines in regard to the prudential treatment of different types of provisions in respect of loan portfolios. It is further clarified as under:

(i) **Additional Provisions for NPAs at higher than prescribed rates**

As per the extant instructions, provisions made for NPAs as per prudential norms are deducted from the amount of Gross NPAs to arrive at the amount of Net NPAs. In cases where banks make specific provision for NPAs in excess of what is prescribed under the prudential norms, the total specific provision may be deducted from the amount of Gross NPAs while reporting the amount of Net NPAs. The additional specific provision made by the bank will not be reckoned as Tier II capital.

(ii) **Excess Provisions on sale of NPAs**

In case of sale of NPAs, if the sale proceeds exceed the book value of asset, net of provisions held, the excess amount of provision should not be written back to Profit and Loss account. For example, for an NPA of Rs. 1,00,000, the bank holds provision of Rs 50,000 (i.e., 50%). If the asset is sold for Rs 70,000, there will be a loss of Rs 30,000, which will be adjusted against the provision of Rs 50,000 leaving an excess provision of Rs 20,000 on account of the sale of the NPA. Such excess provisions should continue to be shown under ‘provisions’ and would be considered as Tier II capital subject to the overall ceiling of 1.25% of risk weighed assets.

(iii) **Provisions for diminution of fair value**

In terms of paragraph 5.1 of circular UBD.PCB.BPD.No. 53 dated March 6, 2009, banks were advised that they should hold provisions for restructured advances as per the extant provisioning norms. In addition to such provisions, banks were advised to make provisions to cover the economic loss to the bank due to reduction in the rate of interest or reschedulement of repayment of principal amount of loan restructured. Such additional provisions made for diminution in the fair value of restructured advances, both in respect of standard assets and NPAs, are permitted to be netted from the relative loan asset.

Yours faithfully

(A.K. Khound)
Chief General Manager-in-Charge

Urban Banks Department, Central Office, Garment House, 1 Floor, Dr.A.B.Road, Worli, Mumbai - 400018, India
Phone: 022 - 2493 9930 - 49; Fax: 022 - 2497 4030 / 2492 0231; Email: rbiubdco@rbi.org.in