

Prudential Norms On Income Recognition, Asset Classification And Provisioning On Advances

Prudential norms on income recognition, asset classification and provisioning (IRAC norms) pertaining to advances portfolios of banks were introduced for the first time by Reserve Bank of India during financial year 1992-93 i.e. year ended 31st March 1993 in line with the international practices.

and does not carry more than normal risk attached to the business.

Non-Performing Asset (NPA): An asset becomes NPA when it ceases to generate income for the bank. This would mean that interest, which is debited to borrower's account, has to be realised by the bank. An account has to be

One will have to determine the due date of interest and instalment. If either interest or instalment is overdue for more than 90 days then the account would become NPA. Interest or instalment, which is due as on 30th December, would be overdue for more than 90 days as on 31st March 2006 and the account would become NPA. However, if the same was due on 31st December 2005, then the account would not become NPA as on 31st March 2006.

Overdraft/Cash Credit: If an account remains out of order, it would become NPA. For this purpose an account would be treated as 'out of order' if:

- i) The outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days or more, or
- ii) Even if the outstanding in the account is less than the sanctioned limit/drawing power, there are no credits in the account continuously for 90 days as on the date of the Balance sheet, or
- iii) Credits in the account are not sufficient to cover interest debited during the same period.

Thus, as on 31st March 2006, if any of the above criteria is satisfied, the account would be classified as NPA. There may be a situation where say for example drawing power of an account is Rs.10 lacs, balance is Rs.8 lacs and there are no credits in the account for 90 days. Such account would be classified as NPA.

For bank branch audits the auditors have to keep themselves abreast of the applicable IRAC norms incorporated in the RBI's Master Circular dated 1st July 2005. On the basis of the guidelines provided in this circular which are relevant for audit of F.Y.2005-06, auditor will be required to take the audit steps like Asset Classification, Income Recognition, Provisioning Norms, Restructuring of loans/CDR/Project under implementation, Agricultural advances, Classification of NPA borrower-wise and not facility-wise, Upgradation of Account From NPA to Standard and Regularisation of account at near about balance sheet date. This article discusses salient features and some of the practical aspects of prudential norms pertaining to advances of banks.

The prudential norms are formulated on the basis of objective criteria rather than on any subjective consideration. This has brought in uniform and consistent application of the norms and greater transparency in published accounts of banks.

Reserve Bank of India has been issuing Master Circulars on prudential norms for past few years. Last Master circular on prudential norms pertaining to advances was issued by Reserve Bank of India on 1st July 2005.

Asset Type

Standard Asset: The account is not non-performing

classified as NPA on the basis of record of recovery rather than security charged in favour of the bank in respect of such account. Thus, an account of a borrower may become NPA if interest charged to that particular borrower is not realised despite the account being fully secured.

Identification Of Account As NPA

RBI has laid down various criteria for classification of various types of advances as NPA which are as under:

Term Loan: Interest and /or instalment of principal remain overdue for a period of more than 90 days.

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Bills Purchased/Discounted:

If the bills purchased or discounted remains overdue for a period of more than 90 days from its due date.

Agricultural Advances: a loan granted for

- i) Short duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons.
- ii) Long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for one crop season.

For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops would be treated as "short duration" crops.

Thus an auditor will have to verify the nature/duration of crop circle and accordingly verify whether an agricultural account is NPA as on 31st March 2006.

Other Credit Facility: In case of any other credit facility, if the amount to be received remains overdue for more than 90 days, then the account will be classified as NPA.

Accounts with temporary deficiencies:

Even though criteria laid down for identification of an account as NPA are objective, an account should not be classified as NPA, if the deficiencies like non-submission of stock statement and, non-renewal of facility in the account are temporary in nature. RBI guidelines in this regard as under.

- a) Drawing power is required to be arrived at based on the stock statement, which is current. However, considering the difficulties of large borrowers, stock statements

relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular. A working capital borrowal account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.

Thus, if a borrower is allowed drawing on the basis of stock statement of September'05, the account will be classified as NPA as on 31st March 2006.

- b) Regular and adhoc credit limits need to be reviewed/regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ adhoc credit limits have not been reviewed/renewed within 180 days from the due date/date of ad hoc sanction will be treated as NPA.

Income Recognition

- i) Income from NPA is not recognised on ac-

crual basis but is booked as income only when it is actually received. Therefore interest on any NPA should not be recognized unless realized.

However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

For example: A borrower has taken loan of Rs.1 lac against term deposit of Rs.1.25 lacs. Balance in the account as on 31st March'06 is Rs.1.10 lacs. Even though account is over drawn, income would be recognized since value of deposit is more than the balance outstanding.

- ii) Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit.
- iii) If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

Reversal of income

- i) If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realized during the year under audit. This will apply to Government guaranteed accounts also.

- ii) In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.
- iii) The finance charge component of finance income [as defined in 'AS 19 – Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became non-performing and remain unrealised, should be reversed or provided for in the current accounting period.

Appropriation of recovery in NPAs

- i) Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/additional credit facilities sanctioned to the borrower concerned.
- ii) In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner. Thus, as per the consistent policy of the bank recovery may be appropriated towards interest or principal.
- iii) As per income recognition norms, bank cannot recognise income unless realised. However, bank can debit interest to NPA account provided it is credited to interest suspense account.

Asset Classification

Having identified assets as NPA, banks are required to classify them further into —

- a) Sub-standard Assets
 - b) Doubtful Assets
 - c) Loss Assets
- i) *Sub-standard Assets:*
A sub-standard asset is one, which has remained NPA for a period of less than or equal to 12 months.
 - ii) *Doubtful Assets:*
An asset is classified as doubtful if it has remained in the sub-standard category for a period of 12 months.
 - iii) *Loss Assets:*
A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Exceptions:

In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers, it will not be prudent that such accounts should go through various stages of asset classification. In cases of such serious credit impairment the asset should be straightaway classified as doubtful or loss asset as appropriate.

- i) Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed

by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category and provisioning should be made as applicable to doubtful assets.

- ii) If the realisable value of the security, as assessed by the bank/approved valuers/RBI is less than 10 per cent of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset. It may be either written off or fully provided for by the bank.

A loss asset is one where loss has been identified by the bank or internal auditors or the RBI inspection but the amount has not been written off wholly.

Asset Classification– Some Clarifications:

(i) Asset Classification to be borrower-wise and not facility-wise

All the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular.

(ii) Advances under consortium arrangements

Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. If the banks participating in the consortium

are able to arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, they may be able to make proper classification in their books.

(iii) Advances to PACS/FSS ceded to Commercial Banks

In respect of agricultural advances as well as advances for other purposes granted by banks to ceded PACS (Primary agricultural credit society)/ FSS (Farmers Service Society) under the on-lending system, only that particular credit facility granted to PACS/FSS which is in default will be classified as NPA and not all the credit facilities sanctioned to a PACS/ FSS. The other direct loans & advances, if any, granted by the bank to the member borrower of a PACS/ FSS outside the on-lending arrangement will become NPA even if one of the credit facilities granted to the same borrower becomes NPA.

(iv) Advances against Term Deposits, NSCs, KVP/IVP, etc

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

(v) Loans with moratorium for payment of interest

(a) In cases where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA with reference to the date of debit of interest. They become overdue after due date for payment of interest if uncollected.

If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts.

(b) In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.

(vi) Government guaranteed advances

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 Government guaranteed advances as NPA is not for the purpose of recognition of income.

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 bank remains overdue for more than 90 days.

(vii) Upgradation of loan accounts classified as NPAs

If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts.

(viii) Accounts regularised near about the balance sheet date

The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be carefully checked and without scope for subjectivity. Where the account indicates inherent weakness on the basis of

the data available, the account should be deemed as a NPA. In other genuine cases, the auditors must obtain satisfactory evidence about the manner of regularisation of the account to eliminate doubts on their performing status.

Restructuring/rescheduling Of Loans

i) The restructuring/rescheduling/renegotiation of the terms of loan agreement could take place:

- a) before commencement of commercial production;
- b) after commencement of commercial production but before the asset has been classified as sub standard,
- c) after commencement of commercial production and after the asset has been classified as sub standard.

ii) Treatment of Restructured Standard Accounts

- a) A standard asset (first two categories) whose instalments are being restructured need not be classified as sub standard provided the loan/credit facility is fully secured (security would also include collateral security provided it is tangible and charged to the bank)
- b) A standard asset (first two categories) whose interest is being restructured would not cause it to be downgraded to sub standard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved. For the purpose, the future interest due as per the original loan agreement in respect of an account should be discounted to the present value at a rate appropriate to the risk

category of the borrower (i.e., current PLR+ the appropriate credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.

- c) In case there is a sacrifice involved in the amount of interest in present value terms, as at (b) above, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved.

Example: A term loan which was originally sanctioned at the rate of interest of 13% and repayable by 2010 is rescheduled and the revised rate of interest is 10% and is repayable by 2015. To determine interest sacrifice, bank will calculate the interest, which it would have earned as per original terms. It will also calculate interest, which it will earn as per revised terms. Suppose present value of interest, which the bank would have earned, comes to Rs. 5 lacs and which it would earn comes to Rs.3.5 lacs. Thus interest sacrifice of Rs.1.5 lacs will have to be provided or written off by the Bank.

iii) Treatment of restructured sub-standard accounts

- a) A sub-standard asset whose instalments are being rescheduled can be continued in the sub-standard category for the specified period, provided the loan/credit facility is fully secured.
- b) A sub-standard asset can continue to be classified as such provided interest sacrifice as explained in para (ii) (b) and (c) above is worked out and either provided for or written off.

(iv) Upgradation of restructured accounts:

The sub-standard accounts, which have been subjected to

restructuring etc., whether in respect of principal installment or interest amount, by whatever modality, would be eligible to be upgraded to the standard category only after the specified period i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due, subject to satisfactory performance during the period. The amount of provision made earlier, net of the amount provided for the sacrifice in the interest amount in present value terms as aforesaid, could also be reversed after the one year period. During this one-year period, the sub-standard asset will not deteriorate in its classification if satisfactory performance of the account is demonstrated during the period. In case, however, the satisfactory performance during the one-year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

(v) Other related issues/clarifications:

- (a) The above guidelines would be applicable to all type of credit facilities including working capital limits, extended to industrial units, provided they are fully covered by tangible securities.

However these guidelines should not be applied to credit facilities extended to traders.

This does not necessarily mean that banks cannot restructure the accounts other than that of industrial units. They can restructure such account provided they are viable. However, these accounts would not qualify for the special asset classification status available to restructured 'standard' and

restructured 'substandard' accounts as discussed in para 6 (ii) and (iii) above. Such accounts will be subjected to the prudential norms in the normal course. Moreover, interest sacrifice as explained above will have to be provided or written off.

- (b) Banks cannot reschedule/restructure/renegotiate borrower accounts with retrospective effect. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring/rescheduling/renegotiation.

Banks cannot repeatedly restructure/reschedule the amounts (ever greening) due to them unless there are very strong and valid reasons which warrant such repeated restructuring/rescheduling.

- (c) It has to be borne in mind that income recognition in respect of rescheduled/restructured account also should be strictly on cash basis on realization. If, however, funding of interest in respect of NPAs, if recognised as income, should be fully provided for.

- (d) At times, as per the terms of restructuring, the amount outstanding is converted into other instruments like equity, debentures or any other instrument. If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision should be made for the amount of income so recognised to offset the effect of such income rec-

It has to be borne in mind that income recognition in respect of rescheduled/restructured account also should be strictly on cash basis on realisation.

ognition. However, if the conversion of interest is into equity, which is quoted, interest income can be recognised at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity. The income in respect of unrealised interest, which is converted into debentures or any other fixed maturity instrument, should be recognised only on redemption of such instrument.

- (e) The provision made in a restructured/rescheduled account towards interest sacrifice, may be reversed on satisfactory completion of all repayment obligations and the outstanding in the account is fully repaid. It has to be noted that banks are not required to re-compute the extent of sacrifice each year and make adjustments in the provisions made towards interest sacrifice.

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Corporate Debt Restructuring (CDR)

- i) The objective of the CDR framework is to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. In particular, the framework will aim at preserving viable corporates that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.
- ii) a) The CDR mechanism will cover only multiple

banking accounts/syndication/consortium accounts with outstanding exposure of Rs.20 crore and above by banks and institutions.

b) The Category 1 CDR system will be applicable only to accounts classified as 'standard' and 'sub-standard'. There may be a situation where a small portion of debt by a bank might be classified as doubtful. In that situation, if the account has been classified as 'standard'/'substandard' in the books of at least 90% of lenders (by value), the same would be treated as standard/substandard, only for the purpose of judging the account as eligible for CDR, in the books of the remaining 10% of lenders.

c) In no case, the requests of any corporate indulging in willful default, fraud or misfeasance, even in a single bank, will be considered for restructuring under CDR system.

d) The accounts where recovery suits have been filed by the lenders against the company, may be eligible for consideration under the CDR system provided, the initiative to resolve the case under the CDR system is taken by at least 75% of the lenders (by value). However, for restructuring of such accounts under the CDR system, it should be ensured that the account meets the basic criteria for becoming eligible under the CDR mechanism.

e) BIFR cases are not eligible for restructuring under the CDR system. However, large value BIFR cases may be

eligible for restructuring under the CDR system if specifically recommended by the CDR Core Group. The Core Group shall recommend exceptional BIFR cases on a case-to-case basis for consideration under the CDR system. It should be ensured that the lending institutions complete all the formalities in seeking the approval from BIFR before implementing the package.

iii) Category 2 CDR System

There have been instances where the projects have been found to be viable by the lenders but the accounts could not be taken up for restructuring under the CDR system as they fell under 'doubtful' category. Hence, a second category of CDR is introduced for cases where the accounts have been classified as 'doubtful' in the books of lenders, and if a minimum of 75% (by value) of the lenders satisfy themselves of the viability of the account and consent for such restructuring.

iv) Accounting treatment for restructured accounts

Restructuring of corporate debts under CDR system could take place in the following stages:

- a. before commencement of commercial production;
- b. after commencement of commercial production but before the asset has been classified as 'sub-standard';
- c. after commencement of commercial production and the asset has been classified as 'sub-standard' or 'doubtful'.

Detailed guidelines regarding prudential norms in respect of rescheduled/restructured accounts have been given earlier in this article. The same norms would apply to accounts restructured under CDR system. (Reader may refer Master cir-

cular dt.1st July'05 of RBI for detailed guidelines and clarification in this regard.)

Projects Under Implementation:

i) The projects under implementation for the purpose of determining the date when the project ought to be completed and the asset classification norms in respect thereof are as under:

Category I: Projects where financial closure had been achieved and formally documented.

In such cases the date of completion of the project should be as envisaged at the time of original financial closure. In all such cases, the asset may be treated as standard asset for a period not exceeding two years beyond the date of completion of the project, as originally envisaged at the time of initial financial closure of the project

Category II: Projects sanctioned before 1997 with original project cost of Rs.100 crore or more where financial closure was not formally documented.

An expert group constituted by the term lending institutions based on all material and relevant facts and circumstances, has decided the deemed date of completion of the project, on a project-by-project basis. In such cases, the asset may be treated as standard asset for a period not exceeding two years beyond the deemed date of completion of the project, as decided by the Group.

Category III: Projects sanctioned before 1997 with original project cost of less than Rs.100 crore where financial closure was not formally documented.

The asset may be treated as standard asset only for a period not exceeding two years beyond the date of completion of the project as originally envisaged at the time of sanction

In all the three foregoing categories, in case of time overruns beyond the aforesaid period of two years, the asset should be classified as sub-standard regardless of the record of recovery and provided for accordingly.

(ii) Income recognition

- (a) Banks may recognise income on accrual basis in respect of the above three categories of projects under implementation, which are classified as 'standard'.
- (b) If asset under above category is classified as 'sub-standard' income should be recognised on realisation on cash basis.
- (c) Income which is wrongly recognised should be reversed if it was recognised as income during the current year or provision should be made for an equivalent amount if it was recognised as income in the previous year(s).
- (d) As regards the treatment of 'funded interest' recognised as income and 'conversion into equity, debentures or any other instrument' guidelines as given earlier in this article. (Reader may refer Master circular dt.1st July'05 of RBI for detailed guidelines and clarification in this regard.) Underlying principle, however is that any funding of interest in respect of NPAs, if recognised as income, should be fully, provided for

Provisioning Norms:

(i) Sub-standard assets

A general provision of 10 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

At times bank give loans, which are unsecured ab-initio. i.e. the loan is sanctioned

without any security. If such account becomes NPA and is classified as substandard then provision of 20% would be made.

Banks are permitted to phase the additional provisioning consequent upon the reduction in the transition period from substandard to doubtful asset from 18 to 12 months over a four year period commencing from the year ending March 31, 2005, with a minimum of 20 % each year.

EXAMPLE: An asset became NPA for the first time on 31st March 2004. Balance outstanding in the account is Rs.25 lacs. Account is classified as sub standard and therefore provision of Rs.2.5 lacs is made as on 31st March 2004. As per the old norms, the asset would have remained in the category of sub-standard as on 31st March 2005. However due to reduction in period from 12 months to 18 months, the asset got migrated to doubtful Category as on 31st March 2005 and, therefore, bank will have to make provision of Rs.5 lacs i.e.20% of Rs.25 lacs. Thus, additional provision of Rs.2.5 lacs. This additional provision of Rs.2.5 lacs can be spread over a period of four years with minimum provision of Rs.50,000/- each year.

(ii) Doubtful assets

- a) 100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.
- b) In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 20 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to one year	20
One to three years	30
More than three years i) Outstanding stock of NPAs as on March 31, 2004. ii) advances classified as 'doubtful more than three years' on or after April 1, 2004	§ 60 per cent with effect from March 31, 2005 § 75 per cent with effect from March 31, 2006 § 100 per cent with effect from March 31, 2007 100 per cent with effect from March 31, 2005

As per the provisioning norms applicable to year ended 31st March 2004, for asset, which were doubtful for more than three years (doubtful 3), 50% provision was required to make secured portion. However, any asset, which gets migrated to doubtful 3 category, 100 % provision is required to be made on the entire balance i.e. secured portion also. However, assets which were already in the Doubtful 3 category, provision as indicated above will be required to be made.

(iii) Loss assets

Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

Valuation of Security for provisioning purposes

With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of Rs. 5 crore and above stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board of the bank would be mandatory in order to enhance the reliability on stock valuation. Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

(iv) Standard assets

A general provision of a minimum of 0.40 percent on standard assets on global loan portfolio basis.

(v) Provisions under Special Circumstances:

- a. In respect of additional credit facilities granted to SSI units, which are identified as sick and where rehabilitation packages/nursing programmes have been drawn by the banks themselves or under consortium arrangements, no provision need be made for a period of one year.
- b. Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs, and life policies would attract provisioning requirements as applicable to their asset classification status.
- c. Advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.
- d. Advances covered by ECGC/CGTSI — In the case of advances classified as doubtful and guaranteed by ECGC/CGTSI, provision is required to be made only for the balance in excess of the amount guaranteed by the Corporation. Further, while arriving at the provision required

Advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.

to be made for doubtful assets, realisable value of the securities should first be deducted from the outstanding balance in respect of the amount guaranteed by the Corporation and then provision should be made.

- e. Provisioning norms for sale of financial assets to Securitisation Company (SC) / Reconstruction company (RC) –
 - i) If the sale of financial assets to SC/RC, is at a price below the net book value (NBV) (i.e. book value less provisions held), the shortfall should be debited to the profit and loss account of that year.
 - ii) If the sale is for a value higher than the NBV, the excess provision will not be reversed but will be utilized to meet the shortfall/loss on account of sale of other financial assets to SC/RC.

Natural Calamities

Our country is plagued by frequent occurrences of natural calamities like floods, cyclones, draughts etc. This causes lot of economic damage to our country and, therefore, needs massive rehabilitation efforts by all agencies including banks. RBI has issued Master Circular dated 1st July 2005 for relief measures by banks in areas affected by natural calamities. RBI has given detailed guidelines in this circular about restructuring of loans and fresh loans in respect of agricultural loans, crop loans, irrigation loans, poultry, fisheries, artisans, self-employed etc. □