भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI 2009-10/241

DBOD.No.BP.BC. 64 /21.04.048/2009-10 December 1, 2009

The Chairman and Managing Director / Chief Executive Officer
All Scheduled Commercial Banks

(Excluding RRBs)

Dear Sir,

Second Quarter Review of Monetary Policy for the
Year 2009-10 –Provisioning Coverage for Advances

Please refer to paragraph 159 of the Second Quarter Review of the Monetary Policy for the year 2009-10 issued on October 27, 2009 (copy of the paragraph enclosed).

2. At present, the provisioning requirements for NPAs range between 10 per cent and 100 per cent of the outstanding amount, depending on the age of the NPAs and the security available. Banks can also make additional specific provisions subject to a consistent policy based on riskiness of their credit portfolios, because the rates of provisioning stipulated for NPAs are the regulatory minimum. It has been observed that there is a wide heterogeneity and variance in the level of provisioning coverage ratio across different banks.

3. As you are aware currently there is a realisation from a macro-prudential perspective that banks should build up provisioning and capital buffers in good times i.e. when the profits are good, which can be used for absorbing losses in a downturn. With this in view, there is a need for improving the provisioning cover as the banking system is currently making good profits. This will enhance the soundness of individual banks, as also the stability of the financial sector. It has therefore been

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decided that banks should augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70 per cent.

4. Provisioning Coverage Ratio (PCR) is essentially the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses. Banks are advised to compute the PCR as per the annexed format.

5. Banks should achieve this norm not later than end-September 2010. Also, the PCR should be disclosed in the Notes to Accounts to the Balance Sheet.

Yours faithfully

(B. Mahapatra)
Chief General Manager

Paragraph 159 of the Second Quarter Review of the Monetary Policy for the year 2009-10

At present, the provisioning requirements for NPAs range between 10 per cent and 100 per cent of the outstanding amount, depending on the age of the NPAs, the security available and the internal policy of the bank. Since the rates of provisioning stipulated by the Reserve Bank for NPAs are the minimum and banks can make additional provisions subject to a consistent policy based on riskiness of their credit portfolios, it has been observed that there is a wide heterogeneity and variance in the level of provisioning coverage ratio across different banks. With a view to improving the provisioning cover and enhancing the soundness of individual banks, it is proposed to advise banks to augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70 per cent. Banks should achieve this norm not later than end-September 2010.

Annex

Format for computing Provisioning Coverage Ratio (PCR)

Rs. in Crores

1	2	3	4	5
		Gross NPA@ plus technical / prudential write-off *	Specific Provisions held including provisions for diminution in fair value of the restructured accounts classified as NPAs plus technical / prudential write-off *	Ratio of (4) to (3)
1.	Sub-Standard Advances			
2.	Doubtful Advances (a+b+c)			
A	< 1 year			
B	1-3 Years			
C	>3 years			
3.	Advances classified as Loss Assets			
4.	**Total**			
5.	Floating Provisions for Advances (only to the extent they are not used as Tier II Capital)			
6.	DICGC / ECGC claims received and held pending adjustment			
7.	Part payment received and kept in Suspense Account or any other similar account			
8.	**Total** (Sum of column 4 of Row 4+ Row 5 + Row 6+ Row 7)			
9.	**Provision Coverage Ratio** {(8/Total of Column 3 of Row 4)*100}			

@ Gross NPAs to be computed in terms of the circular DBOD.BP.BC. 46/21.04.048/2009- 10 dated September 24, 2009

* Technical or prudential write-off is the amount of non-performing loans which are outstanding in the books of the branches, but have been written-off (fully or partially) at Head Office level. Amount of Technical write-off should be certified by statutory auditors.