

Guidelines on Asset Classification and NPA Provision for financial year ending 31st March 2011

Guidelines on Asset Classification

All accounts need to be classified into four categories taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation of the dues as given under :-

1. Standard Assets

Standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to the business. **Such an asset is not an NPA.** However, Central Govt. Guaranteed advances, although categorized as NPA for the purpose of Income Recognition, are to be treated as **Standard Assets (Govt Guaranteed)** unless Govt repudiates its guarantee when invoked.

With effect from the year ending 31.3.2006 State Govt. guaranteed advances shall be classified as sub standard or doubtful or loss, after interest / principal / any other amount due to the bank remains overdue for more than 90 days.

Further, advances against term deposits, NSCs eligible for surrender, Indira Vikas Patra, Kisan Vikas Patras and Life Insurance Policies, are to be classified as Standard assets provided adequate margin is available.

Re-structuring/rescheduling (installment and /or interest)/re-negotiation of the terms of loan agreement (a) before commencement of commercial production & (b) after commencement of commercial production but before the asset has been classified as sub-standard, would not cause a standard asset to be classified in the sub-standard category provided the loan/credit facility is fully secured.

2. Sub-standard Assets

With effect from 31st March, 2005 a sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months.

In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the bank in full. In other words, such an asset will have well defined credit weaknesses that jeopardize liquidation of the debt and are characterised by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

In the context of rescheduling of instalments of principal alone or interest element, after commencement of commercial production and classifying the asset as sub-standard, the account will be eligible to be continued in sub-standard category for the specified period, provided the loan/credit facility is fully secured. Such restructured accounts

(whether principal or interest), would be eligible to be upgraded to the standard category only after the specified period i.e. 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.

3. Doubtful Assets

With effect from 31st March, 2005 an asset is classified as doubtful if it remained in the sub-standard category for 12 months.

A loan classified as doubtful has all the weaknesses inherent in that classified as sub-standard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

4. Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI Inspectors but the amount has not been written off, wholly or partly. If the realisable value of the security as assessed by the bank / approved valuer / RBI is less than 10% of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset. The unsecured exposure identified as sub-standard, as mentioned at Item 3.3 Sub-standard under 3 – Guidelines on Provisioning is the only exception.

Guidelines on Provisioning:

Detailed instructions relating to provisioning requirement for different categories of assets are given as under:

1. Loss Assets

In case of Loss Assets 100% of the outstanding should be provided for regardless of security.

2. Doubtful Assets

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.

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	100

3 . Sub-standard

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

1. Standard Assets (to be made at HO).

In standard assets, provisioning requirements [w.e.f.05.11.09], (category-wise) are summarized below:

S. No.	Category of standard asset	Rate of Provisioning
(a)	Direct Advances to agricultural and SME Sectors	0.25%
(b)	Commercial Real Estate Sector	1.00%
(c)	All other loans and advances not included in (a) and (b) above	0.40%
Note: Revised norms would be effective prospectively but provision held at present should not be reversed. However, in future, if by applying revised provisioning norms, any provision is required over and above the level of provisions currently held for the standard category assets, these should be duly provided for.		

5. Advances covered by ECGC/ DICGC guarantee

In the case of advances guaranteed by DICGC/ECGC, provision should be made only for the balance in excess of the amount guaranteed by these Corporations. Further, while arriving at the provision required 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 these Corporations and then provision should be made

6. Advance covered by CGTSI guarantee

In case the advance covered by CGTSI guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances.

Post-shipment supplier's credit to the extent payment has been received from Exim Bank under the guarantee cum refinance programme is exempted from provisioning requirement