

NON-PERFORMING ASSETS OF BANKS : A STRATEGIC APPRAISAL

K. Satyanarayana*

This paper examines critically the position of non-performing assets (NPAs) of the Indian banking system in the context of the ongoing debate as to whether India should adopt capital account convertibility. The author substantiates the point that instead of merely making unilateral prescription about the level of NPAs to be 5 per cent, and expecting the banks to deliver on their own accord, the Reserve Bank of India and the government should take steps to provide them with a conducive infrastructure such as a speedy judicial process and an effective law enforcing mechanism with exemplary deterrents for wilful defaulters. This may necessitate postponing CAC beyond 2000 AD.

INTRODUCTION

Ever since the banking sector reforms are ushered in by the Reserve Bank of India (RBI) and the government, asset-liability management, non-performing loans and profitability aspects have taken the centre stage of attention of the bankers. During the post-reform period banks are following the internationally accepted prudential accounting norms with regard to income recognition, asset classification and provisioning besides capital adequacy measures based on the Basle Accord. The gist of RBI guidelines in this regard is given in the Annexure. Though very little information is published about the non-performing loans, an attempt is made in this article to critically appraise the position of non-performing assets (NPAs) especially in the context of the Committee on Capital Account Convertibility (CAC), headed by Sri Tarapore, former Dy. Governor of RBI, who has stipulated 5 per cent NPAs for the banking system as one of the important

pre-requisites for introducing CAC.

MAGNITUDE OF NPAs

The annual report of RBI (1996-97) indicates that as on end-March 1997, gross non-performing assets (NPAs) of all the 27 public sector banks (PSBs), were 17.75 per cent of their gross advances while the net NPAs, i.e. net of provisions and other netting items, were put at 9.1 per cent of net credit. The absolute levels of NPAs for PSBs (as per Table 1) were Rs.39746 crores as on March 1993 which more or less remained constant, even after three years, at Rs.39584 crores as on March 1996. It is reported that even as on March 1997, NPAs of PSBs are above Rs.40000 crores. In percentage terms, NPAs came down from 23.2 per cent as on March 1993 to 17.75 per cent in 1997, i.e. a reduction of 4.55 per cent in four years at an annual average net reduction rate of 1.5 per cent. Obviously, this reduction rate is not sufficient to achieve the cherished 5 per cent level

* Associate Professor, National Institute of Bank Management (NIBM), Pune. This article is a modified version of a paper presented by the author at the Annual Conference of Principals of Staff Training Colleges of Banks and Financial Institutions held at NIBM, Pune during February 1998.

of NPAs by March 2000 as advocated by the Tarapore Committee on Capital Account Convertibility (CAC). No wonder that the CAC Committee asked for radical measures to reduce the same. On the positive side, the banks have averted further growth in NPAs in absolute terms. Reductions in percentage terms were also significant enough if one takes into account the fact that NPAs were accumulated over the last few decades with the acceleration taking place during the post-nationalisation social banking era. Bank-wise position of gross credit and NPAs for PSBs are presented in Table 2. Data for private and foreign banks are not available but it is reported that their magnitude in percentage terms is in single digit and approximately half that of PSBs at 8-9 per cent of their gross credit.

COMPOSITION OF NPAs

As on March 1996, out of Rs.39584 crores of NPAs (17.3 per cent of gross advances) only Rs.1227 crores (0.5 per cent of gross advances) are contributed by borrowers having outstanding loans of less than Rs.25000 each where the security back up is nil. Critics who attribute the plight of banks to the government sponsored poverty-alleviation programmes will be disappointed at this. The 'loss' category of NPAs, where the salvage value is considered nil, constitutes Rs.4351 crores (1.9 per cent). As per the internationally accepted prudential accounting norms, being pursued by the RBI, banks should have fully provided for the above two categories of NPAs amounting to Rs.5578 crores (2.4 per cent). It is a question of time when these NPAs will be actually written off from the books of the PSBs depending on their ability to do so besides the tax and profit considerations.

This leaves us now with NPAs of Rs.34006 crores (15 per cent), classified as 'sub-

standard' (Rs. 9299 crores) and 'doubtful' category (Rs. 24707 crores) which remained more or less at that level for the last 3-4 years in absolute terms. Have they touched the impervious bottom? Is this the hard core level of NPAs? For the banking system in India, is this the indicative level of long term average of credit risk a bank has to bear if it wants to capture the business opportunities available in the market in the normal course of business? Why has the CAC Committee recommended 5 per cent NPA level as a *sine-qua-non* for moving towards CAC? What is the sanctity for 5 per cent NPA level? Probably, this may be the sustainable level to face the international competition associated with CAC. Nobody can argue against the desirability to have lower level of NPAs for any bank or for that matter any banking system. With globalisation of economies, there will be pressure on the domestic system to move towards internationally competitive levels. Every one shall endeavour towards competitive and lower level of NPAs. The million dollar question, especially in the Indian context is: 'what is the competitive level of NPAs?'

INTERNATIONAL COMPARISON

One way of answering such a question may be a comparison with other competing banking systems in the world. The average NPA level during 1994-95 in the sample of 15 countries (Table 3) studied by the Bank for International Settlements (BIS) and also indicated by the CAC Committee for comparison purpose in their report is 6.5 per cent as against 19.5 per cent for India (PSBs only) during the same period. Out of these 15, NPA level is 6.27 per cent in the 9 member sample group having restrictions on CAC and 6.92 per cent in the 6 member group where CAC was in vogue, thus showing no significant difference in their average NPA levels. The only difference

Table 1 : Absolute and Proportionate NPA Levels of PSBs (1993-96)

(Rs. Crores as on March End)

Sr. No.	Nature of Asset	All Public Sector Banks			
		1993	1994	1995	1996
1	Standard Assets	114441 (75.8)	127958 (76.39) \$	159017 (80.55)	189648 (82.7)
2	Sub-Standard	12552 (8.3)	12163 (7.26)	7757 (3.93)	9299 (4.1)
3	Doubtful	20106 (13.3)	23317 (13.92)	22913 (11.61)	24707 (10.8)
4	Loss	3930 (2.6)	4073 (2.43)	3732 (1.89)	4351 (1.9)
5	NPAs With O/B of less than Rs. 25000	NA _____ @ 3158 *	NA	3982 (2.02)	1227 (0.5)
6	Total NPAs	_____ @ 39746 (23.2)	39553 (23.61) ⁱ	38385 (19.45)	39584 (17.3)
7	Total Advances	170875 (100)	167511 (100)	197403 (100)	229232 (100)

Note : i. NA : Not available.

ii. * : Does not include NPAs of Advances with O/B less than Rs. 25000.

iii. : Figures in brackets are percentages to respective year's total advances.

iii. @ : Revised Figure

iv. \$: Includes all category NPAs with O/B less than Rs. 25000 Also.

Source : RBI Reports on *Trends and Progress of Banking in India* of Respective Years.

Table 2 : Bankwise Credit and NPA Position of Public Sector Banks (March 1996)

Sr. No.	Bank	Gross Credit	Gross NPA	% of NPA
		(Rs Crores) A	(Rs Crores) B	B/A
1	United Bank of India	3684	1503	40.79
2	Indian Bank	9607	3475	36.17
3	UCO Bank	6614	1840	27.82
4	Syndicate Bank	6257	1312	20.97*
5	Indian Overseas Bank	8860	2020	22.80
6	Central Bank of India	9738	2036	20.91*
7	Bank of Maharashtra	3176	695	21.86
8	Allahabad Bank	5317	1252	23.55*
9	Punjab National Bank	13445	2525	18.78
10	Canara Bank	14765	2647	17.93
11	Punjab & Sind Bank	3457	979	28.32*
12	State Bank of India	66123	10553	15.96
13	State Bank of Mysore	2258	329	14.57
14	Bank of India	16798	2434	14.49
15	State Bank of Indore	1541	219	14.20
16	Vijaya Bank	2701	545	20.18*
17	Bank of Baroda	16869	2193	13.00
18	Dena Bank	3908	508	13.00
19	State Bank of Travancore	3442	430	12.50
20	Andhra Bank	2860	332	11.61
21	State Bank of Patiala	3488	400	11.46
22	State Bank of Saurashtra	1971	211	10.71
23	State Bank of Hyderabad	4251	760	17.88*
24	State Bank of Bikaner & Jaipur	2630	338	12.85*
25	Union Bank of India	9111	946	10.38*
26	Oriental Bank of Commerce	4945	272	5.50*
27	Corporation Bank	2639	252	9.55*
1-27	All PSBs	230455	41006	17.79

Note : * After adjusting the gross credit figure which appeared wrongly in the below quoted source of *The Economic Times*.

Source : i. : Indian Banking Data 1991-96, Data Bank, IBA, Mumbai

ii. : *The Economic Times*, 26th August 1996.

iii. : *Trends and Progress of Banking in India*, 1995-96 and 1996-97.

Table 3 : Loan Provisions and NPAs (An International Comparison of Select Countries)

Sr. No.	Country	NPA Average (%) (1994-95)	Loan Loss Reserves Average during 1990-94 (B)	Coverage Ratio (%) (B/A)	Sr. No.	Country	NPA Average (%) (1994-95) (A)	Loan Loss Reserves Average (1994-95) (B)	Coverage Ratio (%) (B/A)
1.	India@	19.5@	10.69\$	55	11.	ARGENTINA	10.5	10.2**	97
2.	Venezuela	17.7	7.0	40	12.	INDONESIA	11.2	2.6	23
3.	Mexico	14.8	3.1*	21	13.	MALAYSIA	8.2	9.6	117
4.	Thailand	7.6	1.7	22	14.	HONGKONG	3.1	2.2**	71
5.	Brazil	5.9	1.6	27	15.	USA	1.6	2.7	169
6.	Japan	3.3	1.0	30	16.	SINGAPORE	—	—	120
7.	Taiwan	2.6	1.1	42					
8.	Colombia	2.5	1.9	76					
9.	Chile	1.0	3.5	350					
10.	Korea	1.0	1.5	150					
(2-10)	9 Countries (Excluding India)	6.27	2.5	84.2	(11-16)	6 Countries	6.92	5.46	99.5
				36.86#	(2-16)	15 Countries (Excluding India)	6.50	3.56	54.73

Note : Figures may not be strictly comparable; @ : Relates to only public sector banks; * : Average of 1992-94; ** : Average of 1994-95 only; \$: Estimate (1994-96); and # : Excluding Chile & Korea

Source : Report of Committee on CAC, RBI, May, 1997 (Annexure III. 7).

between these two groups is the extent of coverage they have in the form of provisions against such NPAs. The coverage ratio for PSBs in India, as can be seen in Table 3, is 55 per cent and for the above referred sample CAC countries it is almost 100 per cent while for the non-CAC group the coverage is only 37 per cent sans Chile and Korea.

IMPACT OF NPAs ON PROFITABILITY

When it comes to the profitability of banks in the select countries referred above, on an average they have almost 1 per cent average return on assets (ROA) during 1990-94 as against net loss of 0.2 per cent by PSBs in India during the same period. If one tries to measure the impact of NPA on the profitability of banks in India one may find that public sector banks' interest

spread could have been 3.84 per cent of their average working funds at 5 per cent NPA level instead of actual 3.10 per cent spread achieved during 1995-96 — a clear loss of 74 basis points. In other words, for every 1 per cent increase in NPA level, the ROA of public sector banks will fall roughly by six basis points. In terms of yield on advances, such fall will be of the order of 19 basis points. When these impact dimensions, notwithstanding possible error in such estimates, are applied to public sector banks (Table 4) as a group for the year 1995-96 their ROA at 5 per cent NPA would have been 0.67 per cent instead of the actually registered net loss of 0.07 per cent. Similar calculations for the big five PSBs, namely SBI, BOB, BOI, PNB and Canara Bank push their ROA from the actual 0.53 per cent to 1.18 per cent — marginally above the level prescribed by

Table 4 : Impact of NPA on Profitability (1995-96)

Sr. No.	Bank Group	Gross NPA (%)	Capital Adequacy Ratio (%)	ROA (As % to Avg. Working Funds)	
				At the Actual level of NPA	At the Notional level of 5% NPA
1.	Nationalised Banks (19)	18.46	7.50	- 0.36	+ 0.46
2.	SBI Groups (8)	15.28	9.91	+ 0.43	+ 1.03
3.	Public Sector Banks (27)	17.27	8.20	- 0.07	+ 0.67
4.	Top 5 PSBs	15.90	9.97	+ 0.53	+ 1.18
5.	Bottom 8 PSBs	26.46	6.80	- 1.52	- 0.23
6.	Bottom 3 PSBs @	34.25	5.67	- 4.09 *	- 2.22
7.	CAC Countries (5) @	6.92	15.12	+ 1.03 *	—
8.	Countries with restrictions on CAC (10)	6.27	11.04	+ 0.92	—

Note : @ : Pertains to Average 1990-94; * : Pertains to 1994-95.

the Tarapore Committee for ushering in CAC. Unfortunately, the bottom eight (weak) banks ranked in terms of NPA levels would remain in net loss during 1995-96, even if their NPA level comes down hypothetically to the cherished 5 per cent level as shown in Table 4. In other words, for the weak banks high NPA level is not the only cause for them to be in loss.

NPA LEVEL VIS-A-VIS SIZE OF BUSINESS

An attempt has been made to study through a graph the relation if any between the size of gross credit portfolio on the one hand (x-axis) and proportion of gross NPAs on the other (y-axis), as presented in Table (2), and depicted in Figure 1. The 27 public sector banks have been divided into four groups/quadrants (Table 5) based on whether they are above or below the average level gross credit (Rs. 8535

crores) and average level of gross NPAs (17-18 per cent) as on March 1996. The four quadrants are demarcated as under:

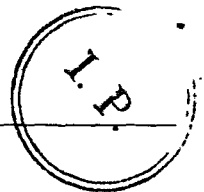
- (i) Low credit and Low NPA Banks (LL)
- (ii) Low Credit and High NPA Banks (LH)
- (iii) High Credit and High NPA Banks (HH)
- (iv) High Credit and Low NPA Banks (HL)

Out of 27 PSBs 12 fall in the 1st quadrant of low credit (Avg. Rs. 3053 crores) and low NPA (Avg. of Rs. 383 crores (12.55%)), 6 fall in the most undesirable second quadrant of low credit (Avg. of Rs. 4751 crores) and high NPA (Avg. of Rs. 1264 crores (26.60%)). The SBI associates and the

Table 5 : Distribution of PSBs Based on Size of Credit and NPA

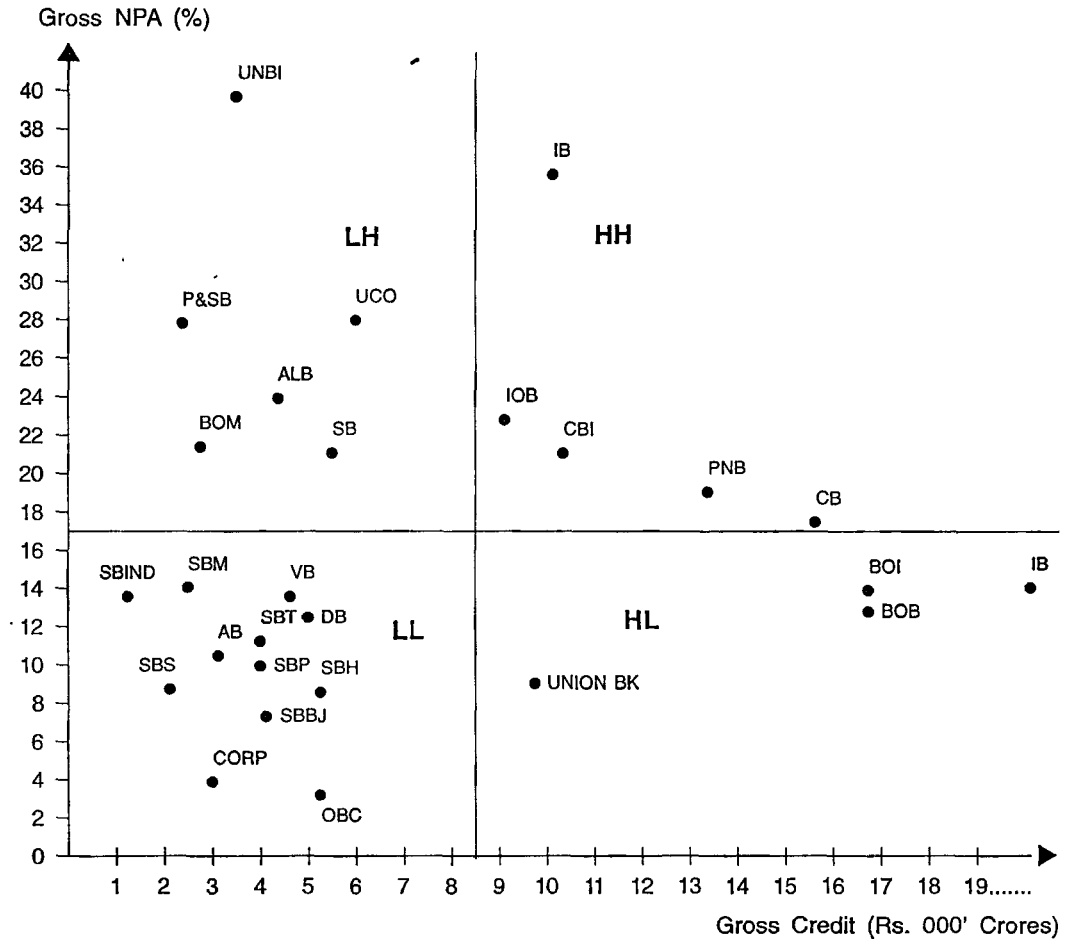
Level of Gross NPA \ Level of Gross Credit	Level of Gross Credit		Row Total
	Low (L)	High (H)	
Low (L)	LL 12	HL 4	16
High (H)	LH 6	HH 5	11
Column Total	18	9	Grand 27 PSBs Total

Note : Group LL : Average Gross Credit - Rs. 3053 crores; Average Gross NPA - Rs. 383 crores (12.55%); Group LH : Average Gross Credit - Rs. 4751 crores; Average Gross NPA - Rs. 1264 crores (26.60%); Group HL: Average Gross Credit - Rs. 11283 crores; Average Gross NPA Rs. 2541 crores (14.81%); Group HH: Average Gross Credit - Rs. 14529 crores; Average Gross NPA Rs. 1393 crores (22.52%).



59193 P3664

Figure 1 : Correlation of Gross Credit and NPA of Public Sector Banks (March 1996)



most profitable and promising banks like the Corporation Bank and Oriental Bank of Commerce find their place in the first quadrant. No wonder most of the banks in the second quadrant, namely CBI, BOM, United Bank of India and UCO Bank, were subject to viability study by various management consultants at the behest of RBI and the government during 1994-96 before injecting further capital into these banks. There are 5 banks in the third quadrant which have high average credit

level of Rs. 11283 crores and also high average NPA of Rs. 2541 crores. PNB and Canara are the two among the top five who find their place here, though positioned marginally above the average line but can easily graduate into the most desirable fourth quadrant. The Central Bank of India (CBI), and Indian Overseas Bank have to strive hard to graduate into the fourth quadrant. However, the Indian Bank faces a Herculean task in this regard. There are four banks who find themselves in the most

sought after fourth quadrant of high credit (Avg. of Rs. 27225 crores including SBI and Rs. 14259 crores excluding SBI) and low NPA average of Rs.4032 crores including SBI and Rs. 1393 crores sans SBI. The Union Bank is having the lowest proportion of NPA in this quadrant while all the other three, namely SBI, BOB, and BOI, with double digit NPA, are very close to the marginal line dividing the third and fourth quadrants.

BIG (FIVE) CLUB

Significantly, the top five public sector banks, namely SBI, BOB, BOI, PNB and Canara (ranked according to the volume of average working funds), have relatively very high average NPA level of 15.9 per cent of their gross advances as on March 1996. Significantly, none of them have single digit proportion of gross NPA. All the big five banks are competing in the international market and are also profitable, having an average return on assets (ROA) of 0.53 per cent. The two promising but small public sector banks who raised capital from the market which have single digit NPA level, namely OBC and Corporation Bank, are not in the big club. Is it then logical to argue that, had these two banks also tried to become big they would have also been saddled with a double digit NPA levels?

The above analysis implies that in India if any bank tries to be big in size it may have to be prepared for relatively high level of NPA and cover the risk with high income, provision and profit level. No wonder private and foreign banks in India which have single digit NPA level (8-9 per cent) are very small in size of their business.

WHAT THE TRAFFIC BEARS?

This leads us to argue that each banking system has a unique credit risk (NPA) level

determined by various internal and external factors such as the appraisal skills possessed and monitoring systems followed by banks, the efficacy of the regulatory and legal framework in which the banking system operates, economic growth and most important the socio-political and ethical climate of the country. The speed at which the Indian judicial system decides the money suits and the plight of enforcement machinery need no further comment. The fast deteriorating law and order situation across the country further complicates the bankers' woes in their recovery efforts. Thus, for the Indian banking system the average credit default (risk) has been 17-18 per cent which may appear very high from the international point of view. But this is what the 'traffic bears' and it increases with volume of business. How much of this is attributable to factors internal and external to the bank will be very difficult to isolate as they are closely interlinked. Obviously, the bank lending rate will be loaded with such default risk perceptions apart from other legitimate costs and margins. Corporate borrowers normally are the vocal section who raise their voice on high lending rates notwithstanding the fact that they, at least the defaulters, are partly responsible for such hike. Otherwise, how is that borrowers (at least the wilful defaulters) find the bank credit costly at the time of availing and at the same time consider it cheaper to default or delay the repayment. Often wilful defaulters find kind reception even when they tap capital market or enter public life like politics!

EXTERNAL SUPPORT

Under such circumstances what is required is not mere prescription of 5 per cent NPA level but helping the banking system move down towards an internationally competitive NPA level. This can be accomplished by strengthening the internal efforts as well as

external interventions. Bankers have been putting their best for recovery in the last few years and the entire rank and file are at it and special recovery cells have been opened up and target oriented monitoring systems initiated. But internal efforts can succeed only when external recovery climate is good. As said earlier, legal system (even with debt recovery tribunals) is so slow that nobody is optimistic about the same moving towards international level of speed of disposing off the cases.

INTERNAL INADEQUACIES

The debilitating influence of vigilance system in PSBs is fast eroding the decision making capacity of the bankers. Strangely enough, the private and foreign banks have very low levels of NPA without the government sponsored vigilance officers and surveillance systems! In the banking system one will not find anybody missing a promotional opportunity for not taking a (loan) decision, but will certainly find somebody penalised for taking a decision which went wrong as per the auditor. The limitation period for accountability of a loan decision is till the retirement of the manager or executive who took the decision. A manager might have taken 100 right decisions and improved the credit portfolio two or three fold. One wrong decision, as per the governmentalised audit and vigilance system, is good enough to condemn him for life though his credit portfolio during a particular period has less NPAs than the bank's average NPA level during that period. Will it encourage the credit culture in the banks? Surely, the banks cannot attribute poor uptake of bank credit entirely to recession in certain sectors of the economy!

Further, there is a skewed attention at the branch level between the risk prone credit portfolio and not so risky non-credit portfolios at the branch level with almost 80-85 per

cent staff attending to the latter. Deposit driven banking had its toll of being left with inadequate number of bankers familiar with asset management skills while the successful deposit takers occupy the key positions in the hierarchy! Surely, the banks have to improve their structures, systems and processes for facing the competitive market.

POSSIBLE SCENARIO BY 2000 AD

If one goes by the last four years trend in growth of bank credit and NPA reductions, the PSBs may reach at best 10-12 per cent NPA levels by March 2000 AD (the deadline recommended by the Committee on Capital Account Convertibility for attaining the 5 per cent NPA mark). The economic liberalisation has opened opportunities for well rated corporates to mobilise resources directly from the market — both domestic and international — and the impact can be seen through poor avilment of the limits. This leaves the banks to move towards low rated and relatively risky corporate customers besides medium and small size units who cannot go to the market directly. Such a metamorphosis also adds to the possibility of higher NPA levels. By any yardstick 5 per cent NPA level is not feasible by March 2000 unless some practical and radical measures are taken. This may necessitate postponing CAC beyond 2000 AD.

CONCLUSION

Thus, the widespread deterioration in the ethical standards of the society, a fragile law enforcing machinery, unstable political system and populist policies (loan waivers) to appease the vote banks, etc., prevent us from being optimistic about reduction in NPA levels. In the face of such a crumbling infrastructure one cannot move to an internationally competitive level of NPAs.

Perhaps, it may be unfair to compare the banks in India with those in other countries especially if there is no level playing of (external) infrastructure in which they operate. Whenever a new bank wants to enter (either from India or from abroad) to compete in the Indian banking system, such a bank, however competent it may be, should be prepared to gear up itself with such higher levels of NPA to the extent attributable to the factors external to the bank. Initially, a competent new player may start with an advantage of no NPAs or very low level of NPAs but in the long run as the bank tries to grow it will have to move towards the long term level determined by the infrastructure in which it will be operating.

Thus, it may be said that the Indian banking system will continue to be saddled with relatively high credit risk at 10-12 per cent as long as the external factors enunciated above are not taken care of. Therefore, as things stand, one cannot expect these banks to get down to a single digit NPA level of 5 per cent by the turn of the century on their own accord.

It implies that lending rates will continue to be loaded with higher level default risk premium. However, the relative inherent strength of each bank in managing its credit portfolio continues to offer enough scope to reduce NPAs and move towards competitive levels. They can survive and compete by making adequate provisions as prescribed by the regulator. But the new entrant (Indian or foreign) as well as the existing player will simply have to cope up with the potential higher long-term NPA level till the infrastructure for recovery improves.

Hence, instead of merely making unilateral prescription about the level of NPA to be 5 per cent and expecting the banks to deliver on their own accord, the RBI and the

government should take steps to provide them with a conducive infrastructure such as a speedy judicial process and an effective law enforcing machinery with exemplary deterrents for wilful defaulters. And then, based on their own inherent strengths, banks will surely move towards competitive levels of NPAs exactly on the line they have moved in respect of capital adequacy requirements. Till such time CAC may have to be postponed.

Annexure : Non-Performing Assets

- I. A non-performing asset is an advance or a borrowal account which does not generate income for the bank.
- II. The period after which an account becomes NPA depends upon the nature of borrowal account, i.e. term loan, cash credit/over-draft and bill purchased/discounted. A term loan is treated as NPA if the interest/instalment remains "past due" for a period of six months/two quarters or more as on the date of Balance Sheet, i.e. 31st March every year. An amount is considered past due when it remains outstanding for 30 days beyond the due date.
- III. A Cash credit or overdraft account is treated as NPA, if the account remains "out of order" for two quarters or more as on the date of balance sheet. An account shall be "out of order" if (a) the balance outstanding remains continuously in excess of the sanctioned limit/drawing power or (b) if there is no credit continuously for six months as on the date of balance sheet or (c) credits are not enough to cover the interest debited during the same period even if the balance outstanding in the account including the interest debited is within the limit sanctioned/drawing power.
- IV. A bill purchased/discounted becomes NPA if it remains "overdue" for 2 quarters or more as on the date of balance sheet.

- V. Any other credit facility should be treated as NPA if any amount to be received in respect of that facility remains past due for a period of two quarters as on the date of balance sheet.
- VI. The income on non-performing assets can be recognised or taken into profits of the bank only when it is actually realised or remitted by the borrower. Therefore, the unrealised interest in NPA accounts is kept accounted separately under "Interest Suspense A/c" or "Interest on NPA A/c" until it is realised.
- VII. For the purpose of calculation of provision, all advance accounts have to be classified into four categories, as below:

Standard Assets: These are advance accounts which do not disclose any

problems and which do not carry more than the normal risks attached to the business.

Sub-standard Assets: Advance accounts which have been identified as NPA for a period not exceeding 2 years.

Double Assets: Advance accounts which are NPAs for more than 2 years.

Loss Assets: NPA accounts where loss has been identified by the bank or internal/external auditors/RBI inspectors or those NPA accounts where there is no realisable value for security or no security at all.

- VIII. Depending on the asset classification, the provisioning is done as below:

Standard Assets	No provisions required
Sub-Standard Assets (NPA upto 24 months)	100% of total outstanding
Double Assets:	
a) NPA above 24 months but less than 36 months	20% of the secured portion of total outstanding + 100 % of the unsecured portion
b) NPA for 36 months to 60 months (inclusive)	30% of the secured portion of total outstanding + 100% of the unsecured portion
c) NPA for above 60 months	50% of secured portion+100% of unsecured portion.
Loss Asset	100% of total outstanding

- IX. Advances against term deposits, National Savings Certificates eligible for surrender, surrender value of LIC policies, Indira Vikas Patras and Kissan Vikas Patras are exempt from the norms.

References

Beattie *et.al.* (1995), *Banks and Bad Debts : Accounting for Loan Losses in International Banking.* John Wiley.

Goldstein, Morris and Philip Turner (1996), *Banking Crises in Emerging Economies: Origins and Policy Options*, BIS Economic Papers, No. 46, October.

IBA (1997), "Indian Banking Data 1991-96", *IBA Bulletin*, Special Issue, March.

OECD (1996), *Financial Market Trends*, Vol. 64, Paris, June.

Office of Comptroller of Currency (1988), *Bank Failure: An Evaluation of the Factors Contributing to the Failure of National Banks*, Washington, D.C., June.

RBI (1992), *Capital Adequacy Measures*, Policy Circular Issued by DBOD, Reserve Bank of India, April.

_____(1997), *Report of the Committee on Capital Account Convertibility*, Reserve Bank of India, Mumbai.

_____(1995-96), *Trends and Progress of Banking in India*, Annual Report.

_____(1996-97), *Trends and Progress of Banking in India*, Annual Report.

Sinkey, Jr. (1992), *Commercial Bank Financial Management*, Macmillan.