<u>Annexure :- 3</u>

<u>Prudential Requirements for Asset Classification & Provisioning as per Host Country Regulators:</u>

<table>
<tr><th></th><th>Country</th><th>IRAC Norms & Provision Norms</th></tr>
<tr><td>1</td><td>Australia</td><td>
<u>Category 1:</u> An exposure that is secured by a registered first mortgage against a residential property, where the ratio of the outstanding balance to the valuation of the security is no more than 80 per cent.
<u>Category 2:</u> An exposure that is secured by a registered first mortgage against a residential property, where the ratio of the outstanding balance to the valuation of the security is greater than 80 per cent but no more than 100 per cent
<u>Category 3:</u> This category applies to all facilities that do not fall into Categories 1 and 2 above, or Category 4 below. Personal and commercial loans (both secured and unsecured), and mortgage loans where the ratio of the outstanding balance to the valuation of the security is greater than 100 per cent, are included
(In all the 3 cases above, the exposure should be 6 months or more in-arrears, the valuation must be no older than 12 months.
<table>
<tr><td rowspan="3">Term of payments in arrear in (Days)</td><td colspan="3">Categories of facility</td></tr>
<tr><td>1</td><td>2</td><td>3</td></tr>
<tr><td colspan="3">Amount of Provision in (%) of outstanding</td></tr>
<tr><td>Upto 90</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>= >90 &<182</td><td>0</td><td>5</td><td>40</td></tr>
<tr><td>= >182 &<273</td><td>0</td><td>10</td><td>60</td></tr>
<tr><td>= >273 &<365</td><td>0</td><td>15</td><td>85</td></tr>
<tr><td>= >365</td><td>0</td><td>20</td><td>100</td></tr>
</table>
<u>Category 4:</u>This category applies to overdrawn line of credit advances
<table>
<tr><td>Period of irregularity (days)</td><td>Category 4facilities: Amount of Provision in (%) of outstanding</td></tr>
<tr><td>Upto 14 days</td><td>0</td></tr>
<tr><td>= >14 &<90</td><td>40</td></tr>
<tr><td>= >90 &<182</td><td>75</td></tr>
<tr><td>= >182</td><td>100</td></tr>
</table>
</td></tr>
<tr><td>2</td><td>Bangladesh</td><td>The loan is classified as ‘Sub Standard’ if it remains ‘past due/overdue for 6 months or beyond but less than 9 months; as ‘Doubtful’ if for 9 months or beyond but less than 12 months and ‘Bad-Debt’ if for 9 months or beyond.

In case ofFixed Term Loans which are repayable in more than 5 years of time, the loan is classified as ‘Sub Standard’ if it remains ‘past due/overdue for 12 months or beyond but less than 18 months; as ‘Doubtful’ if for 18 months or beyond but less than 24 months and ‘Bad-Debt’ if for 24 months or beyond.</td></tr>
<tr><td>3</td><td>Bahrain</td><td><u>Substandard Credits</u> These are inadequately protected by the paying capacity of the obligor or by the collateral pledged. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.
<u>Doubtful Credits</u> These have all the weaknesses inherent in a Substandard Credit, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable or improbable.
<u>Loss Credits</u> These are considered uncollectible and of such little value that their continuance as assets is not warranted. The rating does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.</td></tr>
<tr><td>4</td><td>Belgium</td><td>No specific Norms. An asset is considered impaired if loss is identified. Provisions are made in consultation with the Statutory Auditors</td></tr>
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5	China	a)<u>Special Mention:</u> The borrower can repay the interest and principal, however, there are some factors existing which will delay the repayment. <u>Provision</u>: Normal 1%; Special:2% b)<u>Sub Standard Asset</u>: There is obvious reason to doubt the borrowers' ability of repayment. It is impossible for the borrowers to repay the interest and principal from their normal income. There is inevitable loss even the loan is under Provision: Normal 1%; Special:25% c)<u>Doubtful Assets</u>: The borrower can not repay sufficiently. There must be great loss even the loan is under guarantee. <u>Provision</u>: Normal 1%; Special:50% d)<u>Loss Assets</u>: The interest and principal cannot be received entirely or can be received only partially even if all possible measures or necessary legal proceedings taken. Provision: Normal 1%; Special:100%
6	France	Classification of asset and provisioning requirement is dependent upon the realisability of asset and is to be decided by the Bank and its Statutory auditors.
7	Germany	**<u>Specific bad debt provisions</u>** The prudence principle requires that all bad debts should be written off as soon as they are perceived as such. Therefore, any specific provisions that have to be made for particular loans and advances must be taken to the P&L account immediately. Relevant provisions of the Commercial Code also give an Institution the right not to write back the provision once the value has been recovered.
8	Hong Kong	The guideline on loan classification stresses that ***loans on which payments of interest and/or principal have been overdue for more than three months and six months should generally be classified at least as substandard and doubtful respectively,*** **unle**ss there are good reasons for a better classification (such as the fact that the loan is fully secured by good quality collateral). HKMA has adopted certain benchmark provisioning levels against the various loan classifications (substandard 20%, doubtful 50% and loss 100%, of the unsecured portion of an exposure
9	Israel	Interest income is recognised in the Profit and Loss Account as it accrues except (i) income from non-performing assets (NPAs), comprising of advances and investments (ii) interest on application money on investments (iii) overdue interest on investments and bills discounted and (iv) Income on Rupee Derivatives designated as "Trading", which is recognised upon realisation, as per the prudential norms prescribed by the Regulatory Authorities,
10	Maldives	a) Special Mention: Any asset which is past due for 60 days or more but less than 90 days shall be classified as Special Mention at a minimum. b) Substandard: Any asset which is past due 90 days or more but less than 180 days shall be classified as substandard at a minimum. c) Doubtful: Any asset which is past due 180 days or more but less than 360 days shall be classified as doubtful at a minimum. d) Loss: Any asset which is past due 360 days or more shall be classified Loss and written off at the end of the calendar quarter but not later than 90 days after being first identified as loss.
11	Japan	As per Japanese regulation, assets are to be classified as Category-I (Normal), Category-II (Needs attention), Category-III (In danger of bankruptcy) and Category IV (Bankrupt of unsecured portion.)
12	Oman	NPAs will be classified as those accounts in which payment of interest or

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<tr><td></td><td></td><td>repayment is past due for 90 or more days. Accounts remaining past due for 30 days or more but less than 90 days, will be classified as spl. mention accounts.
A general provision of 1% of the outstanding commercial exposures is required to be made in respect of assets classified as Standard/ Special Mention. The provision made on account of standard assets shall be reckoned as Tier II capital for capital adequacy purposes.</td></tr>
<tr><td>13</td><td>Singapore</td><td><u>Banks incorporated outside Singapore:</u>

Collective impairment provisions to cover all the estimated losses inherent (but not currently identifiable in each individual loan) in groups of similar loans that are booked in Singapore may be determined and carried at the head office.</td></tr>
<tr><td>14</td><td>Sri Lanka</td><td><table>
<tr><td>Cate-gory</td><td>Determin-ant (Days)</td><td>Provision (% of Unsecured O.S.)</td></tr>
<tr><td>SMA</td><td>90-179</td><td>--</td></tr>
<tr><td>SSA</td><td>180-359</td><td>20%</td></tr>
<tr><td>DA</td><td>360-539</td><td>50%</td></tr>
<tr><td>LA</td><td>540 & above</td><td>100%</td></tr>
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<tr><td>15</td><td>UK</td><td>Almost similar to RBI Guidelines</td></tr>
<tr><td>16</td><td>USA</td><td>US banking regulations require a bank to recognize impairment in credit quality as soon as the commercial enterprise evidences financial distress notwithstanding that principal and interest payments may be current. Indicia of financial distress may include 1) negative operating cash flow 2) a significant reduction in market value of a current asset or
negative equity in real property 3) a major industry dislocation or 4) catastrophic legal liabilities.
Collateral is not often considered to be a risk mitigant because 1) sale at distress prices often reveals a margin shortfall 2) seizing the collateral usually entails lengthy and expensive litigation and 3) the FRB, in particular, believes that "free cash flow" is a requisite to timely and complete loan repayment and recourse to collateral or guarantees distracts a bank from managing its credits to managing a "workout" with little prospect of a full recovery.
The US Internal Revenue Code also favors a write off due to "partial (or full) permanent impairment" which is tax deductible in the year which the loss is incurred versus a loan loss provision which is not tax deductible (and results in a deferred tax asset under US GAAP). Additionally, loan losses that are not written off in the year they are incurred will not be eligible for tax deductibility in subsequent years.</td></tr>
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