P R U D E N T I A L

ACCOUNTING NORMS

AS APPLICABLE

TO

RURAL COOPERATIVE

BANKS

The Rajasthan State Cooperative Bank Ltd., Jaipur

PRUDENTIAL ACCOUNTING NORMS AS APPLICABLE ON RURAL COOPERATIVE BANKS

Prudential norms on income recognition, asset classification, and provisioning were extended to State Cooperative Banks and Central Cooperative Banks with effect from 1996-97 by the Reserve Bank of India vide its circular No. RPCD No. BC 155/07.37.021/95-96 dated 22.6.1996, which consists the following parts :-

1. Income Recognition Norms.
2. Norms for treating loans/advances as NPA.
3. Asset classification Norms.
4. Provisioning Norms.

With these directions the income taken into accounts should be based on record of recovery and henceforth unrealised income should not be taken into profit and loss account or full provisioning is necessary to be made.

In initial stage for provisions the time was given to cooperative Banks to adjust themselves to the new system.

The provisions of the first circular issued by RBI regarding Prudential Accounting Norms are as under :-

Income recognition, assets classification provisioning and other related matters

With a view to preparing the Profit and Loss A/c and Balance Sheet, reflecting bank's actual financial health, a proper system for recognition of income, classification of assets and provisioning on a prudential basis is necessary. The prudential norms for income recognition should be objective and based on record of recovery rather than on any subjective consideration. Likewise, the classification of assets has to be done on the basis of objective criteria which would ensure a uniform and consistent application of norms. Regarding provision requirement, it would be necessary that the provisions should be made on the basis of classification of assets into four different categories (standard, sub-standard, doubtful and loss assets). In this connection we advise that such prudential norms have already been made applicable to Commercial banks, Primary Urban Co-Op. Banks as also RRBs. The feasibility of making the above prudential norms applicable to SCBs/CCBs with suitable modifications has been examined by RBI in consultation with NABARD. It has been decided that these prudential norms should also be adopted by SCBs/CCBs from the year ending 31.3.1997. Detailed guidelines to SCBs/CCBs on prudential norms for income recognition, asset classification and provisioning on the basis of classification of assets are given in the Annexure enclosed. These guidelines may please be studied carefully and arrangements made for their implementation.

2. Year of implementation

Banks are advised to implement the instructions from the accounting year 1996-97. Each branch should undertake the exercise of classification of assets making provisions and the same should be verified by competent officials from the internal inspection department/ controlling offices. The banks should also get the classifications etc. verified by Auditors and a certification to this effect obtained from the Auditors. The balance sheet for the year ending 31.3.1997 should reflect the financial position of banks as arrived at on the basis of instructions now issued to banks. After the exercise is completed, banks are advised to prepare a comprehensive note indicating bank's position in the light of the instructions contained in the circular and put it up to the Board for approval and thereafter prepare profit and loss account and balance sheet as required under Sec. 29 of B.R. Act., 1949 (AACS) and instructions issued from time to time on the subject.

3. Provisioning requirement- Phasing

In order to give some time to co-operative banks to adjust themselves to the new system, phasing of provision is suggested as indicated below.

(i) First year of introduction of prudential norms (1996-97)

100% in respect of loss assets and not less than 30% of the provisioning needed in respect of sub-standard and doubtful assets.

(ii) Second year (1997-98)

The balance provisioning needed in respect of the above categories of assets together with current provision needed in respect of assets classified in the second year (1997-98). In other words, all the doubtful and sub-standard assets have to be provided fully from second year onwards in addition to 100% for loss assets.

4. The requirements of State Co-Op. Societies Acts and or Rules made there under or other statutory enactments may continue to be followed if they are more stringent than the guidelines now prescribed by us.

5. A copy of this letter is being sent to the RCS of your State/Union Territory for his information with request to advise the statutory/ Department Auditors of SCBs/ CCBs to look into compliance of the guidelines at the time of their audit.

6. Please acknowledge receipt of this circular to the concerned Regional office of RPCD under whose jurisdiction your bank falls.

Sd/

General Manager.

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Annexure

State and Central Cooperative Banks

Guidelines on prudential norms

(Income Recognition, Asset Classification

and Provisioning norms)

I. Income Recognition Norms to Cooperative Banks

(i) The prudential norm for income recognition should be based on record of recovery and therefore unrealised income should not be taken to Profit and Loss Accounts by SCB s/CCBs. However in the case of certain state where the State Cooperative Act/Rules/ Audit Manual provide for taking such unrealised interest to the income head in the P&L A/c it is necessary for those SCB/CCBs to make full provisioning for equivalent amount by charging to P&L A/c. In other words, the SCBs/CCBs which are charging interest to all overdue loans and if such interest remains unrealised the same may be taken to income account provided matching provision is fully made for the same by charging to P&L A/c. Accrued interest taken to income account in the previous year should also be provided in full in case the same becomes overdue.

(ii) Fee, Commission and other income may be treated as the income only when the account is classified as "standard". Besides, a matching provision should be created to the extent such items were treated as income in the previous year but not realised in the subsequent year.

(iii) Fees and commission earned by banks as a result of renegotiation or scheduling of outstanding debts should be recognised on an accrual basis over the period of time covering the renegotiated or rescheduling of credit.

(iv) Even in case of credit facilities backed by Government guarantee, overdue interest can be taken to P&L account only if matching provision is made.

(v) The bills purchased/discounted should be treated as overdue if the same remain unpaid. Interest may be charged to such bills and the same may be taken to P&L account provided matching provision is made.

II. Norms for treating loans/advances etc. as NPA(Overdue) for the purpose of Asset Classification :

(i) Definition of Non-Performing Asset (NPA)

A credit facility is treated as "Past Due" when it remains outstanding for 30 days beyond the due date. A non-performing asset (NPA) is defined generally as a credit facility in respect of which interest or instalment of principal is in arrears for two quarters or more.

(ii) Treatment of agricultural advances

In respect of advances granted for agricultural purposes where interest payment is on a half yearly basis synchronising with harvest, banks should adopt the agricultural season as the basis. In other words, if interest has not been paid during the last 2 seasons of harvest (covering two half years) after it has become past due when such an advance should be treated as NPA.

(iii) Treatment of advances for allied agricultural activities as well as the Non-farm sector

Credit facilities granted for other allied agricultural activities as well as for Non-farm Sector activities should be treated as NPA, if amounts of instalments of principal and/or interest remains outstanding for a period of 30 days beyond two quarters from the due date.

(iv) Term Loans (All types)

Loans in respect of which interest or instalments of principal amount remained as overdue for two quarters as on balance sheet date may be treated as NPA.

(v) Project/Housing Loans etc.

In case of projects (industry and Plantation, etc.) where moratorium is given for payment, loan becomes due only after moratorium or gestation period is over i.e. such a loan becomes overdue if instalment is not paid on due date. Similarly, in the case of housing loans or similar advances granted to staff members where interest is payable after recovery of principal, such loans should be classified as overdue (NPA) when there is a default in repayment or principal on due date of payment and overdue in repayment of principal on due date of payment and overdue criteria will be the basis for classification of assets.

2. Treatment of different facilities to borrower as overdue (NPA)

Short-term agricultural advances are granted by SCBs/ CCBs to CCBs/ PACS respectively for the purpose of on- lending. In respect of such advances as well as advances for other purposes if any, granted under on-lending system, only that particular facility which became irregular should be treated as overdue (NPA) and not all the other facilities granted to them. In respect of all other direct loans and advances granted to a borrower, all such loans will become overdue (NPA) even if one loan account becomes overdue (NPA).

III NORMS FOR ASSET CLASSIFICATION

Criteria for classification of assets

Classification of agricultural and non-agricultural loans is required to be done into four categories, on the basis of age of overdues, as under :

(i) Good / Standard Assets

Standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to business. Thus, in general, all the current loans, ST agricultural and non-agricultural loans which have not become NPA may be treated as standard asset.

(ii) Sub- Standard Assets

A Non-performing asset may be classified as sub-standard on the basis of the following criteria.

(a) An asset which has remained overdue for a period not exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as substandard.

(b) In case of all types of term loans, where instalments are overdue for a period not exceeding 3 years, the entire outstanding in term loan should be treated as sub-standard.

(c) An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for at least two years of satisfactory performance under the renegotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the above condition.

(iii) Doubtful Asset

A Non-Performing Asset may be classified as doubtful on the basis of following criteria.

(a) An asset which has remained overdue for a period exceeding 3 years in respect of both agricultural and non-agricultural loans should b e treated as doubtful.

(b) In case of all types of term loans, where instalments are overdue for more than 3 years, the entire outstanding in term loan should be treated as doubtful.

(iv) Loss Asset- Loans & Advnaces

Loss assets are those where loss is identified by the bank/ auditor/RBI/NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset which is considered unrealisable and/or of such little value that its continuance as a doubtful asset is not worthwhile , should be treated as a loss asset. Such loss assets will include overdue loans in which cases (a) decrees or execution petitions have been time barred or documents are lost or no other legal proof is available to claim the debt, (b) where the members and their sureties are declared insolvent or have died leaving no tangible assets, (c) where the members have left the area of operation of the society leaving no property and their sureties have also no means to pay the dues (d) where the loan is fictitious or when gross misutilisation is noticed, and (e) amounts which cannot be recovered in case of liquidated societies.

IV. Provisioning Norms on the basis of Asset Classification

1. Provisioning is necessary considering the erosion in the value of security charged to the banks over a period of time. Therefore, after the

assets of CCBs/SCBs are classified into various categories (viz. standard, sub-standard, doubtful and loss assets) necessary provision has to be made for the same. The details of provisioning requirements in respect of various categories of assets are mentioned below.

(i) Standard Asset

No provision is required to be made.

(ii) Sub-Standard Asset

A general provision of 10% of total outstandings in this category may be made.

(iii) Doubtful Asset

(a) 100% is to be made of the extent to which the advance is not covered by realisable value of securities to which the bank has a valid recourse and the realisable value is estimated on a realisation basis.

(b) Over and above item (a), provision is to be made depending upon the period for which an asset has remained overdue/NPA, 20% to 50% of the secured portion (i.e. estimated realisable value of the outstandings) on the following basis.

Criteria	% Provision
Overdues above 3 years and upto 4 years	20%
Overdues over 4 years, but not exceeding 6 years	30%
Overdues exceeding 6 years	50%

(iv) Loss Asset

The entire loss asset should be written off. If the assets are permitted to retain in the books for any reason, 100% of the outstanding thereof should be fully provided for.

2. The following aspects, however, may be kept in view while making provisions.

i) Agricultural Loans as secured

All agricultural loans may be treated as fully secured as the same are disbursed against charge on land as provided in the respective State Cooperative Societies Acts/Rules.

ii) Treatment to P.F. and Gratuity amount

Liabilities towards PF and gratuity should be estimated on actuarial basis and full provided for.

iii) Loans exempted from provisioning

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies are exempted from provisioning. Therefore, the above accounts may not be classified as NPA/ overdue.

iv) Loans against gold / Govt. securities

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

v) Depreciation in investments - accounting procedure

The investment portfolio of a bank would normally consist of both approved securities (predominantly Government Securities) and "Other" (shares, debentures and bonds of co-operative and other institutions). investments in approved securities should be bifurcated into "permanent" and "Current" investments. Permanent investments are those which banks intend to hold till maturity and current investments are those which banks intend to deal in i.e. buy and sell on a day-to-day basis. Banks should keep not more than 50% of their investments in permanent category. While the depreciation in respect of permanent investments is not likely to affect their realisable value on maturity, depreciation need not be provided for investments in the permanent category. Investments under 'current' category should be carried at lower of cost value or market value, on a consistent basis. Depreciation in the current investments, if any, should therefore be fully provided for. Banks following a more prudent method of valuation (e.g. all the investments marked to market) should continue to do so and there not be no slip back in their case.

Investments should be shown in the balance sheet net of depreciation. It is however, open to banks to show the book value of investments, the depreciation there against and net amount of investments separately.

As regards valuation of securities other than approved securities they should be valued at lower of cost price or market value. Investment in the shares of cooperative institutions, however, may be valued at carrying cost price.

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AMENDMENT - PROVISION FOR STANDARD ASSETS AND NORMS FOR GOVT. GUARANTEE

ABSTRACT OF CIRCULAR

Income Recognition, Assets Classification Provisioning and other related matters :

Please refer to our circular RPCD.No. BC.155/07.37.02/95-96 dated 22 June, 1996 and RPCD. No. BC.103/07.37.02/97-98 dated 26 March 1998 regarding guidelines on Prudential Norms for income recognition, asset classification and provisioning on the basis of classification of assets in respect of State Cooperative Banks/Central Co-operative Banks.

Provisioning Norms

1. Provision on Standard assets:-

It has been decided that banks should make a general provision on standard assets beginning with a minimum of 0.25 per cent each year from the year ending March 31, 2000.

2. Government Guaranteed Advances :-

i) Advances guaranteed by State Governments where guarantee has been invoked and has remained in default for more than two quarters should be classified as NPA. This measure in respect of advances sanctioned against State Government guarantees would be effective from April 1, 2000.

ii) It has also been decided that provisioning requirement for advances guaranteed by State Governments which stood invoked as than two quarters should be classified as NPA. This measure in respect of advances sanctioned against State Government guarantees would be effective from April 1, 2000.

ii) It has also been decided that provisioning requirement for advances guaranteed by State Governments which stood invoked as on March 31, 2000, necessary provision should be made during the financial years ending March 31, 2000 to March 31, 2003 with a minimum of 25 percent each year i.e. existing/old advances guaranteed by Government which would become NPA on account of assets classification norms are required to be fully provided for during the ensuring four years w.e.f. year ending March 31, 2000 to March 31, 2003 with a minimum of 25 percent each year.

In other words, credit facilities backed by Government Guarantees would also have to be fully provided for by the banks by the financial year ending March 31, 2003 (From March 31, 2000 to March 31, 2003/ 25 per cent each year).

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AMENDMENT - PAST DUE CONCEPT

In later stage the concept of "Past due" was dispense off with effect from 31st March, 2001 and overdue concept was introduced which makes prudential norms very simple in operation.(Refer circular No. RPCD RF BC 28/07.37.02/2000-2001 dated 10 Oct., 2000). Abstract of circular :

Asset Classification - " Past due concept"

Under, the extant guidelines on income recognition, asset classification and provisioning, an asset is classified as Non-Performing Asset (NPA) based on the period for which the amount due in the account remained "Past due". In paragraph II(i) of Annexure to our circular RPCD. No. BC.155/07.37.02/95-96 dated 22 June, 1996 it has been clarified that a credit facility should be considered "Past due" when it remains outstanding for 30 days beyond the due date. Due to improvement in the payment and settlement system, recovery climate, upgradation of technology in the banking system, etc. it has been decided to dispense with "Past due" concept, with effect from March 31, 2001. Accordingly, as from the date, a NPA shall be a credit facility where-

i) Interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a Term Loan

ii) the account remains "our of order" for a period of more than 180 days in respect of an overdraft/cash credit(OD/CC)

iii) the bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted.

iv) interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of advance granted for agriculture purpose, and

v) any amount to be received remains overdue for a period more than 180 days in respect of other accounts.

(However, these 180 days norms has been dispense off and 90 days norms was introduced w.e.f. 31st March, 2006)

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MASTER CIRCULAR ISSUED BY NABARD

After issuance of first circular, subsequently various amendments and clarifications have been issued therefore, NABARD has issued a master circular vide No. NB.DOS HO POL: 1577/957/2002-2003 on 17th August, 2002 which reflects the provision (including amendments upto July, 2002).

PRUDENTIAL NORMS ON INCOME RECOGNITITION, ASSET CLASSIFICATION AND PROVISIONING- SCBs/CCBs

1. General

1.1 In line with the international practices and as per the recommendations made by the committee on Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts.

1.2 The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks has to be done on the basis of objective criteria which would ensure a uniform and consistent application of norms. Also, the provisioning should be made on the basis of classifications of assets based on the period for which the asset has remained non-performing/overdue as also availability of security and its realisable value.

2. Norms for treating loans/advances as NPA for the purpose of asset classification :

2.1 Definition of Non-performing Asset(NPA) :

An asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is defined generally as a credit facility in respect of which interest and/or instalment of principal has remained "past due" for two quarters or more. An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. It was, however, decided to dispense with "past due" concept with effect from 31 March, 2001. Accordingly, as from that date, a NPA shall be an advance where-

i. interest and/or instalment or principal remain overdue for more than 180 days in respect of a term-loan.

ii. the account remains "our of order" for more than 180 days, in respect of overdraft/cash credit (OD/CC).

iii. The bill remains overdue for more than 180 days in the case of bill purchased and discounted.

iv. interest and/or instalment or principal remains overdue for two harvest seasons, but for a period not exceeding two half years in the case of an advance grated for agricultural purposes.

v. any amount to be received remains overdue for more than 180 days in respect of other accounts.

2.2 Treatment of agricultural advances :

In respect of advances granted for agricultural purposes where interest payment is on half-yearly basis synchronising with harvest, banks should adopt the agricultural season as the basis. In other words, if interest has not been paid during the last two seasons of harvest (covering two half-years) after the principal has become overdue then such an advance should be treated as NPA. This norm is applicable to all direct agricultural advances listed in the Annexure. In respect of agricultural advances other than those specified in the Annexure, identification of NPA would be done on the same basis as non-agricultural advances which at present is the 180 days delinquency norm. Crop loans for each season, viz. Rabi and Kharif has to be treated as separate account and IRAC norms have to be applied accordingly.

2.3 Treatment of advances for allied agricultural activities as well as non farm sector

Credit facilities granted for other allied agricultural activities as well as for non-farm sector activities should be treated as NPA if amounts of instalments of principal and/or interest remain outstanding for a period of two quarters from the due date.

2.4 Project / Housing Loans, etc.

In case of projects (industry, plantation, etc.) where moratorium is given for payment. (Loan becomes due only after moratorium or gestation period is over) such a loan becomes overdue if instalment is not paid on due date. Similarly, in the case of housing loans or similar advances granted to staff members where interest is payable after recovery of principal, such loans should be classified as NPA when there is a default in repayment of principal on due date of payment and overdue criteria will be the basis for classification of assets.

2.5 Consortium advances

In respect of consortium advances each bank is required to classify the borrowal accounts according to its own recovery, i.e. on the record of recovery of the individual member banks. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank of the consortium.

2.6 Treatment of different facilities to borrower as overdue(NPA)

Short-term agricultural advances are granted by SCBs/CCBs to CCBs/ PACS respectively for the purpose of on-lending. In respect of such advances as well as advances for other purposes, if any, granted under on-lending system, only that particular facility which became irregular should be treated as NPA and not all the other facilities granted to them. Crop loans for each season, viz., Rabi and Kharif have to be treated as separate account and accordingly IRAC norms have to be applied. In respect of all other direct loans and advances granted to a borrower all such loans will become NPA even if one loan A/c becomes NPA.

2.7 " Out of order status"

In respect of cash credit/over draft facility an account should be treated as "out of order", if the outstanding balance remains continuously in excess of the sanctioned limit/ drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for six months as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as " out of order".

2.8 **" Overdue"**

Any amount due to the bank under any credit facility is "overdue", if it is not paid on due date fixed by the bank.

2.9 **Performance of the account as on the date of Balance Sheet**

The performance of the account as on the date of Balance Sheet only has to be taken into account for the purpose of NPA. Subsequent developments should not be considered for determining of NPAs.

2.10 If interest and/ or instalment of principal has remained unpaid for any two quarters out of the four quarters ending 31 March of the year concerned, the credit facility should be treated as NPA although the default may not be continuously for two quarters during the year.

3. **Income Recognition Norms to Cooperative Banks**

3.1 Income Recognition Policy

3.1.1 The policy of income recognition should be based on record of recovery and therefore unrealised income should not be taken to Profit and Loss Account by SCBs/CCBs. However, in the case of certain States where the State Cooperative Act/Rules/Audit Manual provide for taking such unrealised interest to the income head in the P&L A/c, it is necessary for those SCBs/CCBs to make full provisioning for equivalent amount by charging to P&L A/c. In other words, the SCBs/ CCBs which are charging interest on all overdue loans and if such interest remains unrealised the same may be taken to income account provided matching provision is fully made for the same by charging the P&L A/c.

3.1.2 Fee, commission and other income may be treated as income only when the account is classified as 'standard'. Besides, a matching provision should be created to the extent such items were treated as income in the previous year but not realised in the subsequent year.

3.1.3 Fees and commission earned by banks as a result of renegotiation or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

3.1.4 Even in case of credit facilities backed by Government guarantee, overdue interest can be taken to P&L account only if matching provision is made.

3.1.5 The bills purchased/discounted should be treated as overdue, if the same remain unpaid. Interest may be charged to such bills and the same may be taken to P&L A/c provided matching provision is made.

3.1.6 Accrued interest on investments may be taken to P&L Account till maturity. However, the same has to be provided for fully, if interest is not realised on due date/date of maturity.

3.2 **Reversal of Income**

3.2.1 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, it the same is not realised. This will apply to Government guarantee loan account also.

3.2.2 In respect of fees, commission and similar incomes that have accrued and credited to income account in the corresponding previous year, should be reversed or provided for with respect to part period, if uncollected.

3.3 Appropriation of recovery in NPAs

3.3.1 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 borrowers concerned.

3.3.2 In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e., towards principal or interest due), banks should adopt the accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

4. Norms for asset classification

4.1 Criteria for classification of assets

Classification of agriculture and non-agriculture loan is required to be done into four categories on the basis of age of overdue as under:

4.1.1 Standard Assets

Standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to business. Thus, in general, all the current loans, agricultural and non-agricultural loans which have not become NPA may be treated as standard asset.

4.1.2 Sub-Standard Assets

A Non-performing asset may be classified as sub-standard on the basis of the following criteria.

(a) An asset which has remained overdue for a period not exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as sub-standard.

(b) In case of all types of term loans, where instalments are overdue for a period not exceeding 3 years, the entire outstanding in term loan should be treated as sub-standard.

(c) An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for atleast two years of satisfactory performance under the renegotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the above condition.

4.1.3 **Doubtful Asset**

A Non-Performing Asset may be classified as doubtful on the basis of following criteria :

As asset which has remained overdue for a period exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as doubtful. In case of all types of term loans, where instalments are overdue for more than 3 years. the entire outstanding in term loan should be treated as doubtful. As in the case of sub-standard assets, rescheduling does not entitle a bank to upgrade the quality of advance automatically.

4.1.4 Loss Asset

Loss asset are those where loss is identified by the bank/auditor/RBI/NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset which is considered unrealizable and/or of such little value that its continuance as a doubtful asset is not worthwhile, should be treated as a loss asset. Such loss assets will include overdue loans in cases (a) where decrees or execution petitions have been time barred or documents are lost or no other legal proof is available to claim the debt, (b) where the members and their sureties are declared insolvent or have died leaving no tangible assets, (c) where the member have left the area of operation of the society (refers to the borrower in whose name the respective Loan Account with SCB/CCB) leaving no property and their sureties have also no means to pay the dues (d) where the loan is fictitious or when gross misutilization is noticed , and (e) amounts which cannot be recovered in case of liquidated societies.

4.2 Guidelines for classification of assets

Broadly speaking classification or assets into above categories should be done taking into account the degree of well-defined credit weakness and the extent of dependence on collateral security for realisation of dues. Banks should establish appropriate internal system to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts.

4.3.1 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 handled with care 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 banks must furnish satisfactory evidence to the Statutory Auditors/ Inspecting Officers about the manner of regularization of the account to eliminate doubts on their performance status. This, if these accounts of the borrowers have been regularised by repayment of all overdue amounts, such accounts need not to be treated as NPA and straightaway they may be upgraded to standard category. The status of an NPA account in doubtful category cannot be changed on account of part payment of dues.

4.3.2 It is difficult to envisage a situation when only one facility to a borrower becomes a problem credit and not others. Therefore, all the facilities granted by a bank to a borrower will have to be treated as NPA and not the particular facility or part thereof which has become irregular. (This norm will not be applicable in the case of on lending through PACS- see item 2.6).

4.4 Accounts where there is erosion in the value of security

4.4.1 A NPA need not go through the various stages of classification in cases of serious credit impairment and such assets should be straightaway classified as doubtful or loss asset as appropriate. Erosion in the value of security can be reckoned as significant when the realizable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI/NABARD at the time of last inspection, as the case may be. Such NPAs may be straightway classified under doubtful category and provisioning should be made as applicable to doubtful assets.

4.4.2 If the realizable value of the security, as assessed by the bank/approved valuer/RBI/NABARD 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 straightway classified as loss asset. It may be either written off or fully provided for by the bank.

4.5 **Advances against Term Deposits, NSCs, KVP/IVP, etc.**

Advances against term deposits, NSCs, 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.

4.6 **Loans with moratorium for payment of interest**

4.6.1 In the case of bank finance given for industrial projects or for agricultural plantations, etc., where moratorium is available for payment of interest, payment of interest becomes' due' only after the moratorium or gestation period is over. Therefore, such amount of interest do not become overdue OR NPA, with reference to the date of debit of interest. They become overdue after due date for repayment of installment of principal or after the due date for payment of interest, if uncollected.

4.6.2 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 installment of principal or payment of interest on the respective due dates.

4.7 **Agricultural advances**

4.7.1 In respect of advances granted for agricultural purposes where interest and / or installment of principal remains unpaid after it has become overdue for two harvest seasons but for a period not exceeding two half-years, such an advance should be treated as NPA. The above norms should be made applicable to all direct agricultural advances listed in the Annexure. In respect of other agricultural advances including allied activities, assessment of NPA would be done as in the case of non-agricultural advances.

4.7.2 In cases of conversion or re-schedulement, the term loan as well as for short-term loan may be treated as current dues and need not be classified as NPA. The asset classification of these loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and/ or installment of principal remains unpaid, after it has becomes overdue, for two harvest seasons but for a period not exceeding two half years. However, term loans which have been rephased/ rescheduled after they have become NPA, should continue to be classified in the same category (Rescheduling/ Rephasement will not change the NPA status).

4.8 **Government guaranteed advances**

The credit facilities backed by guarantee of the State 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 NPAs is not for the purpose of recognition of income. With effect from 01 April, 2000, advances sanctioned against State Government guarantees should be classified as NPA and should be fully provided for in that year, if the guarantee is invoked and remains in default for more than 180 days. As regards advances guaranteed by State Govt. which stood invoked as on 31 March, 2000 but were not honored by the State Govt. and continue to be in default for more than 180 days. provisioning shall be made with a minimum of 25% each year during the period 31 March 2000 to 2003. Advances guaranteed by State Governments where the guarantee has been invoked on or after 1st April, 2000 and has remained in default for more than two quarters should be classified as NPAs with effect from 1st April, 2000 and should be fully provided for from the year ending 31st March, 2001.

4.9 **Availability of security/net worth of borrower/guarantor**

The availability of security or net worth of borrower/guarantor should not be taken into account for the purpose of classifying an advance as NPA or otherwise, as income recognition and classification of assets is based on recovery.

4.10 **Treatment of**

4.10.1 **Amount of involved in frauds**

Amount involved in frauds should be classified as Sub Standard, Doubtful and Loss assets depending upon the prospects of recovery within a reasonable time frame, say 2 years, in each case on the basis of availability of insurance cover, court decree, security deposit/ fidelity guarantee (in the case of employees).

4.10.2 **Deficit in Cadre fund**

The amount outstanding in the Cadre fund has to be considered as loss asset and should be provided for fully, if no firm commitment from the State Government is forthcoming supported by suitable provision in the State budget.

4.11 Asset Classification to be done at Branch Level

Asset Classification has to be done at branch level as the lending is done by the branches of the bank and relevant records are maintained at their level. However, provisioning is to be done at bank level (HO) as preparation of financial statements for the entire bank is done at HO level.

5. Provisioning Norms on the basis of Asset Classification

5.1 Need for provisioning

Provisioning is necessary considering the erosion in the value of security charged to the banks over a period of time. Therefore, after the assets of CCBs/SCBs are classified into various categories (viz. standard, sub-standard, doubtful and loss assets) necessary provision has to be made for the same. The details of provisioning requirements in respect of various categories of assets are mentioned below :

5.1.1 Standard Asset

When the IRAC norms were introduced in the year 1996-97, no provisioning was required in respect of standard assets. From the year ended 31 March, 2000, banks are required to make provision on Standard assets at a minimum of 0.25% of the total outstanding in this category. The provision made on Standard assets may not be reckoned as erosion in the value of assets and will form part of owned funds of the bank. The advances granted against term deposits, National Savings Certificate (N SC) eligible for surrender, Kisan Vikas Patra (KVP), Indira Vikas Patra (IVP), Life policies, Staff loans would attract provision of 0.25% prescribed for Standard assets. The provision towards standard assets need not be netted from gross advances and should be shown separately as "Contingent provision against Standard Assets "under" Other liabilities and provisions-others.

5.1.2 **Sub-standard Asset**

A general provision of 10% of total outstandings in this category may be made.

5.1.3 **Doubtful Assets**

a. 100% is to be made to the extent to which the advance is not covered by realisable value of securities to which the bank has a valid recourse and other realisable value is estimated on a realistic basis.

b. Over and above item (a), provision is to be made depending upon the period for which an asset has remained overdue, 20% to 50% of the secured portion on the following basis:

Criteria	% Provision
Overdue above 3 years, and upto 4 years	20
Overdue over 4 years, but not exceeding 6 years	30
Overdue exceeding 6 years	50

5.1.4 **Loss Asset**

The entire loss asset should be written off. If the assets are permitted to be retained in the books for any reasons, 100% of the outstandings thereof should be fully provided for.

5.2 **Agricultural Loans as secured**

All agricultural loans may be treated as fully secured as the same are disbursed against charge on land as provided in the respective State Cooperative Societies/Acts/Rules.

5.3 **Treatment to P.F. and Gratuity amount**

Liabilities towards PF and gratuity should be estimated on actuarial basis and fully provided for.

5.4 **Loans exempted from provisioning**

Advances against term deposits, NSCs eligible for surrender. IVPs, KVPs and life policies are exempted from provisioning. Therefore, the above accounts may not be classified as NPA. As they are treated as standard assets, a provision of 0.25% of the total loans outstanding prescribed for standard assets should be made.

5.5 **Loans against gold / Govt. Securities**

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

5.6 **Depreciation in investments- accounting procedure**

The investment portfolio of a bank would normally consist of both approved securities (predominantly Government Securities) and "other securities"(shares, debentures and bonds of Cooperative and other institutions). Investments in approved securities should be bifurcated into "permanent" and "current investments. Permanent investments are those which banks intend to hold till maturity and current investments are those which banks intend to deal in i.e. , buy and sell on a day-to-day basis. There is, however, no minimum percentage stipulated for bifurcation of investments into "permanent" and " current" category. As regards current investments and other securities they should be valued at lower of cost price or market value. Investments in shares of cooperative institutions may be valued at carrying cost price.

5.7 **Provision for other assets/outstanding liabilities**

Loss in respect of cash balances/ deposits with other banks, amount in branch adjustment accounts, frauds and embezzlements, and depreciation on building, furniture and vehicles, etc. may be assessed and fully provided for as per the existing practice.

With a view to ensuring full disclosure on the profitability and net worth of the bank, Items not provided for or items of liabilities where inadequate provisions have been made (e.g. Gratuity, Provident Fund, Income Tax, Interest accrued on deposits/ borrowings etc.), Inspecting Officers should specify the same to arrive at the unprovided for expenditure and treat them as actual expenditure for the purpose of arriving at the net worth.

5.8 **Back-end subsidy scheme**

Banks are permitted to take the loan outstanding under the Back-end Subsidy-Scheme net of subsidy amount and make provision only on the balance amount. This relaxation is for the purpose of making provisions only and not for other purposes, such as for computation of gross loans and advances, asset classification, etc.

5.9 **Relaxation in provisioning norms**

In order to give adequate time to Cooperative banks to adjust themselves to the new system, phasing of provision was permitted as indicated below:

i) First year of introduction of Prudential Norms 1996-97

100% in respect of loss assets and not less than 30% of the provisioning needed in respect of sub-standard and doubtful assets.

ii) Second Year (1997-98)

100% in respect of loss assets and 20% of residual amount of sub-standard/ doubtful assets together with current provision needed in respect of such assets classified in the second year.

iii) Third Year (1998-99)

100% in respect of loss assets and 20% of residual amount of sub-standard/doubtful together with current provision needed in respect of such assets classified in the third year.

iv) Forth Year (1999-2000)

100% in respect of loss assets and 30% of residual amount of sub-standard/doubtful assets together with current provision needed in respect of such assets classified in the 4th year.

In other words, all doubtful and sub-standard assets have to be provided fully from the 4th year onwards in addition in 100% for loss assets.

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ANNEXURE

A. **Direct Finance to Farmers for Agricultural Purposes**

1) Short-term loans for raising crops i.e. for crop loans. In addition, advances upto Rs. 1 lakh to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 6 months, where the farmers were given-crop loans for raising the produce, provided the borrowers draw credit from one bank.

2) Medium and long-term loans (Provided directly to farmers for financing production and development needs).

i. **Purchases of agricultural implements and machinery**

a. Purchase of agricultural implements- Iron ploughs, harrows, hose, land-levellers, boundformers, hand tools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.

b. Purchase of farm machinery- Tractors, trailers, power tillers, tractor accessories, viz. disc ploughs, etc.

c. Purchase of trucks, mini trucks, jeeps, pick-up vans, bullock carts and other transport equipment, etc. to assist the transport of agricultural inputs and farm products.

d. Transport of agricultural inputs and farm products.

e. Purchase of plough animals.

ii. **Development of irrigation potential through**

a. Construction of shallow and deep tube wells, tanks, higher etc. and purchase of drilling units.

b. Constructing, deepening clearing of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor and pumps.

c. Purchase and installation of turbine pumps, construction of field channels (open as well as underground) , etc.

d. Construction of lift irrigation project.

e. Installation of sprinkler irrigation system.

f. Purchase of generator sets for energisation of pumpsets used for agricultural purposes.

iii. **Reclamation and Land Development Schemes**

Bunding of farm lands levelling of land, terracing, conversion of dry paddy into wet irrigable paddy lands, wasteland development, development of farm drainage, reclamation of soft lands and prevention of salinisation, reclamation of ravine lands, purchase of bulldozers, etc.

iv. Construction of farm buildings and structures etc.

Bullock sheds, implement sheds, tractor and truck sheds, farm stores, etc.

v. Construction and running of storage facilities

Construction and running of warehouses, godowns, silos and loans granted to farmer for establishing cold storages used for storing own produce.

vi. **<u>Production and processing of hybrid seeds for crops</u>**

vii. **<u>Payment of irrigation charges, etc.</u>**

Charges for hired water from wells and tube wells, canal water charges, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to Customs Service Units, payment of development cess, etc.

3) **<u>Other types of direct finance to farmers</u>**

a. **<u>Short-term loans</u>**

1. To tradition/non-traditional plantations and horticulture.

b. **Medium and long term loans**

1. Development loans to all plantations, horticulture, forestry, and wasteland.

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AMENDMENT AFTER MASTER CIRCULAR OF NABARD.

(A) ADOPTION OF 90 DAYS NORMS

Subsequently vide circular No. RPCD/RF.BC.96-07-31-02/2002-2003 dated 30.12.2002, 90 days norms for recognition of loan impairment made applicable on Rural Cooperative Banks with effect from 31st March, 2006. Abstract of circular:

Income Recognition, Asset Classification and Provisioning. Adoption of 90 days norms for recognition of loan impairement by State/Central Cooperative Banks.

Please refer to our circular No. RPCD.No.BC.155/07.37.02/95-96 dated June, 22, 1996 read with circular No. RF.BC.28/07.37.02/ 2000-2001 dated October 10, 2000 advising the guidelines on prudential norms to be adopted by the State/Central Cooperative Banks. With a view to having a consistent and uniform approach towards all segments of the banking system, the guidelines have since been reviewed and modified as under :-

1. Asset Classification- Adoption of 90 days norm

(i) At present, a loan other than an agricultural loan is classified as non-performing asset if interest and/ or instalment of principal remain overdue for a period of more than 180 days. The Mid-Term Review of Monetary and Credit Policy for the year 2002-2003 announced that the 90 days norm for recognition of loan impairment will be extended to the State Cooperative Banks and District Central Cooperative Banks from the year ending March 31, 2006. Accordingly with effect from March 31, 2006 a non-performing asset (NPA) shall be a loan or an advance where :

(a) interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan;

(b) The account remains " out of order" for a period of more than 90 days, in respect of an overdraft/ cash credit (OD/CC);

(c) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;

(d) any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

ii) As regards agricultural advances, the existing norms for classification of NPA will continue. In other words, all direct agricultural advances (listed in the Annex to our circular RPCD.BC.No. 70/07.37.02/2001-02 dated March 27, 2002) will be classified as NPA if the interest and/or instalment of principal remain overdue for two harvest seasons but for a period not exceeding two half years. In respect of other agricultural loans including those for activities allied to agriculture, which are presently governed by 180 days delinquency norm, the 90 days norm will be applicable from the year ending March 31, 2006.

2. Provisioning with effect from March 31, 2004

The State/Central Cooperative Banks are advised to chalk out an appropriate transition path for smoothly moving over to the 90 days norm. As a facilitating measure, banks should move over to charging of interest on monthly rests by 1 April, 2004 except for agricultural loans and loans for activities allied to agriculture. However, the date of classification of advance as NPA should not be changed on account of interest at monthly rests. Banks should, therefore, continue to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 180 days from the end of the quarter with effect from April 1, 2004 and with effect from March 31, 2006 within 90 days from the end of the quarter. Banks are urged to substantially upgrade their existing Management Information

System(MIS) for collecting data on loans, where interest and/ or instalment of principal remain overdue for a period of more than 90 days in order to crystallize NPAs on 90 days norm.

Banks should also commence making additional provisions for such loans i.e. loans where the interest and/or instalment of principal has remained overdue for more than 90 days but less than 180 days, starting from the year ending March 31, 2004 in a phased manner as indicated below. Such provisions would strengthen their balance sheets and ensure smooth transition to the 90 days norm by March 31, 2006.

- 25% of the additional provisioning to be provided by March 31, 2004
- 50 % -do- by March 31.2005
- 100% -do- by March 31.2006

3. Provisioning requirements- Additional voluntary measures

In terms of extant prudential regulations, State/Central Cooperative Banks are required to make provisions in respect of various categories of assets as under:

Asset Classification	Provisioning requirement
Standard	0.25%
Sub-standard	10%
Doubtful	Between 20% and 50% of the secured portion depending on the age of NPA, and 100% of the unsecured portion.

The Reserve Bank has been constantly reviewing the regulatory requirements in respect of prudential provisions and it is proposed to gradually enhance provisioning requirements in future. Considering that higher loan loss provisioning adds to the overall financial strength of the banks and the stability of financial sector, as a desirable practice, State/Central Cooperative Banks are urged to voluntarily set apart provisions much above the minimum prudential levels.

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(B) INTEREST ON MONTHLY REST ON NON-AGRICULTURE LOANS

With effect from 1st April, 2004 cooperative banks were directed to charge interest on monthly rests on all loans except for agriculture loans and loans for activities allied to agriculture. (Circular No. RPCD.RF.BC.No. 68/07..37.02/2002-2003 dated 31.1.2003. Abstract is as under :

Income recognition, Asset Classification and provisioning- Charging of interest at monthly rests

Please refer to our circular RPCD.No. RF.BC 39/07.37.02/2002-2003 dated 30 December 2002 advising therein instructions regarding adoption of 90 days form for recognition of loan impairment and moving over to charging of interest at monthly rests by April 1, 2004 except for agricultural loans and loans for activities allied to agriculture.

2. In this connection, State/Central Co-operative Banks are advised to follow the under noted instructions in regard to switchover to the system of charging monthly interest on loans and advances :

i) Application of interest on monthly rests shall be restricted to all running accounts, e.g. cash credit, overdraft, export packing credit accounts, etc. At the time of changing over to monthly rests, banks may obtain consent letter/ supplemental agreement from the borrowers for the purpose of documentation.

ii) Interest at monthly rests shall be applied in case of all new and existing term loans and other loans of longer/fixed tenor.

iii) In case of existing loans of longer/fixed tenor, banks shall move over to application of interest at monthly rests at the time of review of terms and conditions of renewal of such loan accounts or after obtaining consent from the borrowers.

3. Instructions on charging interest at monthly rests shall not be applicable to advances for agriculture and activities allied to agriculture and banks shall follow the existing practice of charging/compounding of interest on agricultural advances linked to crop seasons.

4. With effect from quarter beginning April, 1, 2004, banks should ensure that effective rate of interest does not go up merely on account of the switchover to the system of charging/compounding interests at monthly rests and the interest burden on the borrowers should not increase.

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(C) REVISED PROVISIONING FOR DOUBTFUL ASSETS

RBI introduced graded higher provisioning in doubtful for more than 3 years category with effect from 31.3.2005. A relevant copy of circular No. RPCD.RF.BC.No. 87/07.37.02/2004-2005 dated March 1, 2005 is appended below :

Annual Policy Statement for the year 2004-2005 : Additional Provisioning Requirement for NPAs

At present banks are required to make provisions on NPAs on a graded scale based on the age of the NPA. However, in respect of NPAs included in doubtful for more than three years category the provisioning requirement on the **secured** portion remains unchanged at 50% irrespective of its age, till it is identified as a loss asset.

2. With the enactment of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the chances/extent of recovery of an asset reducing over a period of time, it is essential that banks expedite recovery of NPAs. Paragraph 122 of the Annual Policy Statement for the year 2004-2005 (copy enclosed) proposes to introduce graded higher provisioning according to the age of NPAs in ' doubtful for more than three years' category with effect from March 31, 2005.

3. However, it has been decided that in respect of State and District Central Cooperative Banks all advances classified as ' doubtful for more then three years" the provisioning requirements would be as under :

(a) Unsecured portion

For portion of the advance, which is not covered by the realisable value of tangible security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis, provision will be to the extent of 100 per cent as hitherto.

(b) Secured Portion

Period for which the advance has remained in 'doubtful' category	Provision requirement on secured portion
(i) outstanding stock of NPAs classified as doubtful for more than three years as on March 31, 2007	60 percent as on March 31, 2008 75 percent as on March 31. 2009 100 per cent as on March 31, 2010
(ii) advances classified as 'doubtful' more than three years' on or after April1, 2007	100 percent

A few illustrations are furnished in Annex for clarity in this regard.

4. The contents of this circular may be placed before the Board of Directors of your bank.

5. All other instructions contained in our circular RPCD. NO.BC.155/07.37.02/95-96 dated June 22, 1996 as amended from time to time remain unchanged.

6. Please acknowledge receipt to our concerned Regional Office.

Sd/

Chief General Manager in Charge

<u>Extract of Annual Policy Statement for the year 2004-2005</u>

" Provisioning Requirement for NPAs

122. At present, banks are required to make provisions on NPAs on a graded scale based on the age of the NPA. However, in respect of ' doubtful assets for than three years', the provisioning requirement on the secured portion remains unchanged at 50 per cent, till it is identified as a loss asset. With the enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the chances/extent of recovery of an asset reducing over a period of time, it is essential that banks expedite recovery of NPAs. Accordingly, it is propose:

- To introduce graded higher provisioning requirement according to the age of NPAs, which are included under ' doubtful for more than three years' category, with effect from March 31, 2005."

<u>Annex</u>

Illustrations :

I. Existing stock of advances classified as 'doubtful more than 3 years' as on 31 March, 2007

The outstanding amount as on 31 March 2007: Rs. 25,000

Realisable value of security : Rs. 20,000

Period for which the advance has remained in 'doubtful' category as on 31 March, 2007 : 4 years (i.e. Doubtful > 3 years)

Provisioning requirement:

As on	Provisions on secured portion		Provisions on unsecured portion		Total (Rs.)
	%	Amt	%	Amt	
31 Mar 2007	50	10000	100	5000	15000
31 Mar 2008	60	12000	100	5000	17000
31 Mar 2009	75	15000	100	5000	20000
31 Mar 2010	100	20000	100	5000	25000

II. Advances classified as 'doubtful more than three years' on or after1 April, 2007

The outstanding amount as on 31 March 2007 : Rs. 10,000

Realisable value of security : Rs. 8,000

Period for which the advance has remained in 'doubtful' category as on 31 March 2007 : 2.5 years

Provisioning requirement :

As on	Asset classification	Provisions on secured portion		Provisions on unsecured portion		Total (Rs.)
31 Mar 2007	Doubtful 2.5 years	30	2400	100	2000	4400
31 Mar 2008	Doubtful > 3 years	100	8000	100	2000	10000

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Extract of Inter Branch Adjustment Accounts Provisioning for Net Debit Balance (RBI circular No. RPCD.RF.BC.No. 59/07.37.02/2003-2004 dated 5.1.2004

It has been observed that the number and amount of outstanding debit and credit entries as also the period of pendency in the branch adjustment accounts of the State/Central Co-operative Banks and Regional Rural Banks is increasing over the years, even after being brought to their notice in the inspection reports of NABARD.

Keeping the above position in view and for putting in place the best international accounting standards by these banks in line with those applicable to scheduled commercial banks, it has been decided to prescribe prudential provisioning norms for net debit balances outstanding in their Inter Branch Accounts in a phased manner.

The State/Central Co-operative Banks/Regional Rural Banks are, therefore, advised that they should segregate the debit and credit entries in inter Branch Account pertaining to period upto March 31, 2001 outstanding as on March 31, 2004 and arrive at a net position. In case of a net debit provisioning should be made from the year ending March, 2004 as under :

Year ending	**Provisioning %**
March, 2004	10
March, 2005	40
March, 2006	50

The reconciliation exercise should be pursued vigorously and as on March 31, 2006 net debit positions in respect of entries prior to March 31, 2004 are to be fully provided for. In case of net debit position for year, subsequent to 31 March, 2004, same may be fully provided for.

In such cases where the above account is maintained in different categories eg. DD purchase/discounted, expenses incurred on behalf of the branches, etc, it may please be noted that net debit position in one category must not be utilized for setting off net credit in another category.

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Extract of Inter Branch Adjustment Accounts Provisioning for Net Debit Balance (RBI circular No. RPCD.RF.BC.No. 103/07.37.02/2004-2005 dated 30.5.2005

Please refer to our circular No. RPCS. RF.Bc. No. 59/07.37.02/2003-2004 RBI/2004/26 dated January 5, 2004 on the above subject. As advised therein, all state/central Co-operative banks and regional rural banks were required to segregate all the debit and credit entries in inter branch account pertaining to period upto March 31, 2001 outstanding as on March 31, 2004 and arrive at a net position. They were also required to make graded provisioning there against in such a way that full provisioning would be made by the year ending March, 2006.

As regards fresh entries that might originate on or after April 1, 2004, we advise that net debit position will attract 100 per cent provisioning in respect of those entries that remain outstanding for more than six months.

***

Advise :

With effect from 31.3.2006, 90 days norms were made applicable to all Cooperative banks, therefore, now it is advised that all debit entries outstanding as on 31st March of the year prior to the period 31st December, should be provided fully. For example, for 31.3.2009, all debit entries (Debit by HO and Debit by Branch) related upto the period December, 2008, if remains outstanding as on 31st March, 2009 should be provided fully and will attracts 100 per cent provisioning.

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Extract of Mid-Term Review of Annual Policy Statement for the year 2005-2006- Additional Provisioning Requirement for Standard Assets- SCBs/CCBs. (RBI circular No. RPCD.RF.BC.No. 55/07.37.02/2005-2006 dated 20.12.2005

In terms of the extant prudential guidelines, the standard assets attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis. Traditionally, banks' loans and advances portfolio is pro-cyclical and tends to grow faster during an expansionary phase and grows slowly during a recessionary phase. During times of expansion and accelerated credit growth, there is a tendency to underestimate the level of inherent risk and the converse holds good during times of recession. It is therefore, necessary to build up provisioning to cushion banks' balance sheets in the event of a downturn in the economy or credit weaknesses, surfacing later.

2. In this connection, please refer to Paragraph 85 of the Mid-Term Review of Annual Policy Statement for the year 2005-2006 (copy of the paragraph enclosed). We advise that taking into account the recent trends in credit growth, it has been decided that the general provisioning requirement for 'standard advances' shall be 0.40 per cent from the present level of 0.25 per cent with effect from the financial year beginning April 1, 2007.

However, direct advances to agricultural and SME sectors which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto.

CD.RF.BC.No. 17/07.38.03/2008-2009 dated July 30, 2008

Agricultural Debt Waiver and Debt Relief Scheme, 2008- Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy.

As you are aware, the Hon'ble Finance Minister, in his Budget Speech (paragraph 73) for 2008-2009 has announced a debt waiver and debt relief scheme for farmers, for implementation by, inter alias, all State Cooperative Banks(StCBS) and District Central Cooperative Banks (DCCBs). The detailed scheme announced by the Government of India was communicated by NABARD to all State and Central Cooperative Banks on May 23, 2008.

2. The guidelines pertaining to Income Recognition, Asset Classification and Provisioning, and Capital Adequacy as applicable to the loans covered by captioned scheme, are furnished in the Annex.

SD/-

Chief General Manager-in-charge

PRUDENTIAL NORMS FOR THE BORROWAL ACCOUNTS COVERED UNDER THE AGRICULTURAL DEBT WAIVER AND DEBT RELIEF SCHEME, 2008

1. As advised under the captioned Scheme, while the entire ' eligible amount' shall be waived in the case of a small or marginal farmer, in the case of ' other farmers', there will be a one time settlement scheme(OTS) under which the farmer will be given a rebate of 25 per cent of the 'eligible amount' subject to the condition that the farmer repays the balance of 75 per cent of the 'eligible amount'

2. Norms for the accounts subjected to Debt Waiver

2.1 As regards the small and marginal farmers eligible for debt waiver, the amount eligible for waiver, as defined in the Para 4 of the enclosure to the aforesaid circular, pending receipt from the Government of India, may be transferred by the banks to a separate account named " Amount receivable from Government of India under Agricultural Debt Waiver Scheme, 2008". The balance in this account should be reflected under the column " Advances" of the Balance Sheet.

2.2 The balance in this account may be treated by the banks as a " performing" asset, provided adequate provision is made for the loss in Present Value (PV) terms, computed under the assumption that such payments would be received from Government of India in the following installments "-

a) 69% of the total amount due by end September, 2008; and

b) 31% by end July, 2009;

However, the provision required under the current norms for standard assets, need not be provided for in respect of the balance in this account.

2.3 The discount rate for arriving at the loss in PV terms as at Para 2.2 above should be taken as 9.56 per cent, being the yield to maturity on 364-day Government of India Treasury Bill, prevailing as on the date of this circular.

2.4 The prudential provisions held in respect of the NPA accounts for which the debt waiver has been granted may be reckoned for meeting the provisions required on PV basis.

2.5 In case, however, the amount of prudential provision held is more than the amount of provision required on PV basis, such excess provision may be reversed in a phased manner. This phased reversal may be effected in the proportion of 69% and 31% during the years ended March, 2009 and 2010 respectively, only after the installments due from the Government, for the relative years, have been received.

2.6 On receipt of the final installment from the Government, the provision made for loss in PV terms may be transferred to the General Reserves below the line.

2.7 In case the claim of a farmer is specifically rejected at any stage, the asset classification of the account should be determined with reference to the original date of NPA (as if the account had not been treated as performing in the interregnum based on the transfer of the loan balance to the aforesaid account) and suitable provision should be made. The provision made on PV basis may also be reckoned against the NPA - provision required, consequent upon the account being treated as NPA due to the rejection of the claim.

3. Norms for the accounts subjected to the Debt Relief

3.1 Under the scheme, in the case of 'other farmers, the farmer will be given a rebate of 25% of the "eligible amount" by the Government by credit to his account, provided the farmer pays the balance of 75% of the "eligible amount''. The Scheme provides for payment of share of 75% by such farmers in three installments and the first two installments shall be for an amount not less than one-third of the farmer's share. The last dates of payment of the three installments will be September 30, 2008 ; March 31, 2009 and June 30, 2009, respectively.

<u>Asset Classification</u>

3.2 Where the farmers covered under the Debt Relief Scheme have given the undertaking, agreeing to pay their share under the OTS, their relevant accounts may be treated by banks as "standard"/ performing "provided -

(a) adequate provision is made by the banks for the loss in PV terms for all the receivables due from the borrowers as well as the Government ; and

(b) such farmers pay their share of the settlement within one month of the due dates.

<u>Provisioning</u>

3.3 <u>Provisioning for standard assets :</u> The accounts subject to debt relief would stand classified as standard assets after receipt of the aforesaid undertaking from the borrowers. Accordingly, such account would also attract the prudential provisioning as applicable to standard assets.

<u>3.4 Provisioning on PV basis :</u> For computing the amount of loss in PV terms under the Scheme, the cash flows receivable from the farmers, as per the repayment schedule vide Para 3.1 above, as well as from the government should be discounted to the present value. It may be assumed in this context that 50% of Government's contribution would be received by July 31, 2009 and balance by July 31, 2010. The discount rate to be applied for the purpose should be the interest rate at which the loan was granted

including the element of interest subsidy, if any, available from the Government.

3.5 The prudential provisions held in respect of the NPA accounts, for which the debt waiver has been granted, may be reckoned for meeting the provisions required on PV basis as well as for the standard assets (pursuant to classification of these loans as standard) and shortfall, if any , may be provided for. Thus, the total provisions held would comprise the provisions required on PV basis, provision for standard assets and excess prudential provisions, if any, towards NPA.

3.6 Provisioning in case of down-gradation of accounts: As_mentioned at Para 3.2(b) above, the accounts subject to Debt Relief Scheme would be classified as standard/performing assets only if the farmers pay their share of the settlement within one month of the pre specified due dates. In case, however, the payments are delayed by the farmers beyond one month of the respective due dates, the outstanding amount in the relevant accounts of such farmers shall be treated as NPA. The asset classification of such accounts shall be determined with reference to the original date of NPA, (as if the account had not been treated as performing in the interregnum based on the aforesaid undertaking). On such down-gradation of the accounts, additional provisions as per the extant prudential norms should also be made.

For meeting the additional provisioning requirement, the excess prudential provisions, if any, held the amount of provisions held for standard assets(as per Para 3.3 above) together with the provision made on PV basis, all in respect of such downgraded account, could be reckoned. Such additional prudential provisions too should be continued to be held and reversed only as per the stipulation at Para 3.7 below.

3.7 Reversal of excess prudential provisions : In case the amount of the prudential NPA- provisions held are larger than the aggregate of the provision required on PV basis and for the standard assets (pursuant to classification of these loans as standard), such excess prudential provision should not be reversed but be continued to be held till the earlier of the two events, viz., : (a) till the entire outstanding of the borrower stands repaid- at which point, the entire amount could be reversed to the P/L account; or (b) when the amount of such excess provision exceeds the amount outstanding on account of the repayments by the borrower- at which point, the amount of provision in excess of the outstanding amount could be reversed to the P/L account.

3.8 Reversal of the provisions made on PV Basis: The provision made on PV basis represents a permanent loss to the bank on account of delayed receipt of cash flows and hence, should not be reversed to the P/L Account. The amount of such provision should, therefore, be carried till the account is finally settled and after receipt of the Government's contribution under the Scheme, the amount should be reversed to the General Reserves below the line.

4. Grant of fresh loans to the borrowers covered under the Debt Waiver and Debt Relief Scheme

4.1 A small or marginal farmer will become eligible for fresh agricultural loans upon the eligible amount being waived, in terms of Para 7.2 of the Scheme. The fresh loan may be treated as "performing asset", regardless of the asset classification of the loan subjected to the Debt Waiver, and its subsequent assets classification should be governed by the extant IRAC norms.

4.2 In case of "other farmers" eligible for fresh short-term production loans and investment loans, as provided for in Para 7.6 and 7.7, respectively, of the Scheme, these fresh loans may be treated as "Performing assets" , regardless of the asset classification of the loan subjected to the Debt Relief , and its subsequent asset classification should be governed by the extant IRAC norms.

5. Capital Adequacy to be disclosed by the banks in terms of RBI circular RPCD.CO.RF.BC.No. 40/07.38.03/2007-2008 dated December 4, 2007.

The amount outstanding in the account styled as "Amount receivable from Government of India under Agricultural Debt Waiver Scheme 2008" shall be treated a claim on the Government of India and would attract zero risk weight for the purpose of capital adequacy norms. However, the amount outstanding in the accounts covered by the Debt Relief Scheme shall be treated as a claim on the borrowers and risk weighted as per the extant norms.

Extract of RBI circular No. RPCD.CD.RF.BC.No. 69/ 007.37.02/ 2008-2009 dated November 17, 2008

Agricultural Debt Waiver and Debt Relief Scheme, 2008- Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy.

Please refer to RBI circular RPCD.CO.RF.BC.No. 17/07.38.03/2008-2009 dated July 30. 2008 on the captioned subject.

2. We advise that the Government of India has since decided to pay interest on the second and subsequent installment/s of the ' eligible amount' under the captioned scheme, at the prevailing Yield to Maturity Rate on 364-day Government of India Treasury Bills. The interest will be paid on these installments from the date of the reimbursement of the first installment (i.e. November, 2008) till the date of the actual reimbursement of each installment.

3. In view of the above, in supersession of the instructions contained in paragraphs 2.2 to 2.7 3.2 (a) and 3.4 to 3.8 of the aforesaid circular, it has been decided that the banks need not make any provisions for the loss in Present Value (PV) terms for moneys receivable only from the Government of India, for the accounts covered under the Debt Waiver Scheme and the Debt Relief Scheme. All other conditions in the aforesaid circular remain unchanged.

Extract of RBI circular No. RPCD.CD.RF.BC.No. 91/07.37.02/2008-2009 dated March 6, 2009

Agricultural Debt Waiver and Debt Relief Scheme, 2008- Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy.

Please refer to our circular RPCD.CO.RF.BC.No. 17/07/38.03/2008-2009 dated July 30, 2008 and RPCD.CO.RF.BC.No. 69/07/.37.02/2008-2009 dated November 17, 2008 on the captioned subject.

2. In this regard, we advise that under the captioned scheme, the Government of India has since decided to extend the last date of repayment of first installment by the "other farmers" under the Debt Relief Scheme from September 30, 2008 to March 31, 2009. The dates of payment of second and third installments remain unchanged at March 31, 2009 and June 30, 2009. All other terms of the aforesaid circulars remain unchanged.

3. It is also clarified that the additional period of one month from the pre-specified due dates, permitted to the farmers eligible under the Debt Relief Scheme, for paying their share of the settlement, without affecting the standard asset classification status of the relevant account, shall be available only for the first two installments viz. those due on March 31, 2009. However, no grace period is allowed for the last installment and the entire share of the farmer is payable by June 30, 2009 itself, in order to maintain the eligibility of the 'other farmers' for Debt Relief Scheme and to retain the standard asset classification status.

मार्गदर्शनार्थ उदाहरण / स्पष्टीकरण

1– **''ऐसे फसली ऋण जो रबी में माह सितम्बर से मार्च तक वितरित किये जाते है, उनकी देय तिथि आगामी जून होती है। यदि 30.6.2008 को अल्पकालीन फसली ऋण अवधिपार हो जाता है तथा इसकी वसूली 31.3.2009 तक नही होती है तो ऐसी बकाया अवधिपार राशि को 31.3.2009 को एनपीएकी श्रेणी में वर्गीकृत किया जावे अथवा नही।''**

स्पष्टीकरण : केन्द्रीय सहकारी बैंकों द्वारा पैक्स को जो फसली ऋण वितरित किये जाते है वे ऑन लेन्डिग सिस्टम अन्तर्गत है एवं इसके लिये परिपत्र का बिन्दु संख्या 2.6 प्रभावी होती है। रबी फसल के ऋण जो राजस्थान में सितम्बर माह से मार्च माह तक वितरित किये जाते हे, की देय तिथि आगामी जून माह में होती है एवं जून के अन्तिम दिवस/अन्तिम शुक्रवार को ऐसे ऋणों की वसूली न होने पर अवधिपार हो जाते है। यदि इन ऋणों का मूल/ब्याज दो हार्वेस्ट सीजन जो अधिकतम दो अर्द्धवार्षिक अवधि हो सकती है, से अधिक अवधि के लिये बकाया रहते है तो ऐसी दशा में यह ऋण एनपीए की श्रेणी में आऐंगे।

30 जून, 2008 को देय अल्पकालीन ऋण के आगामी दो फसली चक्र माह मार्च, 2009 एवं जून, 2009 को आते है। अतएव ऐसे ऋण 31.3.2009 को एनपीए की श्रेणी में नही आने चाहिये।

2– **'' ऐसे ट्रेक्टर ऋण जिनकी वसूली फसल के आधार पर निर्धारित की जाती है, उनके मामले में यदि 30.6.2008 को हुये अवधिपार ऋण की वसूली 31.3.2009 तक नही होती है तो इस खाते में बकाया समस्त राशि 31.3.2009 को एनपीए की श्रेणी में वर्गीकृत किया जावे अथवा नही ''।**

स्पष्टीकरण : सीधे वितरित कृषि ऋणों के बारे में भारतीय रिजर्व बैंक के 30 सितम्बर, 2002 के परिपत्र द्वारा 90 दिनों के नोर्मस 31 मार्च, 2006 से लागू कर दिये गये है परन्तु मास्टर सरकुलर के एनेक्सचर में वर्णित ऋणों जिनमें ट्रेक्टर ऋण भी सम्मिलित है, पर अभी भी दो फसली चक्र के नियम प्रभावी है। अतएव ट्रेक्टर ऋण जो केन्द्रीय सहकारी बैंकों द्वारा सीधे वितरित किये जाते है, वे यदि 30 जून , 2008 को अवधिपार है तो 31 मार्च, 2009 को एनपीए की श्रेणी में वर्गीकृत नही किये जाने चाहिये।

3– **" आस्तियों का वर्गीकरण प्रधान कार्यालय स्तर पर किया जावें अथवा शाखा स्तर पर" ।**

स्पष्टीकरण : चूंकि ऋण वितरण का कार्य शाखा स्तर पर किया जाता है एवं सम्बन्धित रिकार्ड भी शाखा स्तर पर ही संघारित किया जाता है अतएव आस्तियों के वर्गीकरण का कार्य शाखा स्तर पर ही होना आवश्यक है। जहां तक प्रोविजनिंग का प्रश्न है, यह कार्य संकलित रूप से प्रधान कार्यालय स्तर पर किया जाना चाहिये।

4– **" अवधिपार ऋणों पर बकाया ब्याज क्या आय गिनी जा सकती है "?**

स्पष्टीकरण : विवेकपूर्ण मानदण्डों के लागू किये जाने के पश्चात् ब्याज तभी आय के रूप में मानी जा सकती है जब कि वह वास्तविक रूप से वसूल कर ली जावें। अतएव अवधिपार ऋणों पर बकाया रहा ब्याज यदि लाभ–हानि खाते में जमा किया गया है तो उसके लिये शत प्रतिशत प्रावधान किये जाने आवश्यक है।

5– **" क्या इमबैलेन्स के लिये बैंक स्तर पर कोई प्रोविजन किया जाना आवश्यक है" ?**

स्पष्टीकरण : विवेकपूर्ण मानदण्डों के अन्तर्गत आस्तियों का वर्गीकरण बैंक की पुस्तकों में प्रदर्शित सम्पत्तियों (ऋण एवं अग्रिमों) का किया जाता है। चूंकि इमबैलेन्स अवधारणा अन्तर्गत गणना की गई राशि बैंक की पुस्तकों में कही प्रदर्शित नही होती अतएव वह आस्तियों के वर्गीकरण के समय भी आंकलित नही की जावेगी ना ही इस प्रकार के कोई निर्देश भारतीय रिजर्व बैंक द्वारा दिये गये है।

RBI/2008-09/498
RPCD.CO.RF.BC.No.113/07.37.02/2008-09 June 16, 2009

All State Co-operative Banks (StCBs) and
Central Co-operative Banks (CCBs)

Dear Sir,

Income recognition, asset classification, provisioning and other related matters.

Short-term agriculture advances as well as advances for other purpose are granted by State Co-operative Banks/Central Co-operative Banks to Central Co-operative Banks/Primary Agriculture Credit Societies respectively for the purpose of on-lending. As per extant instructions contained in paragraph 2 of the Annexure to our circular RPCD.No.BC.155/07.37.02/95-96 dated June 22, 1996, out of such advances granted under on-lending system, only that particular facility which becomes irregular is treated as NPA and not all other facilities granted to them.

2. On a review, it has been decided to extend the above concession to all other credit societies under on-lending system, in addition to Primary Agricultural Credit Societies. However, in respect of all direct loans and advances granted to a borrower, all such loans will become NPA even if one loan account becomes NPA, as hitherto.

3. Please acknowledge receipt to our Regional Office concerned.

Yours faithfully

(B.P. Vijayendra)
CGM