

# भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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RBI/2005-06/41

UBD (PCB).Cir.No.1/09.140.00/05-06

July 4, 2005.

The Chief Executives of  
all Primary( Urban) Cooperative Banks

Dear Sir/Madam,

## **Income Recognition and Asset Classification Norms-UCBs**

Please refer to Master Circular dated UBD.BSD.IP.MC.No.15/12.05.05/2004-05 dated December 2, 2004 on Prudential Norms on Income Recognition, Asset Classification, Provisioning and Other Related Matters as also the following circulars on the above subject:

- i) UBD.BSD.I.PCB.No.12/12.05.05/2001-02 dated October 5, 2001
- ii) UBD.BSD.I.15/12.05.05/2002-03 dated September 9, 2002
- iii) UBD.PCB.Cir.17/13.04.00/2004-05 dated September 4, 2004

2. Taking into consideration requests received from the UCB Sector, it has been decided to permit the following categories of UCBs to classify Loan Accounts as NPAs based on 180 days delinquency norm instead of the extant 90 days norm.

- (i) Unit banks i.e. banks having a single branch / HO with deposits upto Rs. 100 crore\*
- (ii) Banks having multiple branches within a single district with deposits upto Rs. 100 crore\*

\* The deposit base of Rs. 100 crore will be determined on the basis of average of the fortnightly Net Demand and Time Liabilities in the financial year concerned.

For the above category of banks, an account would be classified as Non Performing Asset if the

- (i) Interest and/or installment of principal remain overdue\*\* for a period of more than 180 days in respect of a Term Loan.

- (ii) The account remains 'Out 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) Any amount to be received remains overdue\*\* for a period of more than 180 days in respect of other accounts.

\*\*Any amount due to the bank under any credit facility, if not paid by the due date fixed by the bank becomes overdue.

3. All UCBs other than those referred to at para 2 above shall classify their loan accounts as NPA as per 90 day norm as hitherto. The exemption given for classification of gold loans and small loans upto Rs.1 lakh based on 180 days norm will however continue till March 31, 2006.

4. The relaxation in classification of NPA accounts for the banks referred to at para 2 above will be in force for three financial years i.e. financial years ended/ending March 31, 2005, 2006 and 2007. The details of the changes and the consequent impact on the existing instructions with regard to asset classification and income recognition in respect of these banks are given in the Annexure.

5. The above modifications are subject to condition that the changes will take effect for classification of NPAs in the year ended March 31, 2005 and onwards upto March 31, 2007 and should not result in reclassification of accounts already classified as NPA in the year March 31, 2004 or earlier except through the normal process of up-gradation. The relaxations are given for the explicit purpose of enabling the UCBs concerned to transit to the 90 day NPA norm in the year 2007-2008 by building up adequate provisions and strengthening their appraisal, disbursement and post disbursement procedures.

Yours faithfully

(K.R. Ananda)  
Chief General Manager-in-charge

Encls: As above

## Annexure to Circular UBD.(PCB).Cir. No.1 /09.140.00/2005-06 dated July 4, 2005

**Relaxed Prudential Norms on income recognition, asset classification and provisioning for UCBs referred to in paragraph 2 of the Circular.**

SI.No.	Circulars referred to:	Existing Norms	New Norms
1	<p><b>Asset Classification norm:</b></p> <p>(i) UBD.No.BSD.1.PCB.12/12.05.05/2001-2002 dated 05.10.2001</p> <p>(ii) UBD.PCB.Cir 17/13.04.00/2004-05 dated 04.09.2004.</p> <p>(iii) UBD.No.BSD.I.15 /12.05.05/2002-03 dated 11.09.2002.</p>	<p>(i) W.e.f 31.03.2004 the norm for classification of an asset as non performing has been reduced to 90 days from 180 days.</p> <p>(ii) Gold loans and small loans up to Rs 1 lakh will be governed by the 90 days norm with effect from the year ending 31.03.2007.</p> <p>(iii) W.e.f 31.03.2005 an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.</p>	<p>(i) These banks will be required to identify NPAs on the basis of 180 day delinquency norm for three more years commencing March 31 2005, i.e. upto March31, 2007. However, these banks should build up adequate provisions in the BDDR over the next three years such that they would be able to transit to 90 day NPA norm by March 31 2008. Since the 90 day norm for asset classification came into force w.e.f. March 31 2004, revised asset classification norm should not result in any write back of provisions. Moreover, accounts classified as NPA as on March 31, 2004 or earlier should not be reclassified as standard merely on the basis of 180 days norm, but should be upgraded through the normal process of upgradation.</p> <p>(ii) In view of (i) above, gold loans and small loan upto Rs 1 lakh will also be governed by 180 days</p>

			<p>norm upto March 31, 2007</p> <p>(iii) A Sub standard account will continue to be classified as doubtful after 18 months instead of 12 months upto March 31, 2007.</p>
2	<p><b>Provisioning Norms:</b></p> <p>(i) UBD.PCB.Cir21/ 12.05.05/2004-05 dated 27.09.2004</p> <p>(ii) UBD.BSD.IP.MC.No.15/ 12.05.05/2004-05 dated 02.12.2004</p>	<p>(i) Sub standard-10%</p> <p>(ii) Doubtful (up to one year):100% of unsecured portion plus 20% of secured portion</p> <p>(iii) Doubtful (one to three years) : 100% of unsecured portion plus 30% of secured portion</p> <p>(iv) Doubtful for more than 3 years: 100% of unsecured portion. For secured portion the provision are as under:</p> <p>Outstanding stock of NPAs as on March 31, 2006</p> <ul style="list-style-type: none"> <li>• 50 percent upto March 2006.</li> <li>• 60 per cent as on March 31, 2007</li> <li>• 75 per cent as on March 31, 2008</li> <li>• 100 per cent as on March 31, 2009</li> </ul> <p>Advances classified as 'doubtful more than three years' on or after April 1, 2006-100 %.</p> <p>(v) Loss: 100%.</p>	<p>The provisioning norms will be as under from year ended 31.03.2005 upto year ending 31.03.2007:</p> <p>(i) Sub standard-10%</p> <p>(ii) Doubtful (up to one year):100% of unsecured portion plus 20% of secured portion</p> <p>(iii) Doubtful (one to three years) : 100% of unsecured portion plus 30% of secured portion</p> <p>(iv) Doubtful for more than 3 years: 100% of unsecured portion plus 50% of secured portion</p> <p>(v) Loss: 100%.</p> <p><b>Note:</b></p> <p>Implementation of the instructions requiring classification of substandard account into doubtful category after 12 months and 100 % provisioning for secured portion of doubtful assets of over 3 years would be deferred by three years. As such the banks should build</p>

			up adequate provisions over this period to facilitate smooth transition.
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