

RBI/2004/228

UBD.No.PCB. 49 /12.05.03/2003.04

1 June 2004

The Chief Executive Officers of all
Urban Co-operative Banks

Dear Sir,

Income Recognition, Asset Classification and Provisioning Norms

Please refer to paragraph 2.1.3 of our Master circular on Prudential Norms, forwarded with our letter BSD.No.IP.30/12.05.05/2002.03 dated 26 December 2002, advising the banks to ensure that classification of non performing assets is done on an ongoing basis and that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per prescribed norms.

2. It is observed that some banks have not yet put in place a system for strict implementation of the above instructions and wait till the year end (31 March) to identify the Non Performing Assets and make provisions there against. All the urban co-operative banks are once again advised to take necessary steps to ensure that the non performing assets are identified on an ongoing basis and that the classification is completed in any case within one month of the account becoming NPA.

3. The aforesaid requirement presupposes that adequate provision is also made on an ongoing basis, as the net non performing assets arrived at otherwise would be showing a distorted/inaccurate picture. It is therefore clarified that the required provisions for NPAs should be made at quarterly intervals as at the end of June, September, December and March so that the income and expenditure account for the respective quarters as well as the profit & loss account and balance sheet for the year end would reflect the provision made for the non performing assets.

4. Please acknowledge receipt of the circular to the concerned Regional Office.

Yours faithfully,
(N.S.Vishwanathan)
Chief General Manager.