

RBI/2004/272

UBD.BPD.PCB.Cir. 55/12.05.05/ 2003-2004

June 30, 2004

All Primary (Urban) Co-operative banks

Dear Sir,

**Annual Policy Statement for the year 2004-05:
Additional Provisioning Requirement for NPAs**

As per our circular UBD.No.IP.30/12.05.05/02-03 dated December 26, 2002 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 per cent, irrespective of its age, 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.

2. In this connection, please refer to paragraph 122 of the annual policy Statement for the year 2004-2005 (copy of the paragraph enclosed). Accordingly, it has been decided 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. Consequently, the increase in provisioning requirement on the secured portion would be applied in a phased manner over a three year period in respect of the existing stock of NPAs classified as 'doubtful more than three years' as on March 31, 2004.

3. However, in respect of all advances classified as 'doubtful more than three years' on or after April 1, 2004, the provisioning requirement would be 100 per cent. Accordingly, the provisioning norm for advances identified as 'doubtful for more than three years' will be as under with effect from March 31, 2005 :

(a) Unsecured portion

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
More than three years	
(i) outstanding stock of NPAs as on March 31, 2004	(i) 60 per cent as on March 31, 2005 75 per cent as on March 31, 2006 100 per cent as on March 31, 2007
(ii) advances classified as 'doubtful more than three years' on or after April 1, 2004	(ii) 100 per cent

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

4. Banks are advised to make suitable provisions during the current year to ensure a smooth transition to the revised norm, which becomes effective from March 31, 2005.

Yours faithfully,

(N.S. Viswanathan)
Chief General Manager

Encls : 2 sheets

Extract of Annual Policy Statement for the year 2004-05

“ 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 more 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 proposed:

- 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. “

Illustrations :

I. Existing stock of advances classified as 'doubtful more than 3 years' as on 31 March 2004

The outstanding amount as on 31 March 2004 : Rs 25,000

Realisable value of security : Rs 20,000

Period for which the advance has remained in 'doubtful' category as on 31 March 2004 : 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 2004	50	10000	100	5000	15000
31 Mar 2005	60	12000	100	5000	17000
31 Mar 2006	75	15000	100	5000	20000
31 Mar 2007	100	20000	100	5000	25000

II. Advances classified as 'doubtful more than three years' on or after 1 April 2004

The outstanding amount as on 31 March 2004 : Rs 10,000

Realisable value of security : Rs 8,000

Period for which the advance has remained in 'doubtful' category as on 31 March 2004 : 2.5 years

Provisioning requirement :

As on ...	Asset classification	Provisions on secured portion		Provisions on unsecured portion		Total (Rs)
		%	Amt	%	Amt	
31 Mar 2004	Doubtful 1 to 3 years	30	2400	100	2000	4400
31 Mar 2005	Doubtful > 3 years	100	8000	100	2000	10000
