

September 27, 2004

The Chief Executive Officers of
All Primary (Urban) Co-operative banks

Dear Sir/Madam,

Annual Policy Statement for the Year 2004-05: Additional provisioning requirements for NPAs

Please refer to our circular UBD.BPD.PCB. Cir 55/12.05.05/03-04 dated June 30, 2004, wherein UCBs were advised about the enhanced provisioning requirement on the secured portion of advances classified as doubtful for more than three years.

2. The Reserve Bank has received requests from banks and Federation/ Association of UCBs for giving UCBs some more time to restructure their accounts and progressively meet stricter prudential norms. Taking into account the submissions made in this regard, it has been decided to grant more time to the banks to meet the 100 % provisioning norm for advances identified as doubtful for more than three years, as under :

A. 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, 2006	(i) 50 percent upto March 2006, as hitherto 60 per cent as on March 31, 2007 75 per cent as on March 31, 2008 100 per cent as on March 31, 2009
(ii) advances classified as 'doubtful more than three years' on or after April 1, 2006	(ii) 100 per cent

B (i) Please note that for the portion of the advance, which is not covered by the realizable value of tangible security to which the bank has a valid recourse and the realizable value is estimated on a realistic basis, provision will be to the extent of 100 per cent as hitherto.

(ii) Similarly, 100% provision has to be made for loss assets as hitherto.

(iii) A few illustrations are furnished in annexure for clarity in this regard.

3. Banks are further advised in their own interest to make suitable additional provisions in the intervening years to ensure a smooth transition to the revised norms, which becomes effective from March 31, 2007.

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

Yours faithfully,

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

Encl : As above

Illustrations:**I. Existing stock of advances classified as 'doubtful more than 3 years' as on 31 March 2006**

The outstanding amount as on 31 March 2006: Rs. 25,000

Realisable value of security: Rs. 20,000

Period for which the advance has remained in 'doubtful' category as on 31 March 2006: 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 2006	50	10000	100	5000	15000
31 Mar 2007	60	12000	100	5000	17000
31 Mar 2008	75	15000	100	5000	20000
31 Mar 2009	100	20000	100	5000	25000

II. Advances classified as 'doubtful more than three years' on or after 1 April 2006

The outstanding amount as on 31 March 2006 : Rs. 10,000

Realisable value of security : Rs. 8,000

Period for which the advance has remained in 'doubtful' category as on 31 March 2006 : 2.5 years

Provisioning requirement :

As on ...	Asset classification	Provisions on secured portion		Provisions on unsecured portion		Total (Rs.)
		%	Amt	%	Amt	
31 Mar 2006	Doubtful 1 to 3 years	30	2400	100	2000	4400
31 Mar 2007	Doubtful > 3 years	100	8000	100	2000	10000