

March 1, 2005

All State Co-operative Banks and
District Central Co-operative Banks

Dear Sir,

Annual Policy Statement for the year 2004-05: 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 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. Paragraph 122 of the Annual Policy Statement for the year 2004-05 (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 Co-operative Banks, all advances classified as 'doubtful for more than three years' the provisioning requirement 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
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<p>(i) outstanding stock of NPAs classified as doubtful for more than three years as on March 31, 2007</p> <p>(ii) advances classified as 'doubtful more than three years' on or after April 1, 2007</p>	<p>60 per cent as on March 31, 2008</p> <p>75 per cent as on March 31, 2009</p> <p>100 per cent as on March 31, 2010</p> <p>100 per cent</p>
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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.

Yours faithfully,

(C.S.Murthy)
Chief General Manager In-Charge

Encl: as above

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 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 after 1 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)
		%	Amt	%	Amt	
31 Mar 2007	Doubtful 2.5 years	30	2400	100	2000	4400
31 Mar 2008	Doubtful > 3 years	100	8000	100	2000	10000