

RBI/2006-2007/361

UBD. PCB.Cir No. 38/ 09.14.000/ 2006-07

April 30, 2007

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

Dear Sir/Madam

**Annual Policy Statement for the year 2007-08-
Income recognition, asset classification and provisioning norms-UCBs**

Please refer to paragraph 210 of the Annual Policy Statement for the year 2007-08 (copy enclosed).

2. In terms of our circular UBD.PCB.Cir.21 /12.05.05/2004-05 dated September 27, 2004, UCBs were instructed to provide 100% on the secured portion of advances classified as doubtful asset (D-III) category on or after April 1, 2006. Commencing from the year 2006-07, they were also required to provide on a graduated basis for the outstanding stock of D-III assets.

3. Given the heterogeneity of the UCB sector, it was decided to follow a two track regulatory approach. Accordingly, UCBs were classified under two categories viz. (a) Tier I banks comprising unit banks having a single branch / Head Office with deposits upto Rs.100 crore and UCBs having multiple branches within a single district with deposits upto Rs.100 crore and (b) Tier II banks comprising all the other banks. Relaxed prudential norms were issued vide circular UBD. PCB.Cir.No.1/09.14.00/05-06 dated July 4, 2005 for Tier-I banks. They were permitted to classify loan accounts as NPAs based on 180 day delinquency norm instead of 90 day norm up to March 31, 2007. This relaxation was allowed for the explicit purpose of enabling the UCBs concerned to make a transition 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.

4. Further, 100% provisioning for secured portion of doubtful assets (D-III) category was deferred by three years for Tier I banks, while Tier II banks were required to provide 100% on or after April 1, 2006.

5. Taking into consideration the progress made by UCBs so far and as announced in the Annual Policy Statement, it has been decided as under:

a) Tier-I banks

- (i) The 180 day loan delinquency norm for NPAs is extended by one more year i.e. up to March 31, 2008.
- (ii) The 12-month period for classification of a substandard asset in doubtful category will be effective from April 1, 2008.
- (iii) Further these banks would be required to provide 100% on the secured portion of D-III advances classified as doubtful more than three years on or after April 1, 2010.
- (iv) For the outstanding stock of D-III advances as on March 31, 2010, banks will be required to provide as under:
 - 50% as on March 31, 2010
 - 60% as on March 31, 2011
 - 75% as on March 31, 2012
 - 100% as on March 31, 2013

b) Tier-II banks

- (i) 100% provisioning for advances classified as D-III (doubtful more than three years) will apply to those classified as such on or after April 1, 2007 instead of those so classified on or after April 1, 2006.
- (ii) Consequently, for the outstanding stock of D-III assets as on March 31, 2007, banks would be required to provide as under:
 - 50% upto March 31, 2007
 - 60% as on March 31, 2008
 - 75% as on March 31, 2009
 - 100% as on March 31, 2010

6. Please acknowledge receipt to our Regional Office concerned.

Yours faithfully,

(N.S Vishwanathan)
Chief General Manager-in-Charge

Annual Policy Statement for the year 2007-08

(c) Prudential Norms for UCBs: Extension of Time

210. As a part of the two-track regulatory approach to deal with the UCBs sector, UCBs are classified under two categories, viz., Tier I and Tier II banks. Tier I UCBs were allowed to classify loan accounts as NPAs based on 180 days delinquency norm instead of 90 days norm up to March 31, 2007. Furthermore, effective from the financial year 2006-07, UCBs in Tier II were required to move towards a more stringent provisioning norms for doubtful assets. Taking into consideration the progress made by UCBs, so far, it is proposed:

- to extend by one year the existing relaxed prudential norms applicable to Tier I and Tier II banks.