

January 8, 2008

The Chairmen
All Regional Rural Banks

Dear Sir,

**Section 17(2) of the Banking Regulation Act, 1949 –
Appropriation from the Reserve Fund**

In terms of Section 17(2) read with Section 51 of the Banking Regulation Act, 1949, where a banking company appropriates any sum or sums from the reserve fund, it shall, within twenty-one days from the date of such appropriation, report the fact to the Reserve Bank explaining the circumstances relating to such appropriation. In order to ensure that such recourse to drawing down the reserve fund is done prudently and is not in violation of any of the regulatory prescriptions, RRBs are advised to take prior approval from the Reserve Bank before any appropriation is made from the statutory reserve or any other reserves.

2. RRBs are further advised that:

(i) all expenses including provisions and write-offs recognized in a period, whether mandatory or prudential, should be reflected in the profit and loss account for the period as an 'above the line' item (i.e. before arriving at the net profit)

(ii) wherever draw down from reserves takes place with the prior approval of Reserve Bank, it should be effected only 'below the line' (i.e. after arriving at the profit/loss for the year); and

(iii) it should also be ensured that suitable disclosures are made of such draw down of reserves in the 'Notes on Accounts' to the Balance Sheet.

Please acknowledge receipt to our Regional Office concerned.

Yours faithfully

(G.Srinivasan)
Chief General Manager