

**Income Recognition,
Asset Classification and
Provisioning (2010-2011)
(UCB)**

NPA 2010-11

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Income Recognition, Asset Classification and Provisioning (2010-2011) (UCB)

Classification of Assets as on 31-03-2011	Date of NPA	Age of NPA	Provision required
Standard	N.A.	N.A.	0.40 % of outstanding Also refer page 7 & 8
Sub-standard	Between 01-04-2010 To 31-03-2011	Not more than 12 months	10% of outstanding
i) Doubtful	Between 01-04-2009 To 31-03-2010	Between 13 to 24 months	100% of shortfall + 20% of realizable security
ii) Doubtful	Between 01-04-2007 To 31-03-2009	Between 25 to 48 months	100% of shortfall + 30% of realizable security
iii) Doubtful	Prior to 31-03-2003 Doubtful > 3 years as on 31-03-2007	More than 48 months As on 31-03-2007	100% of shortfall + 100% of realizable security
iv) Doubtful	Advances classified as 'doubtful more than three years' on or after April 1, 2007	Between 01-04-2003 To 31-03-2007	100% of shortfall + 100% of realizable security. i.e. 100% of O/S
Loss Assets	No criteria of date	No criteria of date	100% of outstanding

Note	Dates of Circulars issued by RBI to All Primary (Urban) Co-operative Banks have been mentioned below. However the various issues discussed below are equally applicable to all banks. RBI issues separate circulars to commercial banks.
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1.0	Classification of Assets as Non-Performing: ➤ An asset becomes non-performing when it ceases to generate income for the bank.	
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2.0	Asset Classification: ➤ Standard Assets is one, which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.	11-09-2002
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	<ul style="list-style-type: none"> ➤ Sub-standard Asset is one which has remained as NPA for a period not exceeding 18 months. (12 months from 31-03-2005) ➤ Doubtful Asset is one, which has remained in the sub-standard category for 18 months. (12 months from 31-03-2005) 	11-09-2002
3.0	<p>Income Recognition Policy:</p> <ul style="list-style-type: none"> ➤ Income from non-performing assets (NPA) is not recognized on accrual basis but is booked as income only when it is actually received. ➤ Interest on advances against term deposits, NSCs, IVPs, KVPs & LIC policies may be taken to income account on the due date, provided adequate margin is available in the account. ➤ If any loan a/c becomes NPA as at the close of the year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for if the same is not realized. 	
4.1	<p>The difference between the original advance and minimum balance indicates the repayment received towards the principal.</p> <p>Repayment towards principal = Original advance - Minimum balance.</p>	
4.2	<p>The difference between the present balance and minimum balance indicates the arrears of interest and charges i.e. interest and charges debited to the loan but not paid by the borrower.</p> <p>Interest arrears = Present balance - Minimum balance - Advance payments if any.</p>	
5.0	<p>As on 31-03-2011: In case of loans repayable in equated monthly installments (EMI) where a part of the interest is included in the installment, NPA shall be determined on the basis of non-payment of EMI. In other words, credit summations in the borrowal account up to</p>	05-10-2001

	31-03-2011 should be divided by EMI to arrive at number of EMI received. If EMI due up to 31-12-2010 is received by 31-03-2011, the account will be classified as PA.	
6.0	<p>The Term loan will be treated as NPA when interest and / or installment of principal remain overdue for a period of more than 90 days.</p> <p style="text-align: center;">(As on 31-03-2011)</p> <ul style="list-style-type: none"> ➤ If interest due for the quarter ended 31-12-2010 is not paid, it becomes NPA on 31-03-2011. (i.e. overdue for more than 90 days). ➤ If installment towards principal due on 31-12-2010 is not paid, it becomes NPA as on 31-03-2011 (i.e. overdue for more than 90 days) 	05-10-2001 04-09-2004
7.0	The date of existing NPA accounts will remain same as mentioned last year unless it was wrongly calculated last year. If account is NPA as on 31-03-2011, then confirm whether account was classified as NPA during earlier years. If yes, then continue old NPA date.	
8.0	<p>Interest receivable on all NPA accounts up to 31-03-2011 should be reversed / Overdue provision should be made.</p> <p>Interest accrued in respect of non-performing advances should not be debited to borrowal accounts but shown separately under 'Interest receivable account' and corresponding amount shown under 'Overdue interest reserve account'</p>	28-02-1995
9.0	In respect of borrowal accounts, which are treated as performing assets, accrued interest may be debited to the borrowal account and credited to interest account and taken to income account. (Instruction to create OIR in respect of such interest has been omitted from new paragraph substituted in earlier circular dated 28-02-1995)	30-03-2005

10.1	<p>Valuation of Security in case of NPAs with balance of Rs.10 Lacs and above:</p> <p>Stock Audit at annual intervals by external agency should be carried out. The Board may finalize the cut off limit and the names of the external agencies.</p> <p>Collaterals such as immovable properties charged in favor of the bank should be got valued once in 3 years by valuers appointed as per the guidelines approved by the Board of Directors.</p>	06-10-2001
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10.2	<p>Wherever valuation report in respect of securities is not available or valuation could not got done in the case of doubtful debts on account of non co-operation of borrowers or any other justifiable reasons, then depreciated value of securities shall be taken into account for the purpose of computation of secured and unsecured portion of advance. Depreciated value shall be calculated on straight-line method on the movable assets at the following rates.</p> <p>(The said rates are suggested /based on average life of the Asset. Bank can provide higher rate.)</p> <table data-bbox="438 1197 941 1449"> <tr> <td>Plant & Machinery</td> <td>15 %</td> </tr> <tr> <td>Furniture & Fixture</td> <td>15 %</td> </tr> <tr> <td>Consumer durable</td> <td>20 %</td> </tr> <tr> <td>Computers</td> <td>30 %</td> </tr> <tr> <td>Vehicle</td> <td>20 %</td> </tr> </table> <p>Shop, Gala, Flat, Building etc. can be valued as per prevailing property rates available in Govt. gazette, property magazines etc.</p> <p>Approximate value can also be found out by use of cost inflation index published by Govt. for purpose of calculation of capital gains. Table of CII is printed on cover Page-134 of V. G. Mehta's I.T. Reckoner for A.Y.2010-11.</p> <p>Bank should evolve the policy for obtaining valuation of property charged in favour of the bank.</p>	Plant & Machinery	15 %	Furniture & Fixture	15 %	Consumer durable	20 %	Computers	30 %	Vehicle	20 %	
Plant & Machinery	15 %											
Furniture & Fixture	15 %											
Consumer durable	20 %											
Computers	30 %											
Vehicle	20 %											

10.3	Significant credit impairment: Erosion in the value of security can be reckoned as significant when the realizable value of the security is less than 50 % of the value assessed by the bank or accepted by RBI at the time of last inspection as the case may be. Such NPAs may be straightaway classified under doubtful category and provisioning should be made as applicable to doubtful assets.	06-10-2001
10.4	Treatment of Loss assets: If realizable value of the security, as assessed by the bank / approved valuer's / RBI is less than 10 % of the O/S in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as Loss Asset.	06-10-2001
10.5	Availability of security or net worth of borrower / guarantor should not be taken into account for the purpose of treating an advance as non-performing asset or other wise as income recognition is based on record of recovery.	09-02-1993
11.1	Cash Credit: CC a/c will be classified as NPA if it is out of order for more than 90 days. (As on 31-03-2011) i) O/S continuously > Limit / DP between 31-12-2010 to 31-03-2011 NPA ii) If O/S < Limit and there are no credits during 01-01-2011 to 31-03-2011 NPA iii) If there are credits, then credits should be sufficient to cover Interest debited during the same period. Otherwise cc a/c will be NPA	05-10-2001
	CC Limits sanctioned against the security of Premises, Gold etc. should also be classified as NPA on above criteria. CC Limits sanctioned against the security of LIC, NSC, TDR should be classified as NPA as per guidelines stated in para-12.1 stated below.	

11.2	Non-submission of stock statements: The o/s in the account based on drawing power calculated from stock statements older than 3 months, would be deemed as irregular. A working capital borrowal account will become an NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory. Stock statement as on 31-12-2010 should be obtained failing which the same will have to be classified as NPA as on 31-03-2011.	05-10-2001
11.3	As on 31-03-2011: Un renewed CC accounts: An account where the regular / adhoc credit limits have not been reviewed or have not been renewed within 90 days from the due date / date of adhoc sanction will be treated as NPA. CC accounts having due date 31-12-2010 or prior should be renewed by 31-03-2011, failing which the same will have to be classified as NPA as on 31-03-2011.	05-10-2001
11.4	As on 31-03-2011: Bills remaining overdue for a period of more than 90 days in case of bills purchased and discounted will be classified as NPA. Bills having due date 31-12-2010 or prior and remaining O/S as on 31-03-2011 will be classified as NPA as on 31-03-2011.	05-10-2001
11.5	Any amount to be received remaining overdue for a period of more than 90 days in respect of other accounts will be classified as NPA.	05-10-2001
12.1	Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and Life policies need not be treated as NPAs although interest thereon may not have been paid for more than 90 days provided adequate margin is available in the accounts. In other words, Advances against	

	above security should be classified as standard, if (O/S + interest) is less than value of above security as on 31-03-2011.	
12.2	Gold Loan: Primary (urban) co-operative banks should fix monthly /quarterly installments for repayment of gold loans for non-agricultural purposes taking into account the pattern of income generation and repayment capacity of the borrowers and such gold loan accounts may be treated as NPAs if installments of principal and/ or interest thereon are overdue for more than 90 days. If loan account secured by gold becomes NPA, it should be classified into the different categories of assets as indicated in table given above.	17-06-1993
12.3	Gold Loan-Bullet scheme: <ul style="list-style-type: none"> i) The amount of gold loan sanctioned should not exceed Rs 1.00 lakh at any point of time. ii) The period of the loan shall not exceed 12 months from the date of sanction. iii) Interest will be charged to the account at monthly rests but will become due for payment along with principal only at the end of 12 months from the date of sanction. iv) Such loans shall be governed by the extant income recognition, asset classification and provisioning norms which shall be applicable once the principal and interest become overdue. v) The account would also be classified as NPA (sub standard category) even before the due date of repayment, if the prescribed margin is not maintained. 	26-11-2007
13.1	As per RBI guidelines a provision of 0.25% has to be made on Performing Standard Assets from the year 31-03-2000 and should be shown separately as Contingent provision against standard assets under 'Other	23-04-1999 24-05-2000

	Funds and Reserves' in the Balance Sheet.	
13.2	Provision on Performing assets has been enhanced to 0.40 % wef 31-03-2006.	24-11-2005
13.3	It has now been decided to increase the general provisioning requirement on standard advances in specific sectors, <i>i.e.</i> , Personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from the present level of 0.40 per cent to 1.0 per cent. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.	15-06-2006
13.4	It has now been decided to increase the general provisioning requirement on standard advances in specific sectors, <i>i.e.</i> , Personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from the present level of 1.0 per cent to 2.0 per cent. As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.	19-02-2007
13.5	The provisioning requirements in case of Tier II UCBs for all types of standard assets stand reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto. The revised norms would be effective prospectively but the provisions held at present should not be reversed.	01-12-2008
13.6	In view of large increase in credit to the Commercial Real Estate (CRE) sector over the last one year and the extent of restructured advances in this sector, it would be prudent to build cushion against likely non-performing assets (NPAs). Accordingly, it has now been decided to	08-12-2009

	increase the provisioning requirement for advances to the CRE sector classified as 'standard assets' to 1.00 per cent.	
13.6	The standard asset provisioning requirements for all categories, after the above change, are summarized below:	08-12-2009

	Category of Advance	Tier II	Tier I	08-12-2009
a	Direct advances to Agriculture and SME sectors	0.25 %	0.25 %	
b	Commercial Real Estate sector	1.00 %	1.00 %	
c	All other loans & advances not included in a & b above	0.40 %	0.25 %	

14.0	Treatment of NPA borrower wise: All the facilities granted to a borrower will have to be treated as non-performing assets and not the particular facility or part thereof which has become irregular.	09-02-1993
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15.0	Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks and other aspects having a bearing on the recoverability of the advance.	20-03-1997 06-10-2001
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16.0	Regularization of the account around the date of balance sheet: The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as NPA.	06-10-2001
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17.0	Appropriation of Recoveries: In the absence of a clear agreement between the bank and the borrower for the purpose, banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.	06-10-2001
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18.0	NPAs should be identified on going basis and required provision for NPAs should be made at quarterly intervals in accounts.	01-06-2004
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19.0	Additional Provisions for NPAs at higher than prescribed rates	16-12-2009
	As per the extant instructions, provisions made for NPAs as per prudential norms are deducted from the amount of Gross NPAs to arrive at the amount of Net NPAs. In cases where banks make specific provision for NPAs in excess of what is prescribed under the prudential norms, the total specific provision may be deducted from the amount of Gross NPAs while reporting the amount of Net NPAs. The additional specific provision made by the bank will not be reckoned as Tier II capital.	Also refer 29-09-2009

No	Significant Changes made by RBI in respect of NPA.	Circular
1.1	With effect from 31-03-2005 , an asset would be classified as doubtful if it remained in the sub-standard category for 12 months. Banks are, however, permitted to phase the consequent additional provisioning over a four-year period commencing from the year ending 31-03-2005, with a minimum of 20 % each year.	11-09-2002 Amended on 27-09- 2004
1.2	Additional provision to be phased over 5 years with minimum of 10 % for first 2 years, namely 31-03-2005 & 31-03-2006	27-09-2004
2.0	NPAs should be identified on going basis and required provision for NPAs should be made at quarterly intervals in accounts.	01-06-2004
3.1	All advances classified as 'doubtful more than three years' on or after April 1, 2004, the provisioning requirement would be 100 %.	30-06-2004
3.2	The said date was extended to 01-04-2006.	27-09-2004
3.3	The said date was extended to 01-04-2007.	30-04-2007

3.3	Provision of Doubtful > 3 years as on 31-03-2007 will be as under:	30-04-2007
	As on 31-03-2007: 100% of shortfall + 50% of realizable security	
	As on 31-03-2008: 100% of shortfall + 60% of realizable security	
	As on 31-03-2009: 100% of shortfall + 75% of realizable security	
	As on 31-03-2010: 100% of shortfall + 100% of realizable security.	
4.1	90 days loan impairment norms will now be applicable to Gold loan & small loans up to Rs. 1 lac from year ending 31-03-2005. Exemption of 180 days loan impairment norms to these loans up to 31-03-2004 has been withdrawn by the said notification.	04-08-2004
4.2	Circular dated 04-08-2004 was reconsidered by RBI in view of requests made by Banks / Federation/Association of UCBs. 90 days loan impairment norms will now be applicable to Gold loan & small loans up to Rs. 1 Lac from year ending 31-03-2007.	04-09-2004
5.0	OIR in respect of unrealized interest on Performing Assets need not be created.	30-03-2005
6.1	Provision on Standard Assets has been enhanced from 0.25 % to 0.40 %	24-11-2005
6.2	It has now been decided to increase the general provisioning requirement on standard advances in specific sectors, <i>i.e.</i> , personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from the present level of 0.40 % to 1.0 %	15-06-2006
6.3	It has now been decided to increase the general provisioning requirement on standard advances in specific sectors, <i>i.e.</i> , personal loans, loans and advances qualifying as capital market exposures and commercial real estate loans from the present level of 1.00 % to 2.0 %	19-02-2007
6.4	The provisioning requirements in case of Tier II UCBs for all types of standard assets stand reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto. The revised norms would be effective prospectively but the provisions held at present should not be reversed.	01-12-2008

6.5	In view of large increase in credit to the Commercial Real Estate (CRE) sector over the last one year and the extent of restructured advances in this sector, it would be prudent to build cushion against likely non-performing assets (NPAs). Accordingly, it has now been decided to increase the provisioning requirement for advances to the CRE sector classified as 'standard assets' to 1.00 per cent.	08-12-2009
6.6	The standard asset provisioning requirements for all categories, after the above change, are summarized below:	08-12-2009

	Category of Advance	Tier II	Tier I	08-12-2009
a	Direct advances to Agriculture and SME sectors	0.25 %	0.25 %	
b	Commercial Real Estate sector	1.00 %	1.00 %	
c	All other loans & advances not included in a & b above	0.40 %	0.25 %	

6.7	Additional Provisions for NPAs at higher than prescribed rates	16-12-2009
	As per the extant instructions, provisions made for NPAs as per prudential norms are deducted from the amount of Gross NPAs to arrive at the amount of Net NPAs. In cases where banks make specific provision for NPAs in excess of what is prescribed under the prudential norms, the total specific provision may be deducted from the amount of Gross NPAs while reporting the amount of Net NPAs. The additional specific provision made by the bank will not be reckoned as Tier II capital.	Also refer 29-09-2009

Action Plan -- NPA / Recovery Management for the year ended 31-03-2011.

Sr. No.	Action Plan	In charge	Review Dates			
1.0	Cash Credit:					
1.1	To ensure that outstanding in the CC account should be less than the limit / DP at least once in a quarter.			31-08-10	30-11-10	28-02-11
1.2	To ensure that there are credits in every quarter in CC account.			31-08-10	30-11-10	28-02-11
1.3	To ensure that credits in the CC account are adequate to cover the interest debited during the said period.			31-08-10	30-11-10	28-02-11
1.4	Outstanding balance in CC account should be less than the limit / DP at least for one day during the period 01-01-2010 to 31-03-2011.		31-01-11	28-02-11	10-03-11	20-03-11
1.5	Credit in the CC account for the said period should be adequate to cover the interest debited during the period. As a thumb rule, credits of approx. 10 % of the limit should be received in the account.		31-01-11	28-02-11	10-03-11	20-03-11

1.6	Stock statement should be received at least once in a quarter.			31-08-10	30-11-10	28-02-11
1.7	Stock statement as on 31-12-2010 should be received by 31-03-2011.		20-01-11	28-02-11	10-03-11	20-03-11
1.8	If stock statement as on 31-12-2010 is not received by 20-01-2011, then branch and HO officials should carry inspection jointly and inspection report should be kept on record.		15-02-11	28-02-11	10-03-11	20-03-11
1.9	An account where the regular / adhoc credit limits have not been reviewed or have not been renewed within 90 days from the due date / date of adhoc sanction, will be treated as NPA.			28-02-11	10-03-11	20-03-11
1.10	CC accounts having due date 31-12-2010 or prior should be renewed by 31-03-2011.		01-12-10	31-01-11	28-02-11	10-03-11
2.0	Debit balance in Deposit Account:					
2.1	Debit balance in deposit a/c should be recovered within 90 days.					

2.2	Debit balance in Current account as on 31-12-2010 should be recovered by 31-03-2011.		31-01-11	28-02-11	10-03-11	20-03-11
2.3	Debit balance in Savings account as on 31-12-2010 should be recovered by 31-03-2011.		31-01-11	28-02-11	10-03-11	20-03-11
3.0	Letter of Credit Paid:					
3.1	Debit balance in LC Paid account outstanding as on 31-12-2010 should be recovered by 31-03-2011.		31-01-11	28-02-11	10-03-11	20-03-11
4.1	Term Loan:					
➤	The Term loan will be treated as NPA when interest and / or installment of principal remain overdue for a period of more than 90 days.			31-08-10	30-11-10	28-02-11
➤	Interest and Installment up to 31-12-2010 should be recovered by 31-03-2011.		31-01-11	28-02-11	10-03-11	20-03-11
5.0	Bill Discounting:					
5.1	Bills remaining overdue for a period of more than 90 days will be classified as NPA.			31-08-10	30-11-10	28-02-11
5.2	Bills having due date 31-12-2010 or prior should be recovered by 31-03-2011.		31-01-11	28-02-11	10-03-11	20-03-11

6.0	Valuation Report:					
6.1	Valuation of security in case of NPA with balance of Rs.10 Lacs & above should be done at least once in 3 years as per RBI circular dated 06-10-2001.		31-10-10	30-11-10	31-12-10	31-01-11
6.2	Valuation report in case of PA may also be obtained once in 3 years.			31-08-10	30-11-10	28-02-11
7.0	Loan against security of FDR / RBD / NSC / IVP / KVP / LIC:					
7.1	To review the Overdrawn / Defaulters List and ascertain whether outstanding balance and interest receivable is within the face value of the security + accrued interest till date.			31-08-10	30-11-10	28-02-11
7.2	Follow up should be done for recovery of interest / overdue amount.			31-08-10	30-11-10	28-02-11
7.3	If TDR, NSC, KVP etc. have matured, then adjust the proceeds against loan balance.			31-08-10	30-11-10	28-02-11

7.4	In case of OD / DPLN against security of FDR, MIP etc. interest on FDR & MIP may be credited to SB / CD instead of to OD / DPLN. Review should be made of OD / DPLN against FDR / MIP and take corrective steps.			31-08-10	30-11-10	28-02-11
8.0	Inspection:					
8.1	All CC & Term loan accounts above Rs. 5 Lacs should be inspected by 31-03-2011.			31-08-10	30-11-10	28-02-11
9.0	Obtaining Information from borrowers:					
9.1	Audited accounts, Accounts, Audit report, Tax Audit report, Income tax return copies, company secretarial compliance certificate etc. should be obtained from all borrowers enjoying limit of Rs. 3 Lacs and above.		15-10-10	15-12-10	15-01-11	15-02-11
10.0	Multiple Limits:					
10.1	Close monitoring should be done in case borrower is enjoying Multiple Limits because overdue in one account may result in classifying all accounts as NPA.			31-08-10	30-11-10	28-02-11

