

Income Recognition, Asset Classification and Provisioning (2008-2009)

Classification of Assets as on 31-03-2009	Date of NPA	Age of NPA	Provision required
Standard	N.A.	N.A.	0.40 % / 2.00 % of Balance as on 31-03-2009
Sub-standard	Between 01-04-2008 To 31-03-2009	Not more than 12 months	10% of outstanding
i) Doubtful	Between 01-04-2007 To 31-03-2008	Between 13 to 24 months	100% of shortfall + 20% of realizable security
ii) Doubtful	Between 01-04-2005 To 31-03-2007	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 + 75% of realizable security (31-03-2010: 100 %)
iv) Doubtful	Advances classified as 'doubtful more than three years' on or after April 1, 2007	Between 01-04-2003 To 31-03-2005	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. ➤ 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 11-09-2002
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3.0	Income Recognition Policy: ➤ 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	The difference between the original advance and minimum balance indicates the repayment received towards the principal. Repayment towards principal = Original advance – Minimum balance.	
4.2	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. Interest arrears = Present balance – Minimum balance – Advance payments if any.	
5.0	As on 31-03-2009: 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 31-03-2009 should be divided by EMI to arrive at number of EMI received. If EMI due up to 31-12-2008 is received by 31-03-2009, the account will be classified as PA.	05-10-2001
6.0	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. (As on 31-03-2009) ➤ If interest due for the quarter ended 31-12-2008 is not paid, it becomes NPA on 31-03-2009. (i.e. overdue for more than 90 days). ➤ If installment towards principal due on 31-12-2008 is not paid, it becomes NPA as on 31-03-2009 (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 31-03-2008 then confirm whether account was classified as NPA during earlier years. If yes, then continue old NPA date.	

8.0	Interest receivable on all NPA accounts up to 31-03-2009 should be reversed / Overdue provision should be made. 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'	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	Valuation of Security in case of NPAs with balance of Rs.10 Lacs and above: 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. 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.	06-10-2001										
10.2	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. (The said rates are based on average life of the asset. Bank can provide higher rate) <table><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> Shop, Gala, Flat, Building etc. can be valued as per prevailing property rates available in Govt. gazette, property magazines etc. 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-144 of V. G. Mehta's I.T. Reckoner for A.Y.2008-09. Bank should evolve the policy for obtaining valuation of property charged in favor of bank.	Plant & Machinery	15 %	Furniture & Fixture	15 %	Consumer durable	20 %	Computers	30 %	Vehicle	20 %	
Plant & Machinery	15 %											
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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 31-03-2009) i) O/S continuously > Limit / DP between 31-12-2008 to 31-03-2009 NPA ii) If O/S < Limit and there are no credits during 31-12-2008 to 31-03-2009 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
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.	05-10-2001
11.3	As on 31-03-2009: 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 31-12-2008 or prior should be renewed by 31-03-2009, failing which the same will have to be classified as NPA as on 31-03-2009.	05-10-2001

11.4	As on 31-03-2009: 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 31-12-2008 or prior and remaining O/S as on 31-03-2009 will be classified as NPA as on 31-03-2009.	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	Loan against security of FDR / RBD / NSC / IVP / KVP / LIC should be classified as standard, if (O/S + interest) is less than value of above security as on 31-03-2009.	
12.2	Gold Loan: 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
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 Funds and Reserves' in the Balance Sheet.	23-04-1999 24-05-2000
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
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

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
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
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
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

Significant Changes made by Reserve Bank of India in respect of NPA.

No.	Subject	Circular date
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

