DIRECTORATE OF COOPERATIVE AUDIT:ORISSA:BHUBANESWAR.

No.VII(I)1/97- 4138(16) Audit-8/Dated:- 17/8/2003

To

The All Asst.Auditor General
of Cooperative Societies of
Circles.

Sub:- Modification in the Asset Classification and Provisioning Norms of O.S.C.B. Ltd., and C.C.Bs in the State.

Sir,

As per guidelines communicated by Reserve Bank of India,Rural Planning and Credit Department,Central Office,Bombay vide their Circular No.RPCD.No.B.C.155/07-37-02/95-96 dt.22.6.1996,necessary instructions have been communicated vide R.C.S.(O)Circular No.1805(16)dt.30.1.97 on income recognition and asset classification of state Cooperative Bank and Central Cooperative Banks and provisioning there of from the year 1996-97.The procedure laid down in the said Circular is now being adopted by the State Coop.Bank and C.C.Bs as the criteria for estimating income recognition,asset classification and provisioning thereof on a prudential basis.Now, with a view to get along with international best practices and to ensure better financial status and transporency,R.B.I. in its Circular No.RPCD. No.RF.BC.39/07.37.02/2002-03 dt.30.12.2002 has decided that the 90 days norm for recognition of loan impairment will be extended to the State Coop.Bank and Central Coop.Banks from the year ending 31.3.2006 .The detail guidelines with regard to the modified policy measures are given below.

P.T.O.

1. Asset Classification-Adoption of 90 days norm in non-farm Sector.

Till now, the norm prescribed under non-farm sector Loan for asset classification was when the interest and /or instalment of principal remain overdue for a period more than 180 days the Loan considered to be non performing. As per the above Circular of R.B.I., this period of 180 days has been reduced to 90 days.

Thus the following Criteries are now prescribed to consider a loan or advance as non-performing with effect to 31.3.2006 for the purpose of provisioning there of.

A non-performing asset shall be a loan or an advance where:-

a) Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of term loan;

b) The account remains out of order for a period of more than 90 days, in respect of an overdraft/Cash credit(OD/CC);

c) The bill remains overdue for a period more than 90 days in the case of bills purchased and discounted;

d) Any amount to be received remains overdue for a period more than 90 days in respect of other accounts.

There would be absolutely no modification in the norms perscribed for asset classification in respect of direct Agricultural loans or advances and the existing norm shall continue as it is two harvest seasons or one year. In respect of other agricultural loans including those for activities allied to agriculture, which are regulated by 180 days delinquency norm at present, the 90 days norm will be applicable from the year ending March 31.2006.

P.T.O.

2. Provisioning with affect from March 31,2004.

As stipulated in the referred Circular of R.B.I., the State Coop.Bank and C.C.Bs are to charge interest on monthly rests by April 1,2004 except for agricultural loans and loans for activities allied to agriculture for moving smoothly over to the 90 days norm.However, the data of classification of advance as NPA should not be changed an account of interest at monthly rests. It is again reiterated that the Banks will continue to classify an accounts as NPA only if the interest charged during any quarters is not serviced fully within 180 days from the end of the quarter with effect from April 1,2004 and with effect from March31,2006 within 90 days from the end of the quarter.

In order to avoid a direct stress to be caused due to at a time affect of 90 days norm,on the profitability and exposure of financial status of OSCB and C.C.B.,a slow and gradual method of provisioning has been adopted to overcome the impact smoothly at the initial stage. As advised by R.B.I, the Banks have to make additional provision for the loans where the interest and or instalment of principal has remained overdue for morethan 90 days but less than 180 days.

The additional amount of provisioning required on account of introduction of this modified norm shall be made in three phases starting from the year ending 31.3.2004 and reflected in the audit report for 2003-04 onwards in the following manner to ensure smooth transition to 90 days norm by 31.3.2006.

P.T.O.

a) 25% of the additional provisioning to be provided by 31.3.2004, and reflected in the audit report of 2003-2004.

b) 50% of the additional provisioning to be provided by 31.3.2005 and reflected in the audit report of 2004-2005.

c) 100% of the additional provisioning to be provided by 31.3.2006 and reflected in the audit report of 2005-2006.

Illustration:-

Classification and provisions as per 180 days norm already made till 31.3.2004, classification as per 90 days norm to be effected from 31.3.2004 and the additional amount of provisioning requirement for 2003-04 shall be effected up to 25% by 31.3.2004, which would be reflected in the audit report for 2003-04.

Suppose provisioning amount as per 180 days delinquency norm(by 31.3.2004)-Rs.100/- and provisioning amount as per modified norm i.e 90 dayes delinquency norm(by 31.3.2004)-Rs.125/-

Hence, additional provisioning required is Rs.25/-.out of Rs.25/-only 25% i.e Rs.6.25 or Rs.6.00 to be provisioned and reflected in the audit report for 2003-04. Thus total provisioning would be Rs.106.25 or Rs.106.00 by 31.3.2004 and Rs.112.50 (50%)or Rs.113.00 by 31.3.2005 and Rs.125.00(100%) by end of 31.3.2006.

It is again reiterated that theugh the modified norm on Income recognition, Asset classification and provisioning thereof prescribed by R.B.I. is to be adopted by the State Cooperative Bank and all Central Coop. Banks in the State from the year ending 31.3.2006, they are to make additional provisions for all such loans remain overdue for more than

90 days but less than 180 days in a phased manner from the year ending 31.3.2004. Therefore, the audited financial statements of OSCBs for the year 2003-04 onwards have to reflect the asset classification and provisioning as per the modified norm prescribed by the R.B.I.

Therefore, while examining the status of assets of the O.S.C.B. and C.C.Bs and making provisions on non-forming assets, the above modified norms to this effect should be properly followed by the concerned auditors from the year 2003-2004.

The R.C.S.,Orissa Circular No.1805(15)dt.30.1.97 stands modified to this extent as per the R.B.I.,Circular No.RPCD.No.RF.BC.39/07.37.02/2002-03 dt.30.12.02.However, the procedure laid down in the Circular No.1805 dt.30.1.97 for assessment of NPA and provisioning shall continue for audit of accounts of OSCB and CCBs till March 31,2006.

You are all impressed upon to Circulate the contents of this Circular amongst all auditors including concurrent auditors of C.C.Bs of your Circle for their information and guidance for conducting audit of the Central Coop. Banks.

Yours faithfully,

Auditor General of C.S.,Orissa.

Memo No. 4139(18) /Dated:- 5/8/2003
Copy forwarded to the Managing Director,OSCB Ltd., Bhubaneswar/Secretaries of all Central Coop.Banks for information and necessary action.

Joint Auditor General of C.S.(O)

Memo No. 4140 /Dated:- 5/8/2003
Copy to Registrar of Cooperative Societies,Orissa for information and necessary action.

Joint Auditor General of C.S.(O)

Memo No. 4141 /Dated:- 5/8/2003

Copy forwarded to the General Manager(I/c), Rural Planning and Credit Deptt., Central Office, Garment House, Dr. Annie Besant Road, Worli, Mumbai-400018 for information and necessary action with reference to his office Circular No. RPCD No. 39/07.37.02/2002-03 dt. 30.12.2002.

5.8.2003

Joint Auditor General of C.S.(O).

Memo No. 4142(70) /Dated:- 5/8/2003

Copy to all auditors of Central Audit/Concurrent auditors of O.S.C.B.Ltd., for information and guidance.

Copy to Guard File.
30 S.C.

5/8/03

Joint Auditor General of C.S.(O)

Dash.2.8.2003.