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DIRECTORATE OF COOPERATIVE AUDIT, ORISSA, BHUBANESWAR

Letter No. 3031 (16) VI(i) 28/08 / Audit-8 Date 12.4.2010.

To,

All Assistant AGCS of Circles

Sub: ***Prudential Norms on Asset Classification, Provisioning and Income Recognition for Primary Agricultural Credit Societies (PACS)***

Sir,

You are aware that under the Government of India package for revival of the Short Term Credit Structure (STCCS), the Primary Agricultural Credit Societies (PACS) have been recapitalized to achieve a minimum Capital Adequacy ratio of 7%. The recapitalization assistance was assessed applying Prudential Norms for Asset Classification, provisioning requirement, income recognition and capital adequacy. NABARD vide their Circular No. 112/DOS-22/2009-10 dated 23rd July 2009 for Prudential Norms on asset classification, provisioning and income recognition and Circular No. 186.DOS-38/2009 dated 06th November 2009 for Capital Adequacy Ratio have prescribed guidelines for its adoption by the PACS from 1st April 2009. The guideline in detail is enclosed herewith for your information.

You are requested to circulate the same among the Auditors of your Circle for its smooth implementation in course of statutory audit of accounts of all PACS for the year 2009-10 and onwards. The Audit Report of PACS has to reflect the Asset Classification, Provisioning and Income Recognition alongwith CRAR as per norms prescribed by NABARD. Please keep in mind that unless these statements are prepared and enclosed to the Audit Reports of PACS, the said Reports should not be accepted by your Office.

Yours faithfully,

9.4.2010

Auditor General of C.S.,
Orissa, Bhubaneswar

30 spare copies for Auditors @ Central Audit / Guard file / I.S.S.F.

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

DEPARTMENT OF SUPERVISION
(FOURTH FLOOR, 'A' & 'B' WING)

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DoS

Ref. No. NB.Pol/~~1512~~/P-162/2009-10

Circular No. 112 / DoS - 22 / 2009-10

23 July 2009

The Registrar of Cooperative Societies
(25 implementing States)

Bhubaneswar : Orissa

Dear Sir

Prudential Norms on Asset Classification, Provisioning and Income Recognition for Primary Agricultural Credit Societies (PACS) - Guidelines

As you are aware, under the Government of India package for revival of the Short Term Cooperative Credit Structure(STCCS), the Primary Agricultural Credit Societies (PACS) have been recapitalised to achieve a mimimum capital adequacy ratio of 7%. The recapitalisation assistance was assessed applying prudential norms for asset classification, provisioning requirement, income recognition and capital adequacy.

2. Hitherto, prudential norms on asset classification, provisioning and income recognition were not made applicable to PACS for finalisation of their annual accounts. However, as a part of the ongoing reforms process as envisaged in the memorandum of understanding executed by the State Government with Government of India and NABARD, prudential norms need to be introduced in the PACS. Towards this end, NABARD in consultation with the RBI has prepared the guidelines (copy enclosed) on prudential norms keeping in view the preparedness of PACS, training inputs received and most importantly, to make the financial statements of PACS present a true and fair picture of their working. The guidelines may be issued to PACS for adoption in the State from 01 April 2009.

3. A separate communication will follow on capital adequacy norms for PACS.

A copy of the letter issued to PACS on application of guidelines may be endorsed to our concerned RO.

Yours faithfully

(G. C. Panigrahi)
Chief General Manager

Encl. : A copy of guidelines

d/joyce/policy/rcs

ASM (Rayesh)

ASM (D Khan)

17/8/09

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Endt. No. No.NB.DoS.HO.POL./15~~130-1~~/2009-10 of date

Copy forwarded for information and necessary action to:

1. The Chief General Manager, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Mumbai

2. The Executive Assistant to the Chairman, National Bank for Agriculture and Rural Development, Head Office, Mumbai.

3. The Executive Assistant to Managing Director, National Bank for Agriculture and Rural Development, Head Office, Mumbai.

4. The Executive Assistant to all Executive Directors, National Bank for Agriculture and Rural Development, Head Office, Mumbai.

5. The Secretary, Secretary's Department, National Bank for Agriculture and Rural Development, Head Office, Mumbai.

6. The Chief General Manager / General Manager / Officer in charge, National Bank for Agriculture and Rural Development, All Regional Offices other than Kerala, H.P. & Goa. This has a reference to No.NB.DoS.HO/28/POL/J-1/IRAC-PACS/2008-09 dated 02 April 2009 on the subject.

7. The Chief General Manager, All Departments in HO,

8. The General Manager, North / West / South & East Zones, NABARD, HO, Mumbai.

9. The Principal, National Bank Staff College, Lucknow.

10. The Principal, National Bank Training Centre, Lucknow.

11. The Director, Bankers' Institute of Rural Development, Lucknow.

12. The Principal, Regional Training College, Bolpur/ Mangalore.

13. The Chief Faculty Member, Zonal Training Centre, National Bank for Agriculture and Rural Development, Hyderabad.

14. The General Manager, Public Relations Department, NABARD HO, Mumbai

(A.K.Sahoo)
General Manager

Prudential Norms on Asset Classification, Provisioning and Income Recognition for Primary Agricultural Credit Societies (PACS) - Guidelines

(1) Loans and Advances

Loans and advances may be classified as NPA (non-performing asset) where:

i. The instalment of principal or interest thereon remains overdue for two crop seasons (short duration crops) and one crop season (long duration crops) in the case of agricultural advances, both short term and long term. The purposes for which this norm is applicable is given in the Annexure.

ii. Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of non-agricultural loans and loans for allied activities.

iii. The account remains out of order for a period of more than 90 days, in respect of an overdraft/ cash credit.

iv. In all other cases, 90 days overdue criteria to be applicable.

An account may be treated as 'out of order', if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases, where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during the same period, these accounts may be treated as 'out of order'.

In respect of a borrower having more than one facility, all the facilities granted by PACS to the borrower has to be treated as NPA and not the particular facility or part thereof which has become NPA.

Wherever due to natural calamities conversion of the short-term production loan into a term loan or re-schedulement of the repayment period is allowed, the converted/ rescheduled loan as well as fresh loan granted has to be treated as current dues and need not be classified as NPA.

In the case of all other rescheduled loans, the accounts which have been subjected to restructuring etc., whether in respect of principal instalment or interest amount, will be eligible to be upgraded to the standard category only after 1 year of satisfactory performance in regard to repayment of instalment/ interest.

Advances against term deposits, NSCs, IVPs, KVPs and life insurance policies need not be treated as NPAs, but advances against gold and other ornaments to be treated as NPAs based on the period of overdue and purpose for which loan was disbursed i.e. whether for agriculture or non-agriculture.

In the case of staff loans, such loans is to be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.

The loans and advances may be classified into 4 categories and provisions may be made thereagainst as indicated below :-

Category	Particulars	Provision (%)
Standard	Loans which have not become NPA-agricultural & nonagricultural	No provision
Sub-standard	Overdues for a period not exceeding 3 years	5
Doubtful	Overdues above 3 years, and upto 4 years - D1	10
	Overdues over 4 years but not exceeding 6 years-D2	15
	Overdues exceeding 6 years- D3	50
	Unsecured Advances	100
Loss	Identified by the PACS/ Auditor	100

Overdue loans where decrees or execution petitions have been time-barred or documents are lost or no other legal proof is available, where the members and their sureties are declared insolvent or have died leaving no tangible assets, where the members have left the area of operation of the society leaving no property and their sureties have also no means to pay the dues, where the loan is fictitious or when gross misutilisation is noticed and amounts which cannot be recovered due to non-availability of securities or where the realisable value of the security is less than 10% of the outstanding in the borrowal account may be treated as loss assets.

In the case of loans outstanding under the back-end subsidy schemes, provision may be made only on net of subsidy basis.

It may be noted that the entire outstanding in the loan account be treated as NPA, not the defaulted instalment, in case of term loans.

In the case of assets other than loans and advances, the provisioning norm may be as under:-

(2) **Cash on hand :-** The shortage in cash, if any, observed on verification either by the society officials or by the auditor or by any regulatory/ supervisory authority may be provided for. If the society is holding any soiled notes or mutilated notes as on 31 March of the year, provisions may be made for the value of such notes held.

(3) **Balances with banks :-** The General Ledger/ Subsidiary Ledger may be reconciled on a periodical basis with the pass book or certificate/ statement of account issued by the bank. Provision may be made in respect of the entries not reconciled and outstanding for more than one year.

(4) **Investments :-** The investments of a PACS is normally in fixed deposits with higher financing agency and other banks and shares in the Central Cooperative Bank and other cooperative institutions. There may be some

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PACS which are having investments in government and other approved securities or fixed deposits with Post Offices and/or other institutions. In the case of fixed deposit with DCCB and other banks or with Post Office/ Govt Treasury, no provision is required to be made if the society is having the fixed deposit receipts or other documents to show having such deposits. In the case of fixed deposits with other institutions, no provision may be made if the interest is received regularly or the institution is functioning properly. If not, the realisability of the amount may be assessed and provision may be made for the unrealisable portion. The value of fixed deposits with institutions which are under liquidation/ winding up procedure may be treated as loss assets and full provision may be made. The value of fixed deposits which are not collected/ received within 6 months from the date of maturity can generally be treated as doubtful of recovery and provision may be made to the full extent. In case of shares in cooperatives or other institutions, other than shares of the CCB to which the PACS is affiliated if the income/dividend is being received regularly, no provision need to be made. In case, not received regularly, i.e. during the previous 3 years, provision may be made against the investment as the difference between the book value and the breakup value. The breakup value may be calculated as the net worth of the institution divided by the total number of shares of the institution multiplied by the number of shares held by the society in the institution. If the financial statements of the cooperative institutions in which shares are held, are not available for the previous 3 years, provision may be made for the full amount. If the institution in which the PACS has invested money is defunct or under liquidation, the entire investment in such institution may be treated as loss assets and full provision may be made. The government and other trustee securities, if held, may be valued at book value. When securities are purchased at a price higher than the face value, the difference between the purchase value and the face value may be depreciated in equal proportion every year over the remaining maturity period of the security.

(5) Fixed Assets :- Yearly depreciation may be provided to each of the fixed assets till the value of the Fixed Asset reaches Re.1/-. The rate of depreciation may be decided by the society, based on the normal life of the asset; if not prescribed by the State Cooperative Societies' Act/ Rules or By-law of the society. In the case of land, no depreciation required, if freehold land and in case of leasehold land, amount in proportion to expiry of the lease period may be provided.

(6) Sundry Debtors and other receivables/ security deposits with State Govt. Departments :- In the case of amount receivable from government and government departments, if the amount is not received within 1 year from the date of claiming, it can naturally be assumed that there are some problems in realisation of the amount. Therefore, for such amount 10% provision may be made if not received within 1 year, 50% provision if not received within 2 years and 100% provision for more than 3 years. In case of security deposits with utility agencies, no provision need be made. In respect of frauds and embezzlements etc., full provision may be made from the date of detection of frauds. In the case of all other amounts to be received /recovered, full provision may be made if not realised within 3 years.

(7) Non-credit business:- PACS undertake business like sale of fertiliser, PDS items, clothes, etc. As on 31 March every year a physical verification of each of the items may be made and if any shortage of stock, degraded stock and unsaleable stock is found provision may be made. For shortage of stock, full provision may be made. Any item which remains unsold after the expiry period indicated, may be treated as unsaleable and full provision made thereagainst. The items having no expiry period may be treated as unsaleable if remaining unsold for more than 3 years and full provision made. In the case of certain items like cloth, the value depreciates by the passage of time and therefore such items may be valued based on age. The cloths in stock upto 1 year may be valued at purchase price, between one year and 2 years may be valued at 80%, between two years and 3 years at 50% and above 3 years at nil and provision for diminution in value may be made accordingly.

(8) Income Recognition

Most of the State Cooperative Societies' Acts/ Rules/ Audit Manuals provide for taking unrealised income to P&L A/c and making corresponding matching provision for overdue interest. Keeping this in view, the following recommendations are made :

(a) Interest accrued/ receivable on loans & advances:- The amount of interest accrued but not actually realised including the overdue interest as on 31 March each year may be taken to P&L A/c. Provision may be made for the interest overdue. In the case of NPA loans, if in the previous years the interest/ part of the interest not actually collected was taken to P&L A/c. without creation of provision, the interest so taken to P&L A/c. may be provided for.

(b) Interest on investments :- The interest on fixed deposits, government securities etc., which has accrued but not received may be taken to P&L A/C and provision may be made for the overdue interest. In the case of investments like shares etc., the income/ dividend amount receivable may not be known. In such cases, the income/ dividend as and when received need to be reckoned. If interest/ income was taken to P&L A/C in the past and if the investment is treated as doubtful/ unrealisable, provision may be made for the income taken to P & L A/C in the previous years.

(c) Fee, commission, etc :- The other income like fees, commission etc., in respect of the loans etc., may be treated as income only when the account is standard. Further, in the case of fees, commission etc., taken to

P&L A/C in the previous years without actual receipt, on non-receipt of the same/the loan becoming NPA, adequate provision may be made for such income.

(9) Time frame for implementing the prudential norms

The PACS are located at village level spread across the length and breadth of the country. The staff and Board members of PACS need extensive training and time to assimilate the new concepts involved in the prudential norms. Hence, the prudential norms suggested may be made applicable from 1 April 2009.

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Direct Finance to Farmers for Agricultural Purposes

I :Short- Term loans for raising crops i.e. for crop loans. In addition, advances upto Rs.1.00 lakh to farmers against pledge/ hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 6 months, where the farmers were given crop loans for raising the produce, provided the borrowers draw credit from one bank.

II :Medium and long term loans (provided directly to farmers for financing production and development needs).

i. **Purchase of agricultural implements and machinery**

i. Purchase of agricultural implements - Iron ploughs, harrows, hose, land-levellers, bundformers, hand tools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.
ii. Purchase of farm machinery - Tractors, trailers, power tillers, tractor accessories, viz., disc ploughs, etc.
iii. Purchase of trucks, mini-trucks, jeeps, pick-up vans, bullock carts and other transport equipment etc., to assist the transport of agricultural inputs and farm products.
iv. Transport of agricultural inputs and farm products.
v. Purchase of plough animals.

ii. **Development of irrigation potential through**

a Construction of shallow and deep tube wells, tanks etc., and purchase of drilling units.

b Constructing, deepening, clearing of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor and pumps.

c Purchase and installation of turbine pumps, construction of field channels (open as well as underground), etc.

d Construction of lift irrigation project.

e Installation of sprinkler irrigation system.

1A

f Purchase of generator sets for energisation of pump sets used for agricultural purposes.

iii. **Reclamation and Land Development Schemes**

Bunding of farm lands, levelling of land, terracing, conversion of dry paddy into wet irrigable paddy lands, wasteland development, development of farm drainage, reclamation of soil lands and prevention of salinisation, reclamation of ravine lands, purchase of bulldozers, etc.

iv. **Construction of farm buildings and structures, etc.**

Bullock sheds, implement sheds, tractor and truck sheds, farm stores, etc.

v. **Construction and running of storage facilities**

Construction and running of warehouses, godowns, silos and loans granted to farmers for establishing cold storages used for storing own produce.

vi. **Production and processing of hybrid seeds for crops**

vii. **Payment of irrigation charges, etc.**

Charges for hired water from wells and tube wells, canal water charges, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to Customs Service Units, payment of development cess, etc.

III **Other type of direct finance to farmers**

a. **Short-term loans**

To traditional/ non-traditional plantations and horticulture.

b. **Medium and long-term loans**

Development loans to all plantations, horticulture, forestry and wasteland.

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Ref. No. NB. DoS. HO. POL. /3584 / P-162/ 2009-10

Circular No. 186 / DoS- 38 / 2009

06 November 2009

Please circulate

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The Registrar of Cooperative Societies
(25 Implementing States)

Dear Sir,

Prudential norms on Asset Classification, Provisioning and Income Recognition for Primary Agricultural Credit Societies (PACS)

Please refer to our Circular No. 112/ DoS-22/ 2009-10 dated 23 July 2009 forwarding detailed guidelines on prudential norms on Asset Classification, Provisioning and Income Recognition for PACS with a request to ensure adoption of the same by PACS from 01 April 2009.

2. As you are aware, the PACS were recapitalised under the GoI Package for Revival of Short Term Cooperative Credit Structure (STCCS) to achieve a Capital to Risk-weighted Assets Ratio (CRAR) (or Capital Adequacy Ratio) of 7% and were allowed a period of two years to bring in their share towards recapitalisation as assessed during special audit. Now that most of the PACS have either received recapitalisation assistance or are in an advanced stage of receiving the same, they may have to work out their capital adequacy ratio and disclose the same in their financial statements. The financial statements prepared applying the prudential norms prescribed vide our circular referred to above should also contain the details of the capital adequacy of the PACS.

3. As advised in our aforesaid Circular, we now furnish the methodology for working out capital adequacy ratio of PACS in the Annexure. As may be seen therefrom, different assets, as appearing in the Balance Sheet of the PACS, are assigned specific weights. The PACS are required to apply the risk weights as prescribed for each asset category and work out the risk weighted asset. Provisions, if any, made for diminution in the value as per prudential norms may be netted from the value of assets. PACS may be advised to strictly follow the account heads as given in the Common Accounting System (Ref. circular No. NB.DCRR/152A/CAS/2007-08 dated 18 May 2007) and should not add / create new account heads under assets. After the risk weighted assets are calculated, the capital funds will have to be worked out by using the details given in the Annexure. Once the capital funds and risk weighted assets are known, the ratio of capital to risk weighted assets can be calculated by using the formula indicated. The capital adequacy ratio so worked out may be disclosed as a note to the financial statements i.e. the Profit & Loss

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Account and the Balance Sheet. The working sheet should also form a part of the audit report.

4. We shall, therefore, be glad, if you will issue necessary instructions to the PACS in your State to implement the system of working out CRAR and indicate the same in the note on accounts to Balance Sheet with effect from the year 2009-10.

5. Please acknowledge receipt of the circular to our Regional Office.

Yours faithfully

Sd/-

(G. C. Panigrahi)
Chief General Manager

Encl : as above.

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Calculation of Capital to Risk Weighted Assets Ratio (CRAR)
(For Primary Agricultural Credit Society)

A : Risk Weights for Assets

(Amt. Rs. thousand)

Sr. No.	Assets	Amount	Risk Weight (%)	Risk Weighted Assets (3X4/100)
1	2	3	4	5
1	Cash on Hand		0	
2	Balances with banks		20	
3	Balances with other institutions		20	
4	Investments			
a	Govt. Securities		2.5	
b	Shares with the DCCB/SCB		20	
c	Shares in other cooperative institutions (Other than CCB/SCB)		100	
d	Fixed Deposits with DCCB/ Other banks		20	
e	NSC/ KVP		2.5	
f	Staff PF balance with PF/ Trust/ as deposits with banks		20	
g	Others (including deposits with marketing societies)		100	
5	Loans & Advances			
a	Advances against term deposits/ LIC policies/ NSC, etc. where adequate margin available		0	
b	All other loans to members & Staff		100	
6	Closing Stock		100	
7	Fixed Assets			
a	Land & Buildings, Godowns		100	
b	Furniture & Fixtures, Banking counter, computer & Electrical instalments		100	
c	Vehicles		100	
d	Agricultural Machinery		100	
8	Other Assets		100	
9	**Total Risk Weighted Assets**			

Note : i Assets are net of provisions created for diminution in value as per prudential norms.

ii.PACS should not add / create new account heads under assets. Account heads as given in CAS to be followed.

B. Capital Funds and Risk Weighted Assets Ratio

(Amt. Rs. thousand)

Sr. No.	Particulars	
1	**Capital Funds**	
i	Paid up share capital	
ii	Recapitalisation assistance received from :	
	(a) State Govt.	
	(b) Govt. of India	
iii	Statutory Reserve	
iv	Capital Reserve arising out of sale of assets	
v	Other Funds and Reserves not in the nature of outside liabilities @	
vi	Surplus in P & L A/C (Undistributed profit less probable dividend outgo)	
2	**Sub - total**	
	Add: Excess Provision (Loss provisions less erosion)	
3	**Deduct :** (a) Accumulated losses (b) Short provisions	
4	Net Capital Funds	

Capital to Risk Weighted Assets Ratio (CRAR) : $\frac{\text{Net Capital Funds}}{\text{Risk Weighted Assets}} \times 100$

@ Funds created out of profits, not utilised for the last 3 years and not intended for being utilised in the near future.