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DIRECTORATE OF COOPERATIVE AUDIT:ORISSA:BHUBANESVAR.

No. 4807(16)/VI(I)1/97-Audit-8- Dated: 1.7.2006

To

All Assistant Auditor General of  
Coop. Societies of Circles.

Sub: Modification in the Asset classification  
and provisioning norms of OSCARD Bank and  
CARD Banks in the State.

Sir,

Instructions were issued in this office Circulars No.7801 dt.17.4.98 and No.17239 dt.25.8.98 on income recognition and asset classification of OSCARD Bank and CARD Banks and provisioning there of from the accounting year 1997-98 basing on the guidelines prescribed by NABARD in Circular No.NB.DOS.LDB/1/97-98 dt.19.6.97. The said procedure laid down in the Circulars were being adopted by the OSCARD Bank and CARD Banks in the State as criteria for estimating income recognition, asset classification and provisioning there of on a prudential basis. Now in order to make the existing norms more streamlined for better evaluation of assets and to keep pace with the changing scenario, NABARD in their Circular No. NB-DOS.HO.POL./4600/J-1/2004-05-37/DOS/2005 dt.7.3.2005 have prescribed norm with certain changes for the OSCARD Bank and CARD Banks. The detailed guidelines with regard to the modified norms are given below:

1. Definition of Non-performing Assets (NPA)

Till now, Non-performing Asset (NPA) was defined as a credit facility in respect of which interest or instalment of Principal has become past due. A credit facility was treated as past due when it remains outstanding for a period of 30 days after due date. As per the above Circular of NABARD the 'past due' concept has been dispensed with.

Thus, the following criterias are now prescribed to consider a loan/advance as non-performing with effect from 31.3.2005 for the purpose of provisioning thereof.

A non-performing asset shall be a credit facility where-

(A) Interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a term loan.

(B) Interest and/or instalment of Principal remain overdue for two Crop seasons in case of short duration Crops and for one crop season for long duration Crops, in the case of advances granted for agriculture purpose.

Contd....2....

(C) Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

2. Treatment of Term loans (Definition of Crop harvest seasons for S.T. Loans).

As per the norms prescribed earlier, term loans for agriculture purposes was defined as NPA if interest or instalment of principal amount remained 'past due' for two Crop seasons covering two half years. Now as stipulated in the referred Circular (1) a loan granted for short duration Crops will be treated as NPA, if the instalments of Principal or interest thereon remains overdue for two Crop seasons and (2) a loan granted for long duration Crops will be treated as NPA, if the instalment of Principal or interest thereon remains overdue for one Crop season.

N.B:- The "long duration Crops" would be crops with crop season longer than one year and crops which are not "long duration crops" would be treated as "short duration crops". The Crop season for each Crop, which means the period upto harvesting of the Crops raised, would be as determined by the State Level Banker's Committee in the State.

3. Treatment of Term loans for non-agriculture purpose (activities allied to agriculture and non-farm Sector activities) - Adoption of 90 days norm for Asset Classification.

Till now, the norm prescribed under non-farm sector loan for asset classification was when the interest or instalment of principal amount remained as "past due" for more than two quarters, the loan considered to be non-performing. As per the above Circular of NABARD, this period of 180 days has been reduced to 90 days. The following criterias are now prescribed to consider a loan or advance as non-performing where -

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

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

4. Upgradation of re-scheduled accounts (classification of sub-standard Assets).

As per the revised norms an asset, where the terms and conditions of the loans regarding payment of interest and

repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as a sub-standard asset and should remain so in such category for one year or four quarters provided the interest and instalment of loans have been serviced regularly as per the terms of rescheduling instead of two years as prescribed in the earlier norms.

5. Provisioning with effect from 31.3.2005.

It is again reiterated that the Banks will classify the accounts as NPA only in cases where interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a term loan. But in case of loan or advance granted for Non-farm sector purpose, the Banks have to make additional provision for the loans where the interest and or instalment of principal remained over due for more than 90 days.

The additional amount of provisioning required on account of introduction of this modified norm shall be made in a phased manner starting from 31.3.2005 as indicated below:

(A) 25% of the additional provisioning in respect of non-farm sector to be made by 31.3.2005 and reflected in the Audit report for 2004-05.

(B) 50% of the additional provisioning to be made by 31.3.2006 and reflected in the Audit report for 2005-06.

(C) 100% of the additional provisioning to be made by 31.3.2007 and reflected in the Audit report for 2006-07.

Illustration.

Suppose provisioning amount as per 180 days delinquency norm (by 31.3.2005) is Rs.100/- and provisioning amount as per 90 days delinquency norm (by 31.3.2005) is Rs.125/-. Hence, the additional provisioning required is Rs.25/-. Only 25% of Rs.25/- i.e. Rs.6.25 or Rs.6.00 is to be provisioned and reflected in the Audit report for 2004-05. Thus the total provisioning would be Rs.106.25 or Rs.106.00 by 31.3.2005 and Rs.112.50 or Rs.113.00 (50%) by 31.3.2006 and Rs.125.00 by end of 31.3. 2007.

6. Provisioning for Standard Assets.

Currently, OSCARD Bank and CARD Banks are not required to make provisions on standard Assets. But the Banks have to provide a general provision at a minimum rate of 0.25 % on the total amount of standard Assets with effect from 31.3.2005.

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7. State Government guaranteed advances.

Hitherto, the loans/advances guaranteed by State Governments were not classified as NPA. But now the State Government guaranteed loans/advances and investment in State Government guaranteed Securities shall come under asset classification and provisioning norms where the interest and/or principal or any other amount due to the Banks remain overdue .

(A) for more than 180 days with effect from 31.3.2006 and

(B) for more than 90 days with effect from 31.3.2007.

All other instructions contained in the previous Circulars remain unchanged.

Since the audited financial statements of the Banks for the year 2004-05 onwards have to reflect the asset classification and provisioning as per the modified norm prescribed in this Circular, the concerned auditors should follow the modified norms scrupulously while examining the valuation of assets of the OSCARD Bank and CARD Banks and for making necessary provisions thereof from the accounting year 2004-05.

The R.C.S., Orissa Circulars No.7801 dt.17.4.98 and No.17239 dt.25.8.98 stand modified to this extent as per NABARD Circular No.NB.DOS.HO.POL/4600/J-I/2004-05/37/DOS/2005 dt.7.3.2005.

You are, therefore, impressed upon to circulate the instructions contained in this Circular amongst all the auditors including concurrent auditors of CARD Banks within your jurisdiction for their information and guidance.

Yours faithfully,

*[Signature]*  
Auditor General,

Coop. Societies, Orissa.

Memo No. 4808(22) /Dt. 1-7-2006

Copy with enclosure forwarded to the Managing Director, OSCARD Bank/Secretaries of all CARD Banks for information and necessary action. They are requested to prepare the financial statements of their Banks for audit from 2004-05 and onwards basing on the modified norms and submit the same to audit for examination.

*[Signature]* 1.7.2006  
Addl. Auditor General of C.S.(O).

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Memo No. 480905 /Dt. 1.7.2006

Copy to the Registrar of Coop. Societies, Orissa/  
All D.R.C.S. of Divisions for information and necessary action.

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

Memo No. 4810 /Dt. 1-7-2006

Copy forwarded to the A.G.M., NABARD, 2/1, Nayapalli  
Civic Centre, P.B.No.179, Bhubaneswar for information with  
reference to his letter No.NB(ORI)DOS/598/D-19/2005-06. Since due  
to late receipt of above Circular i.e. on 20.8.05 by which date  
42 out of 52 CARD Banks were audited upto 2004-05 the deficien-  
cies in provisioning as per this modified norm will be adjusted  
in A/R for 2005-06.

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

Memo No. 4811 /Dt. 1-7-2006

Copy to all auditors of Central Audit/Concurrent Audi-  
tors of OSCARD Bank Ltd. for information and guidance.

Copy to Guard file/  
40 Spare copies.  
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Addl. Auditor General of C.S.(O).

M. M/-22.6.2006..

