

Draft Reserve Bank of India (Urban Co-operative Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025

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Reserve Bank of India (Urban Co-operative Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025

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Introduction

Reserve Bank is statutorily mandated to operate the credit system of the country to its advantage. In line with the international practices and as per the recommendations made by the Committee on the Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of banks so as to move towards greater consistency and transparency in the published accounts.

In exercise of powers conferred by Sections 21, 35A and 56 of the Banking Regulation Act, 1949, and Section 6 of the Factoring Regulation Act, 2011, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest to do so, hereby issues these Directions hereinafter specified.

Chapter I - Preliminary

1. Short title and commencement

- (1) These directions shall be called the Reserve Bank of India (Urban Co-operative Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.
- (2) These directions shall come into force with immediate effect.

2. Applicability

- (1) These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as a 'UCB').

In this context, urban co-operative banks shall mean Primary CO-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.

- (2) A UCB shall follow the requirements of the State Co-operative Societies Acts and / or rules made thereunder, or other statutory enactments, if they are more stringent than those prescribed hereby.
- (3) A UCB shall also follow the prudential guidelines on income recognition, asset classification and provisioning of advances for restructured accounts as

prescribed in the Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025, in addition to these Directions.

3. Definitions

- (1) In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:
- (i) ‘*crop season*’ for each crop, shall mean the period up to harvesting of the crops raised, as determined by the State Level Bankers’ Committee (SLBC) in each State;
 - (ii) ‘*doubtful asset*’ shall mean an asset which has remained in the substandard category for a period of twelve months;
 - (iii) ‘*exposure*’ shall include all funded and non-funded exposures (including underwriting and similar commitments).
 - (iv) “*long duration crops*” shall mean crops with crop season longer than one year;
 - (v) ‘*loss asset*’ shall mean an asset where loss has been identified by a UCB or internal or external auditors or the inspection conducted by the Reserve Bank of India, but the amount has not been written off wholly by the UCB;
 - (vi) “*non-performing asset*” shall mean an asset, including a leased asset, which has ceased to generate income for a UCB;
 - (vii) “*out of order status*” – a cash credit / overdraft (CC / OD) account shall be treated as ‘out of order’ if either of the following conditions are satisfied:
 - (i) the outstanding balance in the CC / OD account remains continuously in excess of the sanctioned limit / drawing power for ninety days;
 - (ii) the outstanding balance in the CC / OD account is less than the sanctioned limit / drawing power but there are no credits continuously for ninety days;
 - (iii) the outstanding balance in the CC / OD account is less than the sanctioned limit / drawing power but credits are not enough to cover the interest debited during the previous ninety days period.

Explanation 1: ‘Previous ninety days period’ referred to in Sl. No. (iii) above shall be inclusive of the day for which the day-end process is being run.

Explanation 2: The definition of “out of order” shall be applicable to all loan products being offered as an overdraft facility, including those not meant for business purpose and/or which entail interest repayments as the only credits.

(viii) ‘*overdue*’ status – any amount due to a UCB under any credit facility shall be treated as ‘overdue’ if it is not paid on the due date fixed by the UCB.

(ix) ‘*security*’ shall mean tangible security properly charged to the UCB and will not include intangible securities like guarantees (including State government guarantees), comfort letters, etc.

(x) “*short duration crops*” shall mean crops which are not “long duration” crops;

(xi) ‘*substandard asset*’ shall mean an asset, which has remained NPA for a period less than or equal to twelve months;

- (2) The definitions of the terms Micro Enterprises, Small Enterprises, and Medium Enterprises shall be in terms of the circular FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020 on ‘[Credit flow to Micro, Small and Medium Enterprises Sector](#)’ as updated from time to time.
- (3) The terms ‘*credit event*’ and ‘*default*’ shall have the same meaning as assigned to it in the Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.
- (4) The terms ‘*Commercial Real Estate (CRE)*’, ‘*Commercial Real Estate – Residential Housing Sector (CRE - RH)*’, ‘*project finance*’, ‘*DCCO*’, and ‘*financial closure*’ shall have the same meaning assigned to them in the Reserve Bank of India (Urban Co-operative Banks – Credit Facilities) Directions, 2025.
- (5) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, or the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by the Reserve

Bank of India or the Glossary of Terms published by Reserve Bank or as used in commercial parlance, as the case may be.

Chapter II - General Instructions

4. Role of the Board

- (1) A UCB shall frame a Board approved policy for the implementation of these Directions, which shall inter alia include the following principles / components:
- (i) the policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations;
 - (ii) guidelines for appointment of external agencies for valuation of collateral such as immovable property charged in favour of it;
 - (iii) policy on methodology and periodicity for review / renewal of credit facilities within the overall regulatory guidelines;
- (2) The Board of Directors of a UCB shall set cut-off limits for advances to be treated as 'larger advances' and finalise names of external agencies for annual stock audits for the purpose of Paragraph 12.

5. Prudence in Lending and Consumer Education

- (1) A UCB shall comply with the following instructions in respect of all loans sanctioned on or after December 31, 2021:
- (i) The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of dates of classification as special mention account / non-performing asset, etc. shall be clearly specified in the loan agreement.
 - (ii) The borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/loan agreement till full repayment of the loan.
 - (iii) In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements.
- (2) In case of loans sanctioned before December 31, 2021, compliance to the instructions in sub-paragraph (1) shall be ensured as and when such loans become due for renewal/review.

(3) A UCB shall apply the following principles in respect of working capital accounts sanctioned by them:

- (i) A UCB shall ensure that drawings in the working capital accounts are covered by the adequacy of current assets.
- (ii) Drawing power shall be arrived at based on the stock statement which is current.
- (iii) Notwithstanding Sl. No. (ii), considering the difficulties of large borrowers, stock statements relied upon by a UCB for determining drawing power should not be older than three months.
- (iv) The outstanding in the account based on drawing power calculated from stock statements older than three months, shall be deemed as irregular.

(4) In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch of a UCB should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon.

(5) A UCB shall implement the following instructions to increasing awareness among the borrowers:

- (i) place consumer education literature on its websites, explaining with examples, the concepts of date of overdue, special mention account and non-performing asset classification and upgradation, with specific reference to day-end process;
- (ii) consider displaying such consumer education literature in its branches by means of posters and / or other appropriate media;
- (iii) ensure that front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction / disbursal / renewal of loans.

6. Disclosure Requirements

A UCB shall make suitable disclosures in their Notes to Accounts as per the requirements contained in the Reserve Bank of India (Urban Co-operative Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter III - Asset Classification

7. General Instructions on Asset Classification

- (1) A UCB shall classify a loan or an advance as a Standard asset or a non-performing asset, as the case may be.
- (2) Standard asset 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.
- (3) A UCB shall flag a borrower account as overdue, if so, as part of their day-end processes for the due date, irrespective of the time of running such processes.
- (4) Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. Thus, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

Illustration: If due date of a loan account is March 31, 2021, and full dues are not received before the UCB runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

- (5) A UCB shall strictly adhere to the Board approved policy on methodology and periodicity for review / renewal of credit facilities within the overall regulatory guidelines.

- (6) A UCB shall avoid frequent and repeated *ad-hoc* / short review / renewal of credit facilities without justifiable reasons.
- (7) A UCB shall capture all the data relating to regular as well as *ad-hoc* / short review / renewal of credit facilities in its core banking systems / management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors / RBI. Further, the processes governing review / renewal of credit facilities should be brought under the scope of concurrent / internal audit / internal control mechanism of the bank.
- (8) A UCB having total assets of ₹2000 crore or above as on March 31, 2020 shall implement system-based asset classification with effect from June 30, 2021.

Explanation: ‘System-based asset classification’ shall mean asset classification (downgrading as well as upgrading) carried out by the CBS / computerized systems of the bank in an automated manner on an ongoing basis, based on the relevant instructions/guidelines issued by the Reserve Bank.

- (9) A UCB having total assets of ₹1000 crore or above and having self-assessed themselves as being under Level III or Level IV in terms of the circular [Dos.CO/CSITE/BC.4083/31.01.052/2019-20 dated December 31, 2019](#) on Comprehensive Cyber Security Framework for UCBs shall implement system-based asset classification with effect from September 30, 2021.
- (10) A UCB which meets the criteria in sub-paragraph (9) as at the end of the financial year 2020-2021 or subsequent financial years shall implement system-based asset classification within a period of six months from the end of the financial year concerned.
- (11) For smooth implementation of the system-based asset classification system, a UCB shall conduct pilot/parallel run and evaluate the results for accuracy/integrity of the asset classification in compliance with the applicable RBI instructions to ensure that they are ready for implementation of the system from the appointed date.
- (12) A UCBs not meeting the criteria in sub-paragraph (9) is encouraged to voluntarily implement the system-based asset classification in its own interest.

- (13) A UCB, which is not required to implement system-based asset classification, should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts. The UCB shall fix a minimum cut-off point to decide what would constitute a high value account depending upon their respective business levels. The cut-off point should be valid for the entire accounting year.
- (14) Responsibility and validation levels for ensuring proper asset classification shall be fixed by the UCB.
- (15) The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines.

8. Classification as non-performing asset

- (1) A UCB shall classify a loan or an advance as non-performing asset (NPA) if any of the following conditions are satisfied:
- (i) interest and / or installment of principal remain overdue for a period of more than ninety days in respect of a term loan;
 - (ii) account remains 'out of order', in respect of an Overdraft / Cash Credit (OD/CC) and all other loan products being offered as an overdraft facility, including those not meant for business purposes and/or which entail interest repayments as the only credits;
 - (iii) a working capital borrowal account where irregular drawings are permitted in the account for a continuous period of ninety days;
 - (iv) the bill remains overdue for a period of more than ninety days in the case of bills purchased and discounted;
 - (v) an account where the regular / ad-hoc credit limits have not been reviewed or have not been renewed within ninety days from the due date / date of ad-hoc sanction;

- (vi) in the case of direct agricultural advances, the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
 - (vii) in the case of direct agricultural advances, the instalment of principal or interest thereon remains overdue for one crop season for long duration crops;
 - (viii) a credit card account where the minimum amount due, as mentioned in the statement, is not paid fully within ninety days from the payment due date mentioned in the statement;
 - (ix) any amount to be received remains overdue for a period of more than ninety days in respect of other accounts.
- (2) In addition to the conditions in sub-paragraph (1), an account may also be classified as NPA in terms of certain specific provisions of these Directions, including inter alia Paragraph 10 as well as instructions contained in the Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.
- (3) Asset classification shall be borrower-wise and not facility-wise. All the facilities granted by a UCB to a borrower and investment in all the securities issued by the borrower shall have to be treated as NPA / NPI and not the particular facility/investment or part thereof which has become irregular.
- (4) In addition to the principles in sub-paragraph (3), where there is a threat of loss, or the recoverability of the advances is in doubt, the asset should be treated as NPA.
- (5) The classification of an asset as NPA should be based on the record of recovery. A UCB should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc.

- (6) A UCB shall ensure that identification of NPAs is done on an on-going basis and accounts are classified as NPA immediately, as soon as they turn into NPA as per the guidelines contained in these Directions, without waiting till the end of quarter/financial year.
- (7) A UCB shall report the figures of NPAs to the Regional Office of the Reserve Bank at the end of each year within two months from the close of the year in the prescribed proforma given in the [Annex - I](#).
- (8) A UCB shall ensure scrupulous compliance with the instructions for recognition of credit impairment and view aberrations by dealing officials seriously.
- (9) The Reserve Bank would continue to identify the divergences arising due to non-compliance, for fixing accountability. Where there is wilful non-compliance by the official responsible for classification and is well documented, the Reserve Bank would initiate deterrent action including imposition of monetary penalties.

9. Accounts regularised near about the balance sheet date

- (1) The asset classification of borrowing 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.
- (2) Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as NPA.
- (3) In other genuine cases, a UCB must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.

10. Specific cases of asset classification

- (1) Advances under consortium arrangements
- (i) Asset classification of accounts under consortium or multiple banking arrangements shall be based on the record of recovery of the individual member and other aspects having a bearing on the recoverability of the advances.

- (ii) Where the remittances by the borrower under consortium lending arrangements are pooled with one consortium member and / or where the consortium member receiving remittances is not parting with the share of other members, the account will be treated as not serviced in the books of the other members and therefore, be treated as NPA.
- (iii) A UCB participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

(2) Advances against Term Deposits, NSCs, KVPs, etc.

- (i) Advances against term deposits, NSCs eligible for surrender, KVPs and life insurance policies need not be treated as NPAs, provided adequate margin is available in the accounts.
- (ii) Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

(3) Agricultural advances

- (i) The NPA norms as per Sl. Nos. (vi) and (vii) of Paragraph 8(1) shall be applicable only to the following direct agricultural advances:
 - (a) Finance to Individual Farmers for Agriculture and Allied Activities (Dairy, Fishery, Piggery, Poultry, Bee-keeping, etc.) – loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such loans] engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (up to cocoon stage).
 - (b) Loans to others [such as corporates, partnership firms and institutions] for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) up to an aggregate limit of ₹4 crore per borrower for the following purposes:

- i. Short-term loans for raising crops, i.e. for crop loans. This shall include traditional/non-traditional plantations, horticulture and allied activities.
 - ii. Medium & long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements, technological solutions, machinery and developmental activities undertaken in the farm and development loans for allied activities).
 - iii. Loans for pre-harvest and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
 - iv. Loans to farmers up to ₹2.5 crore against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding twelve months, irrespective of whether the farmers were given crop loans for raising the produce or not.
 - v. Loans to small and marginal farmers (SMFs) for purchase of land for agricultural purposes.
 - vi. Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral.
 - vii. Export credit for exporting their own farm produce.
- (ii) In respect of agricultural loans other than those specified in Sl. No. (i), identification of NPAs shall be done on the same basis as non-agricultural advances.
- (iii) Depending upon the duration of crops raised by an agriculturist, the NPA norms as per Sl. Nos. (vi) and (vii) of Paragraph 8(1) shall also be made applicable to agricultural term loans availed of by them.
- (iv) A UCB shall ensure that while granting loans and advances, realistic repayment schedules are fixed on the basis of cash flows / fluidity with the borrowers.
- (v) Where natural calamities impair the repaying capacity of agricultural borrowers, as a relief measure, a UCB may decide on their own to:

- (a) Convert the short-term production loan into a term loan or re-schedule the repayment period, and
 - (b) sanction fresh short-term loans
- (vi) In such cases of conversion or re-schedulement as in Sl. No. (iv), the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA. The asset classification of these loans would, therefore, be governed by the revised terms and conditions and these would be treated as NPA under the extant norms applicable for classifying agricultural advances as NPAs.

(4) Government guaranteed advances

- (i) The credit facilities backed by guarantee of the Central Government though overdue shall be treated as NPA only when the Government repudiates its guarantee when invoked.
- (ii) The exemption in Sl. No. (i) is not for the purpose of recognition of income.
- (iii) The requirement of invocation of guarantee has been delinked for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposures.
- (iv) State Government guaranteed advances and investments in State Government guaranteed securities shall attract asset classification and provisioning norms if interest and / or principal or any other amount due to the UCB remains overdue for more than ninety daysma.

(5) Housing Loan to Staff

- (i) In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first month onwards.
- (ii) Such loans / advances should 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.

(6) Gold loans

- (i) A UCB shall fix monthly / quarterly instalments 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 shall be treated as NPAs if instalments of principal and / or interest thereon are overdue for more than ninety days.
- (ii) In respect of gold loans granted for agricultural purposes, interest shall be charged at yearly intervals and payment shall coincide with the harvesting of crops.
- (iii) Such advances will be treated as NPA only if instalments of principal and / or interest become overdue after due date.

(7) Transfer of Loan Exposures – The asset classification and provisioning requirements in respect of transactions involving transfer of loans shall be as per the Reserve Bank of India (Urban Co-operative Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

(8) Credit Card Accounts

- (i) A UCB shall report a credit card account as ‘past due’ to credit information companies (CICs) or levy penal charges, viz. late payment charges, etc., if any, only when a credit card account remains ‘past due’ for more than three days.
- (ii) The number of ‘days past due’ and late payment charges shall, however, be computed from the payment due date mentioned in the credit card statement.

11. Categories of non-performing assets

- (1) A UCB shall classify its NPAs into ‘substandard assets’; ‘doubtful assets’ and ‘loss assets’.
- (2) In the case of an NPA classified as substandard asset, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the UCB in full. Such assets will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the UCB will sustain some loss, if deficiencies are not corrected.

- (3) A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.
- (4) A loss asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
- (5) Classification of assets into above categories should be done taking into account the degree of well-defined credit weaknesses.
- (6) Notwithstanding Paragraph 8(5), in respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers, the asset should be straightaway classified as doubtful or loss asset as appropriate.

Herein, frauds is in terms of the [Master Directions on Fraud Risk Management in Urban Cooperative Banks \(UCBs\) / State Cooperative Banks \(StCBs\) / Central Cooperative Banks \(CCBs\) dated July 15, 2024](#), as updated from time to time.

- (7) For the purpose of sub-paragraph (6), the following shall apply:
 - (i) erosion in the value of security shall be reckoned as significant when the realisable value of the security is less than fifty per cent of the value assessed by the UCB or accepted by the Reserve Bank at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category.
 - (ii) If the realisable value of the security, as assessed by the UCB / approved valuers / the Reserve Bank is less than ten per cent of the outstanding in the borrowing accounts, the existence of security shall be ignored and the asset shall be straightaway classified as loss asset.
- (8) An asset classified as loss asset following the considerations of sub-paragraph (6) and Sl. No. (ii) of sub-paragraph (7) may be either written off after obtaining

necessary permission from the competent authority as per the Co-operative Societies Act / Rules, or fully provided for by the UCB.

12. Valuation of security

To bring down divergence arising out of difference in assessment of the value of security the following shall apply in cases of NPAs with balance of ₹10 lakh and above :

- (i) The current assets and their valuation shall be looked into at the time of Statutory Audit / Concurrent audit.
- (ii) To enhance the reliability on stock valuations, stock audit at annual intervals by external agencies may be considered in case of larger advances.
- (iii) Collaterals such as immovable properties charged in favour of the UCB should be valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

13. Upgradation of loan accounts classified as NPAs

- (1) Where entire overdues pertaining to all the credit facilities availed by a borrower from a UCB have been regularised by repayment through genuine sources (not by sanction of additional facilities or transfer of funds between accounts), the accounts may be upgraded to 'standard' asset category. Thus, the loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.
- (2) In such cases, it shall be ensured that the accounts remain in order subsequently and a solitary credit entry made in an account on or before the balance sheet date which extinguishes the overdue amount of interest or installment of principal is not reckoned as the sole criteria for treatment of the account as a standard asset.
- (3) With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified in the Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025 shall be applicable.

Chapter IV - Provisioning Norms

14. General Principles for Provisioning

- (1) Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the UCB, the UCB shall make provision against substandard assets, doubtful assets and loss assets.
- (2) All provisions required as per these Directions, whether accounted for under the head "Bad and Doubtful Debt Reserve (BDDR)" or any other head of account, shall be charged as an expense to the P&L account in the accounting period in which they are recognized.
- (3) After charging all applicable provisions as per these Directions and other extant regulations to the Profit and Loss Account, a UCB may make any appropriations of net profits below the line to BDDR, if required as per the applicable statutes or otherwise.
- (4) A UCB shall make provisions for NPAs as at the end of each calendar quarter i.e. as at the end of March / June / September / December, so that the income and expenditure account for the respective quarters as well as the P&L account and balance sheet for the year end reflects the provision made for NPAs.

15. Provisions in respect of Standard assets

- (1) A UCB shall make provisions for Standard assets as per the following requirements:

Category of Standard Asset	Rate of Provisioning
Direct advances to Agriculture and SME sectors	0.25%
Commercial Real Estate (CRE) sector	1.00%
Commercial Real Estate-Residential Housing Sector (CRE-RH)	0.75%
All other loans and advances not included above	0.40%

- (2) The provisions towards "standard assets" need not be netted from gross advances but shown separately as "Contingent Provision against Standard Assets" under "Other Funds and Reserves" {item.2 (viii) of Capital and Liabilities} in the Balance Sheet.

(3) In case a UCB is already maintaining excess provision than what is required / prescribed by Statutory Auditor / RBI Inspection for impaired credits under Bad and Doubtful Debt Reserve or any other head of account / provisions for NPA, additional provision required for Standard Assets shall be segregated and the same shall be parked under the head "Contingent Provisions against Standard Assets" with the approval of their Board of Directors. Shortfall if any, on this account may be made good in the normal course.

Explanation: The provisions referred to in this sub-paragraph are provisions created above the line i.e. by charging as an expense to the Profit and Loss account.

(4) The contingent provisions as per sub-paragraph (3) shall be eligible for inclusion in Tier II capital.

16. Provisions in respect of substandard assets

A general provision of ten per cent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

17. Provisions in respect of Doubtful Assets

(1) Provision shall be 100 per cent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse.

(2) For the purpose of sub-paragraph (1), the realisable value should be estimated on a realistic basis.

(3) In regard to the secured portion, provision shall be made on the following basis, at the rates ranging from twenty per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision Requirement
Up to one year	20 per cent
One to three years	30 per cent
Advances classified as 'doubtful for more than three years' on or after April 1, 2010	100 percent

18. Provisions in respect of Loss Assets

- (1) The entire assets should be written off after obtaining necessary approval from the competent authority and as per the provisions of the Co-operative Societies Act / Rules.
- (2) If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.

19. Additional Provisions at higher than prescribed rates

There is no objection if a UCB create bad and doubtful debts reserve beyond the specified limits on its own or if provided in the respective State Co-operative Societies Acts.

20. Provisions under Special Circumstances

(1) Provisioning Pertaining to Fraud Accounts

- (i) The entire amount due to the UCB (irrespective of quantum of security held against such assets), or for which the UCB is liable (including in case of deposit accounts), shall be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected;
- (ii) Where there has been delay beyond the prescribed period, in reporting the fraud to the Reserve Bank, the entire provisioning shall be made at once.
- (iii) In addition to Sl. No. (ii), the Reserve Bank of India may also initiate appropriate supervisory action where there has been delay by the bank in reporting a fraud or provisioning there against.

(2) Project Finance

- (i) For project finance exposures, a UCB shall maintain a general provision at the following rates for the funded outstanding on a portfolio basis:

	Construction Phase	Operational Phase – <u>after</u> commencement of repayment of interest <u>and</u> principal
CRE	1.25%	1.00%
CRE-RH	1.00%	0.75%
All others	1.00%	0.40%

- (ii) For accounts which have availed DCCO deferment and are classified as 'standard', a UCB shall maintain additional specific provisions as per Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.
- (iii) The provisions stipulated in Sl. Nos. (ii) and (iii) shall not be applicable for projects where financial closure has been achieved as on October 1, 2025, and such project loans shall continue to be guided by the prudential guidelines prevailing before October 1, 2025 for the purpose of provisioning, which otherwise shall be treated as repealed.
- (iv) Notwithstanding Sl. No. (iv), in case of any resolution of a fresh credit event and/or change in material terms and conditions in the loan contract in such projects, subsequent to October 1, 2025, the provisions stipulated in Sl. Nos. (ii) and (iii) shall apply to these projects as if these were sanctioned post October 1, 2025.
- (v) Provisioning for project loans classified as NPA shall be as per the instructions in Paragraph 16 to Paragraph 18 of these Directions.
- (3) Provisioning for Retirement Benefits – The liabilities of a UCB in the form of retirement benefit schemes for their staff, viz. Provident Fund, Gratuity and Pension, etc. shall be estimated on actuarial basis and full provision shall be made every year for the purpose in their Profit and Loss Account.
- (4) State Government guaranteed Advances – State Government guaranteed advance and investment in State Government guaranteed securities shall attract extant provisioning norms on the basis of classification of assets into prescribed categories as detailed in these Directions.
- (5) Advances covered by ECGC guarantee
- (i) In the case of advances classified as doubtful and guaranteed by ECGC, provision shall be made only for the balance in excess of the amount guaranteed by the Corporation.
- (ii) Further, while arriving at the provision required to be made for doubtful assets, realizable value of the securities shall first be deducted from the

outstanding balance in respect of the amount guaranteed by the Corporation and then provision made.

Illustration:

Outstanding Balance	₹4 lakhs
ECGC Cover	50 percent
Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2014)
Value of security held	₹1.50 lakhs

Provision required to be made:

Outstanding balance	₹4.00 lakhs
Less: Value of security held	₹1.50 lakhs
Unrealised balance	₹2.50 lakhs
Less: ECGC Cover (50% of unrealisable balance)	₹1.25 lakhs
Net unsecured balance	₹1.25 lakhs
Provision for unsecured portion of advance	₹1.25 lakhs (@ 100 percent of unsecured portion)
Provision for secured portion of advance (as on March 31, 2012)	₹0.60 lakhs (@ 40 per cent of the secured portion)
Total provision to be made	₹1.85 lakhs (as on March 31, 2014)

(6) Advances covered by guarantees under any existing or future schemes launched by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and National Credit Guarantee Trustee Company Ltd (NCGTC).

- (i) In case the advance covered by any existing or future schemes/guarantees launched by CGTMSE, CRGFTLIH and NCGTC becomes non-performing, no provision need be made towards the guaranteed portion.
- (ii) The amount outstanding, in excess of the guaranteed portion, shall be provided for as per the extant guidelines on provisioning for non-performing assets.

Illustration:

Outstanding Balance	₹10 lakh
CGTMSE/CRGFTLIH Cover	75% of the amount outstanding or 75% of the unsecured amount or ₹37.50 lakh, whichever is the least

Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2014)
Value of security held ₹1.50 lakh	Value of security held ₹1.50 lakh

Provision required to be made:

Balance outstanding	₹10.00 lakh
Less: Value of security	₹1.50 lakh
Unsecured amount	₹8.50 lakh
Less: CGTMSE/CRGFTLIH cover (75%)	₹6.38 lakh
Net unsecured and uncovered portion:	₹2.12 lakh
Provision for Secured portion @ 40% of ₹1.50 lakh	₹0.60 lakh
Provision for Unsecured & uncovered portion @ 100% of ₹2.12 lakh	₹2.12 lakh
Total provision required	₹2.72 lakh

(7) Advances against fixed / term deposit, NSCs eligible for surrender, KVPs, and life policies are exempted from provisioning requirements.

(8) Advances against gold ornaments, government securities and all other kinds of securities shall attract provisioning requirements as applicable to their asset classification status.

(9) Interbank exposure of UCBs under All Inclusive Directions

- (i) The interbank exposures arising from deposits placed by a UCB with a UCB under AID and their non-performing exposures arising from discounted bills drawn under LCs issued by a UCB under AID shall be fully provided within five years at the rate of twenty per cent annually.
- (ii) If the UCBs choose to convert such deposits into long term perpetual debt instruments (e.g. Innovative Perpetual Debt Instrument - IPDI) which may be recognised as capital instrument under a scheme of restructuring/ revival of a UCB under AID, provision on the portion of deposits converted into such instruments shall not be required.

Chapter V - Income Recognition

21. General Principles for Income Recognition

- (1) A UCB may recognise income on accrual basis in respect of credit facilities which are classified as 'Standard'.
- (2) A UCB shall not charge and take to income account interest on any NPA, including a Government guaranteed account, unless the interest has been realised.
- (3) Notwithstanding sub-paragraph (2), interest on advances against Term Deposits, National Savings Certificates (NSCs), Kisan Vikas Patras (KVPs) and life insurance policies may be taken to income account on the due date, provided adequate margin is available in the accounts.
- (4) Fees and commissions earned by a UCB as a result of renegotiations or rescheduling of outstanding debts shall be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.
- (5) In cases of loans where moratorium has been granted for repayment of interest, income may be recognised on accrual basis for accounts which continue to be classified as 'standard'. This shall be evaluated against the definition of 'restructuring' provided in Reserve Bank of India (Urban Co-operative Banks – Resolution of Stressed Assets) Directions, 2025.
- (6) A UCB undertaking equipment leasing shall follow prudential accounting standards.
- (7) Lease rentals comprise of two elements - a finance charge (i.e. interest charge) and a charge towards recovery of the cost of the asset. The interest component alone should be taken to income account.
- (8) Such interest component taken to income account, before the asset became NPA, if unrealised should be reversed or provided for.
- (9) In case of NPAs, as a prudential norm, there is no use in debiting the said account by interest accrued in subsequent months and taking this accrued interest amount as income of the UCB as the said interest is not being received.

It is simultaneously desirable to show such accrued interest separately or park in a separate account so that interest receivable on such NPA account is computed and shown as such, though not accounted as income of the UCB for the period.

- (10) If interest is not actually received for any reason in an account and the account is to be treated as an NPA, then the amount of interest so taken to income should be reversed or should be provided for in full.
- (11) Interest accrued in respect of non-performing advances should not be debited to borrowing accounts but shown separately under 'Interest Receivable Account' on the 'Property and Assets' side of the balance sheet and corresponding amount shown under 'Overdue Interest Reserve Account' on the 'Capital and Liabilities' side of the balance sheet.
- (12) In respect of borrowing accounts, which are treated as performing assets, accrued interest can alternatively be debited to the borrowing account and credited to Interest account and taken to income account.
- (13) In case the accrued interest in respect of the borrowing account is not actually realised and the account has become NPA, interest accrued and credited to income account should be reversed or provided for.

Illustrative Accounting Entries to be passed in respect of Accrued Interest on both the Performing and Non-performing Advances

I. Accrued Interest on Performing Advances

- i) Accrued interest in respect of performing advances may be charged to borrowing accounts and taken to income account. Illustratively, if the accrued interest is ₹10,000/- in respect of performing advances of a borrower 'X' (cash credit, overdraft, loan account, etc.) the following entries can be passed in the Books of Account.

(Dr) Borrower's account (CC, OD loan)	₹10,000.00
(Cr) Interest account	₹10,000.00

- ii) In case the accrued interest of ₹10,000/- in respect of the borrowing account is not actually realised and the account has become NPA,

interest accrued and credited to income account should be reversed or provided for if the same is not realised by passing the following entries:

(Dr) P&L a/c	₹10,000.00
(Cr) Overdue Interest Reserve Account	₹10,000.00

- iii) In case accrued interest is realised subsequently, the following entries may be passed:

(Dr) Cash / Bank account	₹10,000.00
(Cr) Borrower's account (CC, OD loan)	₹10,000.00
(Dr) Overdue Interest Reserve Account	₹10,000.00
(Cr) Interest account	₹10,000.00

II. Accrued Interest on Non - Performing Advances

- i) Accrued interest in respect of non-performing advances may be debited to 'Interest Receivable Account' and corresponding amount credited to 'Overdue Interest Reserve Account'. For example, if the interest accrued in respect of Cash Credit / OD / Loan etc. account of a borrower 'Y' is ₹20,000/- the accounting entries may be passed as under:

(Dr) Interest Receivable Account	₹20,000.00
(Cr) Overdue Interest Reserve Account	₹20,000.00

- ii) Subsequently, if interest is actually realised, the following accounting entries may be passed:

(Dr) Cash / Bank account	₹20,000.00
(Cr) Interest account	₹20,000.00
(Dr) Overdue Interest Reserve Account	₹20,000.00
(Cr) Interest Receivable Account	₹20,000.00

III. Accounting of Overdue Interest in Loan Ledgers & Balance Sheet

- i) With a view to facilitating the UCBs to work out the amount of interest receivable in respect of each nonperforming borrowing account, a UCB can consider opening a separate column in the individual ledger accounts of such borrowers and interest receivable shown therein. This would enable the UCBs to determine at a particular point of time, the amount of interest actually to be recovered from the borrowers. Total of the amounts shown under the separate columns in the loan ledgers

would be interest receivable in respect of non-performing advances and it would get reflected as such on the 'assets' side of balance sheet with a corresponding item on the liabilities side of the balance sheet as 'Overdue Interest Reserve'.

- ii) Similarly, a separate column should be provided in the loan ledger in respect of performing advances for showing accrued interest taken to income account. If the accrued interest is not realised and the account becomes NPA, the amount has to be reversed or provided for.
- (14) Overdue interest reserve is not created out of the real or earned income received by a UCB and hence, the amounts held in the Overdue Interest Reserve Account shall not be regarded as 'reserve' or a part of the owned funds of the UCB.
- (15) The Balance Sheet format prescribed under the Third Schedule to the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) requires the UCBs to show 'Overdue Interest Reserve' as a distinct item on the 'Capital and Liabilities' side vide item 8 thereof.
- (16) The interest receivable on the deposits placed by a UCB with a UCB under AID shall not be recognised as income by the UCB.

22. Reversal of income upon classification as NPA

- (1) If any advance, including bills purchased and discounted becomes NPA, the entire interest accrued and credited to income account in the past periods, shall be reversed if the same is not realised. This will also apply to Government guaranteed accounts which remain overdue for more than 90 days.
- (2) If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest, if any, corresponding to the interest accrued during such moratorium period need not be reversed.
- (3) In respect of NPAs, fees, commission and similar income that have accrued shall cease to accrue in the current period and shall be reversed with respect to past periods, if uncollected.

23. Appropriation of recovery from NPAs

- (1) Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh / additional credit facilities sanctioned to the borrower concerned.
- (2) In the absence of a clear agreement between a UCB and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), the UCB shall adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

24. Booking of Income on Investments in Shares & Bonds

- (1) The investments are also subject to the prudential norms on income recognition. A UCB should not book income on accrual basis in respect of any security, irrespective of the category in which it is included, where the interest / principal is in arrears for more than ninety days.
- (2) Income on units of UTI and equity of All India Financial Institutions should be booked on cash basis and not on accrual basis.
- (3) In respect of income from Government securities / bonds of public sector undertakings and All India Financial Institutions, where interest rates on the instruments are predetermined, income may be booked on accrual basis, provided interest is serviced regularly and is not in arrears.

Chapter VI - Repeal and Other Provisions

25. Repeal and saving

- (1) With the issue of these Directions, the existing directions, instructions, and guidelines relating income recognition, asset classification and provisioning as applicable to Urban Co-operative Banks stand repealed, as communicated vide notification dated XX, 2025. The directions, instructions and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above notification shall continue to remain repealed.
- (2) Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

26. Application of other laws not barred

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

27. Interpretations

For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Resere Bank shall be final and binding.

Annex - I

Proforma

Name of the Bank

Category Tier 1 / Tier 2/Tier 3/Tier 4

Classification of Assets and Provisioning made against Non-Performing Assets as on March 31, _____

							(₹ in lakh)		
Classification of Assets	No. of A/Cs	Amount Outstanding	Percentage of Col.3 to total loan outstanding	Provision required to be made %	Amount	Existing provision at the beginning of the year	Provisioning made during the year under report	Total provisions as at the end of the year	Remarks
1	2	3	4	5	6	7	8	9	10
Total loans and advances									
Of which									
A. Standard Assets									
B. Non-performing Assets									
1. Sub-standard									
2. Doubtful									
i) Upto 1 year									
a) Secured									
b) Unsecured									
ii) Above 1 year & up to 3 years									
a) Secured									
b) Unsecured									
iii) Above 3 years Secured									
Total doubtful assets (i+ii+iii)									
a) Secured									
b) Unsecured									
3. Loss Assets									
Gross NPAs (B1 + B2 + B3)									
Note : Please indicate the manner in which the provision (item 8) has been made / proposed to be made out of the profit of the current year.									

Position of Net Advances / Net NPAs

(₹ in lakh)			
Sr. No.	Particulars	Current Year	Previous Year
1.	Gross Advances		
2.	Gross NPAs		
3.	Gross NPAs as percentage to Gross Advances		
4.	Deductions		
	- Balance in interest suspense account / OIR*		
	- DICGC / ECGC claims received and held pending adjustment		
	- Part payment of NPA accounts received and kept in suspense account		
	Total Deductions		
5.	Total NPA provisions held (BDDR* or any other head of account* / provisions for NPA)		
	* Provisions created above the line i.e. by charging as an expense to the Profit and Loss account.		
6.	Net Advances (1-4-5)		
7.	Net NPAs (2-4-5)		
8.	Net NPAs as percentage of Net Advances		
* i.e. accrued interest on NPA accounts if included (capitalised) in loans and advances			

CERTIFIED that the non-performing assets have been worked out as per RBI instructions and provisions made accordingly.

Chief Executive Officer

Statutory Auditors