

November 1, 2004

The Chief Executive Officers of
All Primary (Urban) Co-operative banks

Dear Sir/Madam,

Prudential norms- State Government guaranteed exposures

Please refer to our Master Circular UBD.No.IP.30/12.05.05/02-03 dated December 26, 2002 on Prudential Norms, Income Recognition, Asset Classification, Provisioning and other related matters, which contained, inter alia, prudential norms regarding State Government guaranteed advances etc. Presently, asset classification and provisioning requirements in respect of State Government guaranteed exposures are linked to invocation of the State Government guarantee.

2. The prudential norms pertaining to State Government guaranteed exposures have been reviewed and it has been decided to de-link the requirement of invocation of State Government guarantee for deciding the asset classification and provisioning requirements and subject them to the same norms as applicable to exposures not guaranteed by the State Governments.

3. Accordingly as per the revised norms effective from the year ending March 31, 2006, State Government guaranteed advance and investment in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days irrespective of the fact whether the guarantee have been invoked or not.

4. We also draw your attention to annexure I, risk weights for calculation of CRAR, items No. (A)(II)(4) and (A)(III)(1)(ii) of our circular UBD.POT.PCB.Cir.No.45/09.116.00/2000-01 dated April 25, 2001 on application of Capital Adequacy norms to UCBs and advise you to suitably modify the instructions as under

(I) Item No A(II)(4)

Existing instruction-

"Investment in other securities where payment of interest and repayment of principal are guaranteed by State Govt- Risk Weight 2.5%

Note : In case of a default in interest / principal by State Government, banks should assign 100% risk weight only on those State Government guaranteed securities issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government”

Revised Instruction:

“Investment in other securities where payment of interest and repayment of principal are guaranteed by State Govt- Risk Weight 2.5%

Note: Investment in securities where payment of interest or repayment of principal is guaranteed by State Government and which has become a non-performing investment, will attract 102.5- percentage risk weight (w.e.f March 31, 2006)

(II) Item No: (A)(III)(1)(ii)

Existing Instruction

Loans guaranteed by State Governments-0 % Risk weight

Note: Loans guaranteed by State Govts where guarantee has been invoked and the concerned State Govt has remained in default, a risk weight of 100 % to be assigned.

Revised instruction:

Loans guaranteed by State Governments-0 % Risk weight

Note: A State Government guaranteed advance which has become a non performing advance will attract a risk weight of 100 per cent(w.e.f March 31, 2006)

5. Please acknowledge receipt to the concerned Regional Office.

Yours faithfully,

(N.S.Vishwanathan)
Chief General Manager