RESERVE BANK OF INDIA
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RBI/2004-05/403
UBD(PCB). Cir.41/16.20.00/2004-05

March 28, 2005.

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

Dear Sir/Madam,

Investment portfolio of Urban Co-operative Banks (UCBs) - Classification and Valuation of Investments

Please refer to our circular UBD.PCB. No.16/16.20.00/2004-05 dated 02.09.2004 on the captioned subject wherein, UCBs were permitted, as a one time measure to shift SLR securities to the HTM category any time, once more, during the current accounting year provided the total SLR securities held in the HTM category is not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight as compared to the earlier limit of 25 per cent of the bank's total investments. Banks were also advised that such shifting should be done at the acquisition cost/book value/ market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer should be fully provided for.

2. In view of the representations received from the Federations of UCBs on account of the difficulties faced by the UCBs in meeting the provisioning requirements, the matter has been reviewed and it has been decided as a special case, to consider relaxing the above provisioning requirements, as under:

I. Scheduled UCBs:

Scheduled UCBs may crystallize the provisioning requirement arising on account of shifting of securities from HFT/AFS categories to the HTM category consequent to the issue of our guidelines dated 02.09.2004 and amortize the same over a maximum period of five years commencing from the current accounting year ending 31.03.2005, with a minimum of 20 % of such amount, each year.

II. Non Scheduled UCBs:

Shifting of securities from HFT/AFS categories to the HTM category by Non-Scheduled UCBs consequent to the issue of our circular dated 02.09.2004 may be done at book value, subject to the following conditions:

(a) In case the book value is higher than the face value, the difference between the book value and the face value i.e., the premium may be amortized in equal installment over the period remaining to maturity. If the security was obtained at a discount to face value, the difference should be booked as profit only at the time of maturity of the security.

(b) The securities transferred under this special dispensation should be kept separately under the HTM category, and should not be transferred back to the AFS/HFT category in future as per the existing instruction of transfer of securities from HTM category.

(c) In normal course such securities under HTM should not be sold in the market and are to be redeemed on maturity only. However, in case of exceptional circumstances if such securities are to be sold, profit on sale of investments in this category should be first taken to the Profit & Loss Account and thereafter be appropriated to the ‘Capital Reserve ’. Loss on sale will be recognized in the Profit & Loss Account in the year of sale.

(d) The banks are advised to build up sufficient provisions and should adhere to extant investment norms for UCBs without any relaxations by 31.03.2009.

3. It is further advised that the above relaxation is a one time measure for the current accounting year and for all future fresh investments made on or after 01.04.2005, existing guidelines may continue to be followed. Also, the banks are not allowed to write back provisions already made on investments as on 31.03.2004.

4. Please acknowledge receipt to the concerned Regional Office of the Reserve Bank of India.

Yours faithfully,

(K.R Ananda)
Chief General Manager-in-charge