

September 18, 2007

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

Dear Sir/Madam,

**Investments in Non-SLR securities by primary (urban) cooperative banks**

Please refer to our circular UBD BPD PCB Cir 45/16.20.00/2003-04 dated April 15, 2004 on the captioned subject, in terms of which UCBs are permitted to invest in certain instruments, within an overall ceiling of 10% of their deposits as on March 31 of the previous year.

2. The matter has been reviewed with a view to allowing UCBs greater flexibility in making Non-SLR investments. Non-SLR investments would be governed by the following guidelines henceforth.

- (i) Non-SLR investments will continue to be limited to 10% of a bank's total deposits as on March 31 of the previous year
- (ii) Investments will be limited to "A" or equivalent rated Commercial Papers (CPs), debentures and bonds that are redeemable in nature. Investments in perpetual debt instruments are, however, not permitted.
- (iii) Investments in unlisted securities should not exceed 10% of the total Non-SLR investments at any time. Where banks have already exceeded the said limit, no incremental investment in such securities will be permitted.
- (iv) Investments in units of Mutual Funds, except Debt Mutual Funds and Money Market Mutual Funds, will not be permitted. The existing holding in units of other than debt Mutual Funds and Money Market Mutual Funds, including those in UTI should be disinvested. Till such time that they are held in the books of the bank, they will be reckoned as Non-SLR investments for the purpose of the limit at (i) above.
- (v) Fresh investments in shares of All India Financial Institutions (AIFIs) will also not be permitted. The existing share holding in these institutions may be phased out and till such time they are held in the books of the bank, they will be reckoned as Non-SLR investments for the purpose of the limit at (i) above.
- (vi) All fresh investments under Non-SLR category should be classified under Held for Trading (HFT) / Available for Sale (AFS) categories only and marked to market as applicable to these categories of investments.
- (vii) Balances held in deposit accounts with commercial banks and in permitted scheduled UCBs and investments in Certificate of Deposits

issued by Commercial Banks will be outside the limit of 10% of total deposits prescribed for Non-SLR investments

- (viii) The total amount of funds placed as inter-bank deposits (**for all purposes** including clearing, remittance, etc) shall not exceed 10% of the DTL of a UCB as on March 31 of the previous year. The prudential inter-bank exposure limit of 10% of the DTL would be **all-inclusive** and not limited to inter-bank call and notice money. The only exception is made for Tier I UCBs, which may place deposits up to 15% of their NDTL with Public Sector Banks over and above the said prudential limit of 10% of NDTL
- (ix) Exposure to any single bank should not exceed 2% of the depositing bank's DTL as on March 31 of the previous year, inclusive of its total non- SLR investments and deposits placed with that bank. Deposits, if any, placed for availing CSGL facility, currency chest facility and non-fund based facilities like Bank Guarantee (BG), Letter of Credit (LC) would be excluded to determine the single bank exposure limit for this purpose.
- (x) All investments as above, barring deposits placed with banks for which prudential limits have been prescribed at para 2 (ix) above, will be subject to the prescribed prudential individual /group exposure limits.
- (xi) All investments, other than those in CPs and CDs, shall be in instruments with an original maturity of at least one year.
- (xii) The non-scheduled primary (urban) co-operative banks, having single branch-cum-head-office or having multiple branches within a single district, having a deposit base of Rs.100 crore or less have been exempted from maintaining SLR in prescribed assets upto 15% of their DTL on keeping the required amount, in interest bearing deposits, with State Bank of India and its subsidiary banks and the public sector banks including Industrial Development Bank of India Ltd., in terms of our circular dated February 17, 2006. Such deposits are not covered under these guidelines and the limits prescribed at (vii) above are exclusive of such deposits.

3. Banks should review their investment policy and ensure that it provides for the nature and extent of investments intended to be made in Non-SLR instruments now permitted, the risk parameters and cut-loss limits for holding / divesting the investments. Banks should put in place proper risk management systems for capturing and analyzing the risk in respect of non-SLR investment and taking remedial measures in time.

4. The Boards should review the following aspects of non-SLR investment at least at half-yearly intervals.

- a. Total business (investment and divestment) during the reporting period
- b. Compliance with prudential limits prescribed for non-SLR investment
- c. Compliance with the prudential guidelines issued by Reserve Bank on non-SLR securities
- d. Rating migration of the issuers/issues held in the bank's books and consequent diminution in the portfolio quality
- e. Extent of non-performing investments in the non-SLR category and sufficient provision thereof

5. Banks should disclose the details of the issuer-wise composition of non-SLR investments and the non-performing investments in the 'Notes on Accounts' of the balance sheet, as indicated in the Annex.

Yours faithfully,

(N.S.Vishwanathan)  
Chief General Manager in-Charge

**Annex****Prudential guidelines on management of the non-SLR investment portfolio by urban co-operative banks – Disclosure requirements**

Urban co-operative banks should make the following disclosures in the 'Notes on Accounts' of the balance sheet in respect of their non-SLR investment portfolio.

**i) Issuer composition of Non SLR investments**

(Rs. in crore)

<b>No</b>	<b>Issuer</b>	<b>Amount</b>	<b>Extent of 'below investment grade' securities</b>	<b>Extent of 'unrated' securities</b>	<b>Extent of 'unlisted' securities</b>
<b>(1)</b>	<b>2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>
1	PSUs				
2	FIs				
3	Public Sector Banks				
4	Mutual Funds				
5	Others				
6	Provision held towards depreciation				

**ii) Non performing Non-SLR investments**

<b>Particulars</b>	<b>Amount (Rs. Crore)</b>
Opening balance	
Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	