भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2025-26/09
DOR.CAP.REC.03/09.18.201/2025-26 April 01, 2025

All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

Master Circular- Prudential Norms on Capital Adequacy - Primary (Urban) Co-operative Banks (UCBs)

Please refer to our Master Circular DOR.CAP.REC.5/09.18.201/2024-25 dated April 01, 2024 on the captioned subject.

2. The enclosed Master Circular consolidates and updates all the instructions / guidelines on the subject issued up to March 31, 2025 as listed in the Appendix.

Yours faithfully

(Usha Janakiraman)
Chief General Manager-in-Charge

Encl: As above

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Master Circular

Prudential Norms on Capital Adequacy - Primary (Urban) Co-operative Banks (UCBs)

Contents

Master Circular

**Prudential Norms on Capital Adequacy –
Primary (Urban) Co-operative Banks (UCBs)**

1. Introduction

Capital acts as a buffer in times of crisis or poor performance by a bank. Sufficiency of capital also instills depositors' confidence. As such, adequacy of capital is one of the pre-conditions for licensing of a new bank as well as its continuance in business.

2. Statutory Requirements

In terms of the provisions contained in Section 11 of Banking Regulation Act (AACS), no co-operative bank shall commence or carry on banking business unless the aggregate value of its paid-up capital and reserves is not less than one lakh of rupees. In addition, under Section 22(3)(d) of the above Act, the Reserve Bank prescribes the minimum entry point capital (entry point norms) from time to time, for setting-up of a new Primary (Urban) Cooperative Bank.

3. Net Worth

UCBs shall have minimum net worth as under:

- Tier 1[1] UCBs operating in a single district shall have minimum net worth of ₹2 crore.
- All other UCBs (of all tiers) shall have minimum net worth of ₹5 crore.
- UCBs which currently do not meet the minimum net worth requirement, as above, shall achieve the minimum net worth of ₹2 crore or ₹5 crore (as applicable) in a phased manner. Such UCBs shall achieve at least 50 per cent of the applicable minimum net worth on or before March 31, 2026 and the entire stipulated minimum net worth on or before March 31, 2028.

The computation of “Net worth” in this context is provided in Annex 1.

4. Capital Adequacy Norms

UCBs shall maintain minimum Capital to Risk Weighted Assets Ratio (CRAR) as under:

- Tier 1 UCBs shall maintain, as hitherto, a minimum CRAR of 9 per cent of Risk Weighted Assets (RWAs) on an ongoing basis.
- Tier 2 to 4 UCBs shall maintain a minimum CRAR of 12 per cent of RWAs on an ongoing basis.

[1] Tier 1 - All unit UCBs and salary earners' UCBs (irrespective of deposit size), and all other UCBs having deposits up to ₹100 crore;
Tier 2 - UCBs with deposits more than ₹100 crore and up to ₹1000 crore;
Tier 3 - UCBs with deposits more than ₹1000 crore and up to ₹10,000 crore;
Tier 4 - UCBs with deposits more than ₹10,000 crore

- UCBs in Tier 2 to 4, which do not currently meet the revised CRAR of 12 per cent of RWAs, shall achieve the same in a phased manner. Such UCBs shall achieve the CRAR of at least 10 per cent by March 31, 2024, 11 per cent by March 31, 2025, and 12 per cent by March 31, 2026.

The computation of CRAR will be as under:

$$\text{CRAR} = \frac{\text{Eligible Total Capital}}{\text{Total Risk Weighted Assets (RWAs)}}$$

The capital funds (eligible total capital) for capital adequacy purposes shall consist of Tier I and Tier II capital as defined below. The total of Tier II capital shall be limited to a maximum of 100 per cent of total Tier I capital for the purpose of compliance with CRAR norms.

Risk weights for different categories of exposures of banks are outlined in Annex 2.

4.1 Tier I Capital

Tier I shall comprise the following:

(i) Paid-up share capital[2] collected from regular members having voting rights.

(ii) Contributions received from associate / nominal members where the bye-laws permit allotment of shares to them and provided there are restrictions on withdrawal of such shares, as applicable to regular members.

(iii) Contribution / non-refundable admission fees collected from the nominal and associate members which is held separately as 'reserves' under an appropriate head since these are not refundable.

(iv) Perpetual Non-Cumulative Preference Shares (PNCPS) which comply with the regulatory requirements as specified in Annex 3.

(v) Free Reserves as per the audited accounts. Reserves, if any, created to meet outside liabilities should not be included in the Tier I Capital. Free reserves shall exclude all reserves / provisions which are created to meet anticipated loan losses, losses on account of fraud etc., depreciation in investments and other assets and other outside liabilities. For example, the amount held under the head "Building Fund" will be treated as part of free reserve[3]. Similarly, "Bad and Doubtful Debt Reserve" complying with all the terms and instructions issued vide circular

[2] UCBs are permitted to raise share capital, as hitherto, by way of (i) issue of shares to persons within their area of operation, in accordance with the provisions of their bye-laws, and (ii) issue of additional shares to the existing members.

[3] In terms of circular DOR.CAP.REC.No.30/09.18.201/2024-25 dated July 30, 2024, as a one-time measure, balances in Dividend Equalisation Fund (DEF) could be transferred to general reserves/free reserves and treated as Tier I Capital.

DOR.CAP.REC.No.27/09.18.201/2024-25 dated August 02, 2024, shall also be treated as free reserves.

(vi) Capital Reserves representing surplus arising out of sale proceeds of assets.

(vii) Perpetual Debt Instruments (PDIs) which comply with the regulatory requirements as specified in Annex 4.

(viii) Any surplus (net) in Profit and Loss Account i.e., balance after appropriation towards dividend payable, education fund, other funds whose utilisation is defined, asset loss, if any, etc.

(ix) Outstanding amount in Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961.

(x) Revaluation reserves, arising out of change in the carrying amount of a bank's property consequent upon its revaluation, may be reckoned as Tier I capital at a discount of 55 per cent, subject to meeting the following conditions:

- the bank is able to sell the property readily at its own will and there is no legal impediment in selling the property;
- the revaluation reserves are presented/disclosed separately under "Reserve Fund and Other Reserves" in the Balance Sheet;
- revaluations are realistic, in accordance with applicable accounting standards;
- valuations are obtained, from two independent valuers, at least once in every three years;
- where the value of the property has been substantially impaired by any event, these are to be immediately revalued and appropriately factored into capital adequacy computations;
- the external auditor(s) of the bank have not expressed a qualified opinion on the revaluation of the property;
- the instructions on valuation of properties and other specific requirements as mentioned in Annex 1 (Guidelines on Valuation of Properties – Empanelment of Valuers) to the Master Circular DOR.CRE.REC.No.27/07.10.002/2023-24 dated July 25, 2023 on Management of Advances – UCBs, as amended from time to time, are strictly adhered to.

Revaluation reserves which do not qualify as Tier I capital shall also not qualify as Tier II capital. The bank may choose to reckon revaluation reserves in Tier I capital or Tier II capital at its discretion, subject to fulfilment of all the conditions specified above.

Note :

(i) Amount of intangible assets, losses in current year and those brought forward from previous periods, deficit in NPA provisions, income wrongly recognized on non-performing assets, provision required for liability devolved on bank, etc. will be deducted from Tier I Capital.

(ii) For a Fund to be included in the Tier I Capital, the Fund should satisfy two criteria viz., the Fund should be created as an appropriation of net profit and should be a free reserve and not a specific reserve. However, if the same has been created not by appropriation of profit but by a charge on the profit then this Fund is in effect a provision and hence will be eligible for being reckoned only as Tier II capital as defined below and subject to a limit of 1.25% of risk weight assets provided it is not attributed to any identified potential loss or diminution in value of an asset or a known liability.

(iii) Outstanding Innovative Perpetual Debt Instruments (IPDI) which were issued in terms of Annex to circular UCB.PCB.Cir.No.39/09.16.900/08-09 dated January 23, 2009 shall also be eligible to be reckoned as Tier I capital subject to the ceilings prescribed in Annexes to this Master Circular. It may be noted that the Annex to circular dated January 23, 2009 has since been repealed vide circular No. DOR.CAP.REC.92/09.18.201/2021-22 dated March 08, 2022, and with effect from March 08, 2022, amount issued through PDI by conversion of existing deposits as part of revival plan/ financial reconstruction of the UCBs (in terms of circular dated January 23, 2009) shall comply with the Annex 4 of this Master Circular.

4.2 Tier II Capital

Tier II capital shall comprise the following:

4.2.1 General Provisions and Loss Reserves

These would include such provisions of general nature appearing in the books of the bank which are not attributed to any identified potential loss or a diminution in value of an asset or a known liability. Adequate care must be taken to ensure that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering any amount of general provision as part of Tier II capital as indicated above. To illustrate: General provision for Standard Assets, excess provision on transfer of stressed loans etc. could be considered for inclusion under this category. Such provisions which are considered for inclusion in Tier II capital will be admitted up to 1.25% of total risk weighted assets.

As per the extant instructions, provisions made for NPAs as per prudential norms are deducted from the amount of Gross NPAs to arrive at the amount of Net NPAs. The prudential treatment of different type of provisions and its treatment for capital adequacy purposes is given below:

(a) Additional General Provisions (Floating Provisions)

Additional general provisions (floating provisions) for bad debts i.e., provisions not earmarked for any specific loan impairments (NPAs) may be used either for netting off of gross NPAs or for inclusion in Tier II capital within the overall ceiling of 1.25% of total risk weighted assets but cannot be used on both counts.

(b) Additional Provisions for NPAs at higher than prescribed rates

In cases where banks make specific provision for NPAs in excess of what is prescribed under the prudential norms, the total specific provision may be deducted from the amount of Gross NPAs while reporting the amount of Net NPAs. The additional specific provision made by the bank will not be reckoned as Tier II capital.

(c) Excess Provisions on transfer of stressed loans to Asset Reconstruction Companies (ARC)

In terms of instructions issued vide Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021 and as amended from time to time, excess provisions on transfer of stressed loans to ARC, until reversal, shall continue to be shown under 'provisions' and would be considered as Tier II capital within the overall ceiling of 1.25% of risk weighed assets.

(d) Provisions for Diminution in Fair Value

Provisions for diminution in the fair value of restructured accounts, both in respect of standard assets and NPAs, are permitted to be netted from the relative loan asset and will not be reckoned as Tier II capital.

4.2.2 Investment Fluctuation Reserve

Balances in the Investment Fluctuation Reserve, created in terms of Master Direction – Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Primary (Urban) Co-operative Banks) Directions, 2023 dated April 1, 2023, shall be eligible for inclusion in Tier II capital.

4.2.3 Tier II capital instruments

UCBs may issue the following instruments to augment their Tier II capital:

a) Upper Tier II instruments - Perpetual Cumulative Preference Shares (PCPS), Redeemable Non-Cumulative Preference Shares (RNCPS) and Redeemable Cumulative Preference Shares (RCPS) which comply with the regulatory requirements as specified in Annex 3.

b) Lower Tier II instruments - Long Term Subordinated Bonds (LTSB) which comply with the regulatory requirements as specified in Annex 4.

Note: Outstanding Long Term (Subordinated) Deposits (LTD) which were issued in terms of Annex-II to the circular UBD.PCB.Cir.No.4 /09.18.201/08-09 dated July 15, 2008, and subsequent amendments thereto, shall also be eligible to be reckoned as Tier II capital subject to the ceilings prescribed in Annex 4 to this Master Circular. It may be noted that the circular dated July 15, 2008 has since been repealed vide circular No. DOR.CAP.REC.92/09.18.201/2021-22 dated March 08, 2022.

5. Capital for Market Risk

5.1 Market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. The market risk positions, which are subject to capital charge are as under:

- The risks pertaining to interest rate related instruments and equities in the trading book; and
- Foreign exchange risk (including open position in precious metals) throughout the bank (both banking and trading books).

5.2 As an initial step towards prescribing capital requirement for market risks, UCBs were advised to assign an additional risk weight of 2.5 per cent on investments. These additional risk weights are clubbed with the risk weights prescribed for credit risk in respect of investment portfolio of UCBs as per Annex 2, and banks are not required to provide for the same separately. Further, UCBs are advised to assign a risk weight of 100% on the open position limits on foreign exchange and gold, and to build up investment fluctuation reserve as per extant instructions.

5.3 UCBs having AD Category I licence are required to provide capital for market risk in terms of circular UBD.BPD(PCB)Cir.No.42/09.11.600/2009-10 dated February 8, 2010.

6. Share linking to Borrowings

Borrowings from UCBs (except in the case of advances against fixed deposits) shall be linked to shareholdings of the borrowing members as below:

(i) 5 per cent of the borrowings, if the borrowings are on unsecured basis.

(ii) 2.5 per cent of the borrowings, in case of secured borrowings.

(iii) In case of secured borrowings by Micro and Small Enterprises (MSEs), 2.5 per cent of the borrowings, of which 1 per cent is to be collected initially and the balance of 1.5 per cent is to be collected in the course of next 2 years.

The above share linking norms may be applicable for member's shareholdings up to the limit of 5 per cent of the total paid up share capital of the bank. Where a member is already holding 5 per cent of the total paid up share capital of a UCB, it would not be necessary for him / her to subscribe to any additional share capital on account of the application of extant share linking norms. In other words, a borrowing member may be required to hold shares for an amount that may be computed as per the extant share linking norms or for an amount that is 5 per cent of the total paid up share capital of the bank, whichever is lower.

Share-linking to borrowing norms shall be discretionary for UCBs which meet the minimum regulatory CRAR applicable and a Tier 1 CRAR of 5.5 per cent as per the latest audited financial statements and the last CRAR as assessed by RBI during statutory inspection. Such UCBs shall have a Board-approved policy on share-linking to borrowing norms which shall be implemented in a transparent, consistent and non-discriminatory manner. The policy may be reviewed by the Board at the beginning of the accounting year. UCBs, which do not maintain the minimum CRAR applicable and Tier I CRAR of 5.5 per cent, shall continue to be guided by the norms on share-linking to borrowing as specified above.

Perpetual Non-Cumulative Preference Shares (PNCPS) held by members / subscribers, may be treated as shares for the purpose of compliance with the extant share linking to borrowing norms.

7. Refund of share capital

In terms of Section 12 (2) (ii) read with Section 56 of the BR Act, a co-operative bank shall not withdraw or reduce its share capital, except to the extent and subject to such conditions as the Reserve Bank may specify in this behalf. Accordingly, it has been decided to permit UCBs to refund the share capital to their members, or nominees / heirs of deceased members, on demand[4], subject to the following conditions:

a) The bank complies with the minimum applicable regulatory CRAR, both as per the latest audited financial statements and the last CRAR as assessed by RBI during statutory inspection.

b) Such refund does not result in the CRAR of the bank falling below the minimum regulatory CRAR applicable to the bank.

For the purpose of computing CRAR as above, accretion to capital funds after the balance sheet date[5], other than by way of profits, may be taken into account. Any reduction in capital funds, including by way of losses, during the aforesaid period shall also be considered.

8. Measures for protection of investors in regulatory capital instruments specified in Annex 3 and Annex 4

For the purpose of enhancing investor education on the risk characteristics of regulatory capital instruments, UCBs, which issue regulatory capital instruments

[4] Subject to the member fulfilling all the eligibility conditions for refund.
[5] Capital funds shall be as per audited data.

specified in Annex 3 and Annex 4 shall adhere to the following conditions:

a) For floating rate instruments, banks should not use its Fixed Deposit rate as benchmark.

b) A specific sign-off, as quoted below, from the investors, for having understood the features and risks of the instruments, may be incorporated in the common application form of the proposed issue:

> "By making this application, I / we acknowledge that I / we have understood the terms and conditions of the issue of [Name of the share/security] being issued by [Name of the bank] as disclosed in the Prospectus and Offer Document".

c) UCBs shall ensure that all the publicity material / offer document, application form and other communication with the investor should clearly state in bold letters (Arial font, size 14, equivalent size in English / Vernacular version) how a PNCPS / PCPS / RNCPS / RCPS / PDI / LTSB, as the case may be, is different from a fixed deposit, and that these instruments are not covered by deposit insurance.

d) The procedure for transfer to legal heirs in the event of death of the subscriber of the instrument should also be specified.

9. Returns

Banks should furnish to the respective Regional Offices annual return indicating (i) capital funds, (ii) conversion of off-balance sheet / non-funded exposures, (iii) calculation of risk weighted assets, and (iv) calculation of capital funds and risk assets ratio. The format of the return is given in the Annex 5. The returns should be signed by two officials who are authorized to sign the statutory returns submitted to Reserve Bank.

Annex 1

Computation of Net Worth by UCBs

Sr. No.	Description	Amount (Rs. crore)
1	Paid-up share capital collected from regular members having voting powers	
2	Perpetual Non-Cumulative Preference Shares (PNCPS)	
3	Contributions received from associate/ nominal members where the by-laws permit allotment of shares to them and provided there are restrictions on withdrawals of such shares, as applicable to regular members	
4	Contribution/ non-refundable admission fees collected from the nominal and associate members which is held separately as 'reserves' under an appropriate head since these are not refundable	
5	Free Reserves including "Building Fund", Capital Reserves etc. but excluding Revaluation Reserves. Free reserves shall exclude all reserves / provisions which are created to meet anticipated loan losses, losses on account of fraud etc., depreciation in investments and other assets, and other outside liabilities.	
6	Investment Fluctuation Reserve (IFR) in excess of stipulated 5% of investment in AFS & HFT categories[6]	
7	Credit balance in Profit & Loss Account, if any	
	Deductions	
8	Debit balance in Profit & Loss Account, if any	

[6] Please refer to Master Direction – Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Primary (Urban) Co-operative Banks) Directions, 2023 dated April 1, 2023 for guidelines on creation of Investment Fluctuation Reserve (IFR) by Co-operative banks

9	All Intangible Assets, including, inter alia, Deferred Tax Assets (DTA)	

Note:

1. Funds raised through Perpetual Debt Instruments included in Tier I capital and debt capital instruments included in Tier II capital should not be reckoned as part of net worth.
2. Perpetual Cumulative Preference Shares (PCPS), Redeemable Non-Cumulative Preference Shares (RNCPS) and Redeemable Cumulative Preference Shares (RCPS) included in Tier II capital should not be reckoned as part of net worth.
3. No general or specific provisions should be included in computation of net worth.

Annex 2

Prudential Norms - Risk Weights for Computation of CRAR

I. A. Funded Risk Assets

Assets Items				Risk Weight
I.	**Balances**			
	i.	Cash (including foreign currency notes) Balances with RBI		0
	ii.	Balances in current account with UCBs		20
	iii.	Balances in current account with other banks		20
II.	**Investments**			
	i.	Investment in Government Securities		2.5
	ii.	Investment in other Approved Securities guaranteed by Central Government / State Government		2.5
	iii.	Investment in Other Securities where payment of interest and repayment of principal are guaranteed by Central Govt. (include investment in Indira / Kisan Vikas Patras and investments in bonds & debentures where payment of interest and repayment of principal is guaranteed by Central Govt. / State Government)		2.5
	iv.	Investment in other securities where payment of interest and repayment of principal are guaranteed by State Govt.		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		
	v.	Investment in other Approved Securities where payment of interest and repayment of principal is not guaranteed by Central / State Govt.		22.5
		Investment in Govt. guaranteed securities of government undertakings which do not form part of the approved market borrowing Program		22.5
	vi.	(a)	Claims on commercial banks, District Central Co-operative Banks, and State Co-operative Banks such as fixed deposits, certificates of deposits, etc.	20
		(b)	Claims on other Urban Co-operative banks such as term / fixed deposits	
	vii.	Investments in bonds issued by All India Public Financial Institutions.		102.5
	viii.	Investments in bonds issued by Public Financial Institutions for their Tier II Capital		102.5
	ix	Investment in bonds/ debentures/Security Receipts issued by Asset Reconstruction Company		102.5

	x.	All other Investments ***Note:*** *Intangible assets and losses deducted from Tier I capital should be assigned zero weight*			102.5
	xi.	The off balance sheet (net) position in 'WI' securities, scrip-wise.			2.5
III.	**Loans and Advances**				
	i.	Loans and advances including bills purchased and discounted and other credit facilities guaranteed by GoI			0
	ii.	Loans guaranteed by State Govt			0
	iii.	A State Government guaranteed advance which has become a non performing advance			100
	iv.	Loans granted to PSUs of GoI			100
	v.	Real Estate Exposure			
		(a)	Mortgaged residential housing loan to individuals		
			-	upto ₹30.00 lakh (LTV* ratio =or<75 %)	50
			-	above ₹30.00 lakh (LTV ratio =or<75 %).	75
			-	Irrespective of the loan amount (LTV ratio >75 %).	100
		(b)	Commercial Real Estate		100
		(c)	Co-op / group housing societies and Housing Board and for any other purpose.		100
		(d)	Commercial Real Estate – Residential Housing		75
	* *LTV ratio should be computed as a percentage of total outstanding in the account (viz. "principal + accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the realizable value of the residential property mortgaged to the bank in the denominator*				
	vi.	Retail Loans and Advances			
		(a)	consumer credit including personal loan		125
		(b)	loans up to ₹1 lakh against gold and silver ornaments		50
		(c)	all other loans and advances including educational loan.		100
		(d)	Loans extended against primary / collateral security of shares / debentures		127.5
	vii.	Leased Assets			
		(a)	Loans and advances for eligible activities to NBFCs engaged in hire purchase / leasing activities now classified as Asset Finance Companies		100
		(b)	loans and advances for eligible activities to Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFC-ND-SI) engaged in hire purchase / leasing activities		125
	viii.	Advances covered by DICGC / ECGC			50
	Note : *The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstanding in excess of the amount guaranteed, will carry 100% risk weight.*				

	ix.	Advances to the extent guaranteed 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) satisfying the conditions as mentioned in the circular-Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS) dated September 07, 2022. The balance outstanding in excess of guaranteed portion will attract appropriate risk-weight		0
	x.	Advances for term deposits, Life policies, NSCs,IVPs and KVPs where adequate margin is available		0
	xi.	Loans to staff of banks, which are fully covered by superannuation benefits and mortgage of flat / house		20
	Notes : While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, banks may 'net-off' against the total outstanding exposure of the borrower -			
	(a)	advances collateralised by cash margins or deposits,		
	(b)	credit balances in current or other accounts of the borrower which are not earmarked for specific purposes and free from any lien,		
	(c)	in respect of any assets where provisions for depreciation or for bad debts have been made,		
	(d)	claims received from DICGC / ECGC and kept in a separate a/c pending adjustment in case these are not adjusted against the dues outstanding in the respective a/cs.		
IV.	**Other Assets**			
	1.	Premises, furniture and fixtures		100
	2.	Other assets		
		(i)	Interest due on Government securities	0
		(ii)	Accrued interest on CRR balances maintained with RBI	0
		(iii)	Interest receivable on staff loans	20
		(iv)	Interest receivable from banks	20
		(v)	All other assets	100
V.	**Market Risk on Open Position**			
	1.	Market risk on foreign exchange open position (Applicable to Authorised Dealers only)		100
	2.	Market risk on open gold position		100

I. B. Off-Balance Sheet Items

The credit risk exposure attached to off-Balance Sheet items has to be first calculated by multiplying the face amount of each of the off-Balance Sheet items by 'credit conversion factors' as indicated in the table below. This will then have to be again multiplied by the weights attributable to the relevant counter-party as specified above.

Sl. No.	Instruments		Credit Conversion Factor (%)
1	Financial Guarantees/ Direct credit substitutes e.g., general guarantees of indebtedness (including stand L/Cs serving as financial guarantees for loans and securities) and acceptances (including endorsements with character of acceptance)		100
2	Performance Guarantees/ Related contingent items (e.g., warranties and standby L/Cs related to particular transactions)		50
3	Short-term self-liquidating trade-related contingencies (such as documentary credits collateralised by the underlying shipments)		20
4	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank.		100
5	Forward asset purchase, forward deposit and partly paid shams and securities, which represent commitments with certain draw down		100
6	Note issuance facilities and revolving underwriting facilities		50
7	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of over one year.		50
8	Similar commitments with an original maturity upto one year, or which can be unconditionally cancelled at any time.		0
9	(i)	Guarantees issued by banks against the counter guarantees of other banks	20
	(ii)	Rediscounting of documentary bills accepted by banks. Bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank.	20
	Note : *In these cases, banks should be fully satisfied that the risk exposure is, in fact, on the other bank. Bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above, will be assigned the risk weight, which is normally applicable to inter-bank exposures, for capital adequacy purposes. In the case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly.*		
10	Aggregate outstanding foreign exchange contracts of original maturity* -		
	Less than 14 calendar days		0
	more than 14 days but less than one year		2
	for each additional year or part thereof		3

Sl. No.	Instruments	Credit Conversion Factor (%)
	*In case effective bilateral netting contracts as specified in paragraph II(3) of this Annex are in place, Credit Conversion Factor (CCF) for foreign exchange contracts shall be as provided in paragraph II(1.3)(a) of this Annex and CCF of “zero” per cent for foreign exchange contracts which have original maturity of 14 calendar days or less will not be applicable.	
	Notes :	
	While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, bank may 'net-off' against the total outstanding exposure of the borrower credit balances in current or other accounts which are not earmarked for specific purposes and free from any lien.	
	After applying the conversion factor as indicated above, the adjusted off-Balance Sheet value shall again be multiplied by the weight attributable to the relevant counter-party as specified.	

Note: *At present, Primary Urban Cooperative Banks may not be undertaking most of the off balance sheet transactions. However, keeping in view their potential for expansion, risk-weights are indicated against various off balance sheet items, which, Primary Urban Cooperative Banks may undertake in future.*

II. **Additional Risk Weights** (applicable to Authorised Dealers only)

1. Foreign Exchange and Interest Rate related Contracts

1.1 Foreign exchange contracts include the following:

(a) Cross currency swaps
(b) Forward foreign exchange contracts
(c) Currency futures
(d) Currency options purchased
(e) Other contracts of a similar nature

1.2 Interest rate contracts include the following:

(a) Single currency interest rate swaps
(b) Basis swaps
(c) Forward rate agreements
(d) Interest rate futures
(e) Interest rate options purchased
(f) Other contracts of a similar nature

1.3 As in the case of other off-Balance Sheet items, a two-stage calculation prescribed below shall be applied:

(a) Step 1 - The notional principal amount of each instrument is multiplied by the conversion factor given below:

Original maturity	**Conversion factor**	
	Interest rate contracts	Foreign Exchange Contracts
Less than one year	0.5%	2%
One year and less than two years	1.0%	5% (i.e., 2% + 3%)
For each additional year	1.0%	3%

When effective bilateral netting contracts as specified in paragraph II.3 of this Annex are in place, the conversion factors, as mentioned in the below table, shall be applicable[7]:

Original maturity	**Conversion factor**	
	Interest rate contracts	Foreign Exchange Contracts
Less than one year	0.35%	1.5%
One year and less than two years	0.75%	3.75% (i.e., 1.5% + 2.25%)
For each additional year	0.75%	2.25%

(b) Step 2 - The adjusted value thus obtained shall be multiplied by the risk weight allotted to the relevant counter-party as given in I-A above.

Note: *At present, most of the Primary (Urban) Cooperative Banks are not carrying out forex transactions. However, those who have been given A.D's licence may undertake transactions mentioned above. In the event of any uncertainty in assigning risk weight against a specific transaction, RBI clarification may be sought for.*

2**. Repo in Corporate Bonds**

UCBs which are lenders of funds in the repo transaction are required to provide counter-party credit risk corresponding to the risk weight for such exposure as applicable to the loan / investment exposure.

[7] For purposes of calculating the credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, the original credit conversion factors (i.e., without considering the impact of bilateral netting) should be applied to the notional principal, which is defined as the net receipts falling due on each value date in each currency. In no case should the reduced factors above be applied to net notional amounts.

3. **Requirement for recognition of Bilateral Netting Contract:**

(a) UCBs may net transactions subject to novation under which any obligation between a UCB and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.

(b) UCBs may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.

(c) In both cases (a) and (b), a UCB will need to satisfy that it has:

(i) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the UCB would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances.

(ii) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the UCB's exposure to be such a net amount under:

- The law of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located.
- The law that governs the individual transactions; and
- The law that governs any contract or agreement necessary to effect the netting.

(iii) Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law.

(d) Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capital requirements under these guidelines. A walkaway clause is a provision which permits a non-defaulting counterparty to make only limited payments or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.

Annex 3

Guidelines on Issuance of Preference Shares

A. Perpetual Non-Cumulative Preference Shares (PNCPS) eligible for inclusion in Tier I capital

UCBs are permitted to issue Perpetual Non-Cumulative Preference Shares (PNCPS) at face value to their members or any other person residing within their area of operation, with the prior approval of Reserve Bank of India (RBI). The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum, to the concerned Regional Office (RO) of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. The amounts raised through PNCPS shall comply with the following terms and conditions to qualify for inclusion as Tier I capital.

2. Terms of Issue

2.1 Limits

The outstanding amount of PNCPS and Perpetual Debt Instruments (PDI) along with outstanding Innovative Perpetual Debt Instruments (IPDI) shall not exceed 35 per cent of total Tier I capital at any point of time. The above limit will be based on the amount of Tier I capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any. PNCPS issued in excess of the overall ceiling of 35 per cent, shall be eligible for inclusion under Upper Tier II capital, subject to limits prescribed for Tier II capital. However, investors' rights and obligations would remain unchanged.

2.2 Amount

The amount of PNCPS to be raised shall be decided by the Board of Directors of banks.

2.3 Maturity

The PNCPS shall be perpetual.

2.4 Options

a. PNCPS shall not be issued with a 'put option' or 'step up option'.

b. PNCPS may be issued with a call option, subject to following conditions:

   i. The call option on the instrument is permissible after the instrument has run for at least ten years; and

   ii. Call option shall be exercised only with the prior approval of Department of Regulation (DoR), RBI. While considering the proposals received from banks for exercising the call option, the RBI would, among other things, take into consideration the bank’s CRAR position both at the time of exercise of the call option and after exercise of the call option.

2.5 Classification in the Balance Sheet

These instruments shall be classified as 'Capital' and shown separately in the Balance Sheet.

2.6 Dividend

The rate of dividend payable to the investors will be a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

2.7 Payment of Dividend

2.7.1 The payment of dividend by the bank shall be subject to availability of distributable surplus out of current year's profits, and if:

i. the CRAR is above the minimum regulatory requirement prescribed by RBI
ii. the impact of such payment does not result in bank's CRAR falling below or remaining below the minimum regulatory requirement prescribed by RBI
iii. the balance sheet as at the end of the previous year does not show any accumulated loss

2.7.2 The dividend shall not be cumulative, i.e., dividend missed in a year shall not be paid in subsequent years even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. When dividend is paid at a rate lesser than the prescribed rate, the unpaid amount will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum.

2.7.3 All instances of non-payment of dividend / payment of dividend at a rate less than that specified should be reported by the issuing UCB to the concerned RO of Department of Supervision (DoS), RBI.

2.8 Seniority of Claim

The claims of the investors in PNCPS shall be senior to the claims of investors in equity shares and subordinated to the claims of all other creditors and the depositors.

2.9 Voting Rights

The investors in PNCPS shall not be eligible for any voting rights.

2.10 Discount

The PNCPS shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.

2.11 Other Conditions

2.11.1 PNCPS shall be fully paid-up, unsecured, and free of any restrictive clauses.

2.11.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the PNCPS, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier I capital.

2.12 Compliance with Reserve Requirements

2.12.1 The total amount raised by the bank by issue of PNCPS shall not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will not attract CRR / SLR requirements.

2.12.2 However, the amount collected from members / prospective investors and held pending allotment of the PNCPS, shall be reckoned as liability for the purpose of calculating the net demand and time liabilities and shall, accordingly, attract reserve requirements. Such amounts shall not be reckoned for calculation of capital funds.

2.13 Reporting Requirements

UCBs issuing PNCPS shall submit a report to the concerned RO of DoS, RBI, giving details of the capital raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document, soon after the issue is completed.

2.14 Investments in PNCPS and Advances for Purchase of PNCPS

UCBs shall not grant any loan or advance to any person for purchasing their own PNCPS or the PNCPS of other banks. Further, UCBs shall not invest in PNCPS of other banks and shall not grant advances against the security of the PNCPS issued by them or other banks.

B. Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS) for inclusion in Upper Tier II capital

UCBs are permitted to issue Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS), at face value, to their members or any other person residing within their area of operation, with the prior approval of the RBI. The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum to the concerned Regional Office (RO) of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. These three instruments, collectively referred to as Tier II preference shares, shall comply with the following terms and conditions, to qualify for inclusion as Upper Tier II capital.

2. Terms of issue

2.1 Limits

The outstanding amount of these instruments along with other components of Tier II capital shall not exceed 100 per cent of Tier I capital at any point of time. The above limit shall be based on the amount of Tier I capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any.

2.2 Amount

The amount to be raised may be decided by the Board of Directors of banks.

2.3 Maturity

The Tier II preference shares could be either perpetual (PCPS) or dated (RNCPS and RCPS) instruments with a minimum maturity of 10 years.

2.4 Options

2.4.1 These instruments shall not be issued with a 'put option' or 'step up option'.

2.4.2 These instruments may be issued with a call option, subject to following conditions:

a) The call option on the instrument is permissible after the instrument has run for at least ten years; and

b) Call option shall be exercised only with the prior approval of DoR, RBI. While considering the proposals received from banks for exercising the call option, the RBI would, among other things, take into consideration the bank's CRAR position both at the time of exercise of the call option and after exercise of the call option.

2.5 Classification in the Balance Sheet

These instruments will be classified as 'Borrowings' and shown separately in the Balance sheet.

2.6 Coupon

The coupon payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

2.7 Payment of Coupon

2.7.1 The coupon payable on these instruments will be treated as interest and accordingly debited to P& L Account. However, it will be payable only if:

a) the bank’s CRAR is above the minimum regulatory requirement prescribed by RBI

b) the impact of such payment does not result in bank’s CRAR falling below or remaining below the minimum regulatory requirement.

c) the bank should not have a net loss. For this purpose, the net loss is defined as either (i) the accumulated loss at the end of the previous financial year or (ii) the loss incurred during the current financial year.

2.7.2 In the case of PCPS and RCPS, the unpaid / partly unpaid coupon will be treated as a liability. The interest amount due and remaining unpaid may be allowed to be paid in later years subject to the bank complying with the above requirements.

2.7.3 In the case of RNCPS, deferred coupon will not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. The bank can however pay a coupon at a rate lesser than the specified rate, if adequate profit is available and the level of CRAR conforms to the regulatory minimum, subject to conformity with para 2.7.1.

2.7.4 All instances of non-payment of interest or payment of interest at a rate lesser than the specified rate should be reported by the issuing UCB to the concerned RO of DoS, RBI.

2.8 Redemption / Repayment of Redeemable Tier II Preference Shares

RNCPS and RCPS shall not be redeemable at the initiative of the holder. Redemption of these instruments at maturity shall be made only with the prior approval of the DoR, RBI subject, *inter alia*, to the following conditions:

(a) the bank's CRAR is above the minimum regulatory requirement prescribed by RBI

(b) the impact of such payment does not result in bank's CRAR falling below or remaining below the minimum regulatory requirement.

2.9 Seniority of Claim

The claims of the investors in these instruments shall be senior to the claims of investors in instruments eligible for inclusion in Tier I capital and subordinate to the claims of all other creditors including those in lower Tier II capital and the depositors. Amongst the investors of various instruments included in Upper Tier II capital, the claims shall rank *pari passu* with each other.

2.10 Voting Rights

The investors in Tier II preference shares shall not be eligible for any voting rights.

2.11 Progressive Discount for the purpose of computing CRAR

The Redeemable Preference Shares (both cumulative and non-cumulative) shall be subjected to progressive discount for capital adequacy purposes over the last five years of their tenor, as under:

Remaining Maturity of Instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

2.12 Other Conditions

2.12.1 The Tier II preference shares shall be fully paid-up, unsecured, and free of any restrictive clauses.

2.12.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the Tier II preference shares, provided they are not in conflict with any terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier II capital.

2.13 Compliance with Reserve Requirements

2.13.1 The total amount raised by a bank through the issue of these instruments shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR / SLR requirements.

2.13.2 The amount collected from members / prospective investors and held pending allotment shall not be reckoned for calculation of capital funds until the allotment process is over.

2.14 Reporting Requirements

UCBs issuing these instruments shall submit a report to the concerned RO of DoS, RBI, giving details of the capital raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document soon after the issue is completed.

2.15 Investments in Tier II preference shares and advances for purchase of Tier II preference shares

UCBs shall not grant any loan or advance to any person for purchasing their own Tier II preference shares or Tier II preference shares of other banks. UCBs shall not invest in Tier II preference shares issued by other banks and shall not grant advances against the security of Tier II preference shares issued by them or other banks.

Annex 4

Guidelines on issuance of Debt Capital Instruments

A. Perpetual Debt Instrument (PDI) eligible for inclusion in Tier I Capital

UCBs may issue Perpetual Debt Instruments (PDI) as bonds or debentures to their members or any other person residing within their area of operation, with the prior approval of RBI. The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum to the concerned Regional Office (RO) of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. PDI can also be issued through conversion of a portion of existing deposits of the Institutional Depositors as a part of revival plan / financial reconstruction of the UCB with consent of depositors as per applicable regulatory instructions. The amounts raised through PDI shall comply with the following terms and conditions to qualify for inclusion as Tier I capital.

2. Terms of Issue

2.1 Limit

i. The amount of PDI reckoned for Tier I capital shall not exceed 15 per cent of total Tier I capital[8]. The outstanding Innovative Perpetual Debt Instruments (IPDI)[9] shall also be covered in the aforementioned ceiling of 15 per cent and reckoned for capital purposes as hitherto. PDI in excess of the above limits shall be eligible for inclusion under Tier II capital, subject to the limits prescribed for Tier II capital. However, investors' rights and obligations would remain unchanged.

ii. The aforesaid ceiling of 15 per cent for PDI can be exceeded with prior RBI approval, if PDI are issued as part of revival plan / financial reconstruction of UCBs.

iii. The eligible amount shall be computed with reference to the amount of Tier I capital as on March 31 of the previous year, after deduction of goodwill, DTA and other intangible assets, but before deduction of equity investment in subsidiaries, if any.

2.2 Amount

The amount of PDI to be raised may be decided by the Board of Directors of banks.

2.3 Maturity

These instruments shall be perpetual.

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[8] Reference is invited to para 2.1 of Annex 3 as per which the outstanding amount of PNCPS and Perpetual Debt Instruments (PDI) along with outstanding Innovative Perpetual Debt Instruments (IPDI) shall not exceed 35 per cent of total Tier-I capital at any point of time

[9] Issued in terms of circular UCB.PCB.Cir.No.39/09.16.900/08-09 dated January 23, 2009 on Financial Restructuring of UCBs.

2.4 Options

2.4.1 The PDI shall not be issued with a 'put option' or ‘step-up’ option.

2.4.2 However, PDI may be issued with a call option subject to following conditions:

a) The call option on the instrument is permissible after the instrument has run for at least ten years; and

b) Call option shall be exercised only with the prior approval of Department of Regulation (DoR), RBI. While considering the proposals received from banks for exercising the call option, the RBI would, among other things, take into consideration the bank’s CRAR position both at the time of exercise of the call option and after exercise of the call option.

2.5 Classification

PDI shall be classified as 'Borrowings' and shown separately in the Balance Sheet.

2.6 Rate of interest

The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

2.7 Lock-in-Clause

2.7.1 PDI shall be subjected to a lock-in-clause in terms of which the issuing bank shall not be liable to pay interest, if

i. the bank's CRAR is below the minimum regulatory requirement prescribed by RBI; or

ii. the impact of such payment results in bank's CRAR falling below or remaining below the minimum regulatory requirement prescribed by RBI;

2.7.2 However, UCBs may pay interest with the prior approval of the DoR, RBI when the impact of such payment may result in net loss or increase the net loss, provided the CRAR meets the regulatory norm. For this purpose, net loss is defined as either (i) the accumulated loss at the end of the previous financial year or (ii) the loss incurred during the current financial year.

2.7.3 The interest shall <u>not</u> be cumulative.

2.7.4 All instances of invocation of the lock-in-clause should be reported by the issuing UCB to the concerned RO of DoS, RBI.

2.8 Seniority of claim

The claims of the investors of PDI shall be superior to the claims of investors in equity shares and PNCPS but subordinated to the claims of all other creditors and the depositors. Among investors in PDI and outstanding Innovative Perpetual Debt Instruments (IPDI[10]), the claims shall rank *pari passu* with each other.

2.9 Discount

The PDI shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.

2.10 Other conditions

2.10.1 PDI shall be fully paid-up, unsecured and free of any restrictive clauses.

2.10.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the PDI, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of the DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier I capital.

2.11 Compliance with Reserve Requirements

The total amount raised by a UCB through the issue of PDI shall not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will not attract CRR / SLR requirements. However, the amount collected from members / prospective investors and pending issue of PDI, shall be reckoned as liability for the purpose of calculating the net demand and time liabilities and shall, accordingly, attract reserve requirements. Such amounts pending issue of PDI, shall not be reckoned for calculation of capital funds.

2.12 Reporting Requirements

UCBs issuing PDI shall submit a report to the concerned RO of DoS, RBI giving details of the amount raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document, soon after the issue is completed.

2.13 Investments in PDI and Advances for Purchase of PDI

UCBs shall not grant any loan or advance to any person for purchasing their PDI or PDI of other banks. UCBs shall not invest in PDI issued by other banks (except when the PDI are issued as a part of revival plan of a UCB as mentioned in Para 1 above) and shall not grant advances against the security of PDI issued by them or other banks.

B. Long Term Subordinated Bonds (LTSB) eligible for inclusion in Lower Tier II capital

UCBs are permitted to issue LTSB to their members, or any other person residing within their area of operation. The amounts raised through LTSB shall comply with the following terms and conditions to be eligible for inclusion in Lower Tier II capital.

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[10] IPDI issued in terms of circular no. UBD.PCB. Cir.No. 39/09.16.900/08-09 on 'Financial restructuring of UCBs' dated January 23, 2009.

2. Terms of Issue

2.1 Eligibility

2.1.1 Banks fulfilling the following criteria as per their latest audited financial statements are permitted to issue LTSB without seeking specific permission of RBI in this regard:

i. The CRAR shall be at least one percentage point above the minimum CRAR applicable to a UCB.

ii. Gross NPA less than 7% and net NPA not more than 3%.

iii. Net profit for at least three out of the preceding four years subject to the bank not having incurred net loss in the immediate preceding year.

iv. No default in maintenance of CRR/SLR during the preceding year.

v. The bank has at least two professional directors on its Board.

vi. Core Banking Solution (CBS) fully implemented.

vii. No monetary penalty has been imposed on the bank for violation of RBI directives / guidelines during the two financial years preceding the year in which the LTSB are being issued.

2.1.2 Prior permission of the RBI is required for banks which do not comply with the above criteria. The UCBs shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum to the concerned Regional Office of the RBI. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application.

2.2 Limit

The amount of LTSB eligible to be reckoned as Tier II capital shall be limited to 50 per cent of total Tier I capital. The outstanding Long Term (Sub-ordinated) Deposits (LTDs) shall also be covered in the aforementioned ceiling of 50 per cent and reckoned for capital purposes as hitherto. These instruments, together with other components of Tier II capital shall not exceed 100 per cent of Tier I capital. The aforementioned limit shall be based on the amount of Tier I capital after deduction of goodwill and other intangible assets, but before the deduction of equity investments in subsidiaries, if any.

2.3 Amount

The amount to be raised may be decided by the Board of Directors of banks.

2.4 Maturity

LTSB shall be issued with a minimum maturity of ten years.

2.5 Options

2.5.1 The LTSB shall not be issued with a 'put option' or ‘step-up’ option.

2.5.2 However, LTSB may be issued with a call option subject to following conditions:

a) The call option on the instrument is permissible after the instrument has run for at least ten years; and

b) Call option shall be exercised only with the prior approval of Department of Regulation (DoR), RBI. While considering the proposals received from banks for exercising the call option, the RBI would, among other things, take into consideration the bank’s CRAR position both at the time of exercise of the call option and after exercise of the call option.

2.6 Classification in the Balance Sheet

These instruments will be classified as 'Borrowings' and shown separately in the Balance Sheet.

2.7 Interest Rate

LTSB may bear a fixed rate of interest or a floating rate of interest referenced to a market determined rupee interest benchmark rate.

2.8 Redemption / Repayment

Redemption / repayment at maturity shall be made only with the prior approval of the DoR, RBI.

2.9 Seniority of Claims

LTSB will be subordinated to the claims of depositors and other creditors but would rank senior to the claims of investors in instruments eligible for inclusion in Tier I capital and holders of preference shares (both Tier I & Tier II). Among investors of instruments included in Lower Tier II capital (i.e., including outstanding LTDs, if any), the claims shall rank *pari passu* with each other.

2.10 Progressive Discount

These Bonds shall be subjected to a progressive discount for capital adequacy purposes in the last five years of their tenor, as under:

Remaining Maturity of Instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

2.11 Other conditions

2.11.1 LTSB shall be fully paid-up, unsecured, and free of any restrictive clauses.

2.11.2 UCBs shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the LTSB, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of the DoR of RBI for seeking confirmation of the eligibility of the instrument for inclusion in Tier II capital.

2.12 Reserve Requirement

The total amount raised through the issue of LTSB shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR / SLR requirements. The amount collected by the UCB from members / prospective investors and held by it pending issue of LTSB, shall not be reckoned for calculation of capital funds.

2.13 Reporting Requirements

UCBs issuing LTSB shall submit a report to the concerned RO of DoS, RBI giving details of the amount raised, including the terms and conditions of issue together with a copy of Prospectus / Offer Document, soon after the issue is completed.

2.14 Investments in LTSB and advances for purchase of LTSB

UCBs shall not grant any loan or advance to any person for purchasing their LTSB or LTSB of other banks. UCBs shall not invest in LTSB issued by other banks nor shall they grant advances against the security of LTSB issued by them or other banks.

Annex 5

(Proforma for Returns)

Statement of Capital Funds, Risk Assets / Exposures and Risk Asset Ratio

1. Part A - Capital Fund and Risk Assets Ratio

(₹ in lakh)

I	**Capital Funds**		
A	**Tier I Capital elements**		
	(a) Paid-up Capital		
	Less : Intangible assets and losses		
	Net Paid-up Capital		
	(b) Reserves & Surplus		
	1. Statutory reserves		
	2. Capital reserves (see note below)		
	3. Revaluation Reserves (refer to para 4.1 (x) of this Master Circular)		
	4. Other reserves (to be specified)		
	5. Surplus in Profit & Loss Account*		
	Total Reserves & Surplus		
	Total Capital Funds (a + b)		
Notes: Capital reserves representing surplus on sales of assets and held in a separate account will be included			
General/floating provisions and specific provisions made for loan losses and other asset losses or diminution in the value of any assets will not be reckoned as Tier I capital funds.			
* In case of surplus in P & L Account [not allocated and yet to be approved by AGM] the following assumption may be made: (a) The current year's surplus may be notionally arrived at to the extent recommended by the BOD to be allocated among various reserves/funds and retained in business. (b) Where the BOD has not decided the distribution of the surplus, it may be notionally arrived at on the basis of last 3 years average.			
B	**Tier II capital elements**		
(i)	Undisclosed reserves		
(ii)	Revaluation reserves (refer to para 4.1 (x) of this Master Circular)		
(iii)	General provisions and loss reserves #		
(iv)	Investment Fluctuation Reserves / Funds		
(v)	Hybrid debt capital instruments		
(vi)	Subordinated debts		
	Total		
	Total of I (A + B)		
# Includes General Provision on standard assets (subject to restrictions)			
II	**Risk Assets**		
(a)	Adjusted value of funded risk assets i.e. on Balance Sheet items (to tally with Part `B')		
(b)	Adjusted value of non-funded and off-Balance		

	Sheet items (to tally with Part `C')		
(c)	Total risk-weighted assets (a+b)		
III	**Percentage of capital funds to risk-weighted assets I / II x 100**		

2. Part B - Weighted Assets i.e. On-Balance Sheet Items

(₹ in lakh)

	Book Value	**Risk weight**	**Risk adjusted value**
1	**2**	**3**	**4**
I.CASH & BANK BALANCES			
a) Cash in hand (including foreign currency notes)			
b) Balance with banks in India			
i) Balance with RBI			
ii) Balances with banks			
1. Current account (in India and outside India)			
2. Other accounts (in India and outside India)			
3. Current Account balances with other primary co-operative banks			
II. Money at Call and Short Notice			
III. INVESTMENTS			
a) Government and other approved Securities*			
b) Other (net of depreciation provided)			
IV. ADVANCES**			
Loans and advances, bills purchased and discounted and other credit facilities			
a) Claim guaranteed by Govt of India			
b) Claims guaranteed by State Govt			
c) Claims on public sector undertakings of Government of India			
d) Claims on PSUs of State Governments			
e) Others			
Notes: 1. Netting may be done only for advances collateralised by cash margins in deposits and in respect of assets where provisions for depreciation for bad and doubtful debts have been made. *2. Equity investments in subsidiaries, intangible assets and losses deducted from Tier I capital should be assigned zero weight*			
V. Premises (net of depreciation provided)			

VI. Furniture and fixtures (net of depreciation provided)			
VII. Other assets (including branch adjustments, non-banking assets, etc.)			
Total			
** Provision, if any, made for depreciation in investments in Government and other approved securities may be indicated by way of a footnote.* *** Provisions held, either general or specific, for bad and doubtful debts and standard assets may be indicated by way of footnote.*			

3. Part C - Weighed Non-funded Exposures / Off-Balance Sheet Items

Each off-Balance Sheet item may be submitted in the format indicated below:

(₹ in Lakh)

s	Book Value	Conversion Factor	Equivalent Value	Risk Weight	Adjusted Value

Note : *Netting may be done only for advances collateralised by cash margins or deposits and in respect of assets where provisions for depreciation or for bad and doubtful debts.*

Appendix

List of Circulars consolidated in the Master Circular

SI No.	Circular	Date	Subject
1	DOR.CAP.REC.No.27/09.18.201/2024-25	02.08.2024	Prudential Treatment of Bad and Doubtful Debt Reserve by Co-operative Banks
2	DOR.CAP.REC.No.30/09.18.201/2024-25	30.07.2024	Guidelines on treatment of Dividend Equalisation Fund (DEF) – Primary (Urban) Co-operative Banks (UCBs)
3	DOR.CAP.REC.No.86/09.18.201/2022-23	01.12.2022	Revised Regulatory Framework for Urban Co-operative Banks (UCBs) – Net Worth and Capital Adequacy
4	DOR.STR.REC.67/21.06.201/2022-23	07.09.2022	Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)
5	Part D of Annex of DOR.MRG.REC.64/00-00-005/2022-23	11.08.2022	Bilateral Netting of Qualified Financial Contracts - Amendments to Prudential Guidelines
6	Annex 2 of DOR.CAP.REC.No.97/21.06.201/2021-22	31.03.2022	Bilateral Netting of Qualified Financial Contracts - Amendments to Prudential Guidelines
7	DOR.CAP.REC.92/09.18.201/2021-22	08.03.2022	Issue and regulation of share capital and securities - Primary (Urban) Co-operative Banks.
8	UBD.CO.BPD.PCB.Cir.No.67/09.50.001/2013- 14	30.05.2014	Deferred Tax Liability on Special Reserve createdunder Section 36(1) (viii) of the Income Tax Act, 1961 - UCBs.
9	UBD BPD(PCB) Cir No. 45/13.05.000/2013-14	28.01.2014	Housing Sector: New Sub-Sector CRE-Residential Housing (CRE-RH) Segment within CRE Sector & Rationalisation of Provisioning and Risk Weight.
10	UBD. BPD PCB Cir No. 37/09.22.010/2013-14	14.11.2013	Advances guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) – Risk Weights and Provisioning.
11	Para 2 of UBP BPD (SCB) Cir. No.4/16.20.000/2012-13	10.06.2013	Ready Forward Contracts in Corporate Debt Securities.
12	UBD.BPD.(PCB)Cir.No.42/09.11.600/2009-10	08.02.2010	Prudential guidelines on capital charge for market risks.

13	UBD.PCB.Cir.No.30/09.14.000/2008-09	16.12.2009	Prudential treatment of different types of provisions in respect of loan portfolios.
14	UBD.PCB.Cir.No.73/09.14.000/2008-09	29.06.2009	Prudential treatment of different types of provisions in respect of loan portfolios.
15	UBD.PCB.Cir.No.29/09.11.600/2008-09	01.12.2008	Review of Prudential Norms-Provision for Standard Assets & Risk weights for exposures to commercial real estate and NBFCs.
16	UBD.PCB.Cir.No.53/13.05.000/07-08	16.06.08	Claims secured by residential property - change in limits for risk weights.
17	UBD.PCB.Cir.No.31/09.11.600/07-08	29.01.08	Prudential Norms for Capital Adequacy - Risk Weight for Educational Loans.
18	UBD.PCB.CirNo.40/13.05.000/2006-07	04.05.07	Annual Policy Statement for the Year 2007-08 - residential housing loans- reduction of risk weight.
19	UBD(PCB).Cir.No.39/13.05.000	30.04.07	Annual Policy Statement for 2007-08-Loans against Gold / Silver ornaments-reduction of risk weight.
20	UBD(PCB).Cir.No.30/09.11.600/06-07	19.02.07	Third Quarter Review of the Annual Statement on Monetary Policy for the year 2006-07 - Provisioning requirement for Standard Assets.
21	Para 1 (c) of UBD.BPD.Cir.No:7/09.29.000/2006-07	18.08.06	'When Issued' Transactions in Central Government Securities - Accounting and Related Aspects.
22	UBD.PCB.Cir.No.55/09.11.600/05-06	01.06.06	Annual Policy Statement for the Year 2006-07 - Risk weight on exposure to commercial real estate.
23	UBD.PCB).BPD.Cir.No.46/13.05.000/2005-06	19.04.06	Bills Discounted under LC - Risk Weight and Exposure Norms.
24	UBD.PCB.Cir.No.9/13.05.00/05-06	09.08.05	Risk Weight for Capital Market Exposure.
25	UBD.PCB.Cir.No.8/09.116.00/05-06	09.08.05	Prudential Norms on Capital Adequacy - Risk Weight on Housing Finance /commercial real estate exposures.
26	UBD.DS.Cir/No.44/13.05.00/04-05	15.04.05	Maximum Limit on Advances - Exposures to individuals / group of borrowers.
27	UBD.PCB.Cir.33/09.116.00/2004	05.01.05	Risk Weight on Housing Finance and Consumer Credit.
28	UBD.PCB.Cir.26/09.140.00/2004-05	01.11.04	Prudential Norms - State Government Guaranteed Exposures.

29	UBD.No.BPD.PCB.Cir.52/09.116.00/2003-04	15.06.04	Risk Weight for Exposure to Public Financial Institutions (PFIs).
30	UBD.No.BPD.PCB.Cir.37/13.05.00/03-04	16.03.04	Discounting / Rediscounting of Bills by Banks.
31	UBD.No.BPD.PCB.Cir.34/13.05.00/2003-04	11.02.04	Maximum Limit on Advances - Limits on Credit Exposure to Individual / Group of borrowers computation of capital funds.
32	UBD.No.POT.PCB.CIR.18/09.22.01/2002- 03	30.09.02	Risk Weight on Housing Finance.
33	UBD.No.POT.PCB.Cir.No.45/09.116.00/ 2000	25.04.01	Application of Capital Adequacy Norms to Urban (Primary) Co-operative Banks.
34	ACD.Plan.1310/PR.36-72/3	24.11.1972	Share Linking to Borrowings in Primary (Urban) Co-operative Banks