

RBI/2022-23/146

DOR.CAP.REC.No.86/ 09.18.201/2022-23

December 1, 2022

Dear Sir/ Madam,

Revised Regulatory Framework for Urban Co-operative Banks (UCBs) – Net Worth and Capital Adequacy

Please refer to the Revised Regulatory Framework for Urban Co-operative Banks (UCBs) emanating from the recommendations of Expert Committee on Urban Co-operative Banks ([Press Release: 2022-2023/561 dated July 19, 2022](#)) and [circular no. DOR. REG. No.84/07.01.000/2022-23 dated December 1, 2022](#), on Revised Regulatory Framework - Categorization of Urban Co-operative Banks (UCBs) for Regulatory Purposes. The detailed guidelines with respect to net worth and capital adequacy are provided below:

Net Worth

2. UCBs shall have minimum net worth as under:

- Tier 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”, for the purpose of these guidelines, is provided in [Annex](#).

Minimum capital to risk weighted assets ratio (CRAR) requirement

3. UCBs shall maintain minimum 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.
- 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.

4. The computation of CRAR will continue to be as stipulated in para 3 of the [Master Circular DOR.CAP.REC.2/09.18.201/2022-23 dated April 1, 2022](#) on Prudential Norms on Capital Adequacy - Primary (Urban) Co-operative Banks (UCBs), as amended from time to time.

Revaluation Reserves

5. Revaluation reserves, arising out of change in the carrying amount of a bank's property consequent upon its revaluation, may henceforth be reckoned as Tier 1 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.17/13.05.000/2022-23 dated April 8, 2022](#) on Management of Advances – UCBs, as amended from time to time, are strictly adhered to.

6. Revaluation reserves which do not qualify as Tier 1 capital shall also not qualify as Tier 2 capital. The bank may choose to reckon revaluation reserves in Tier 1 capital or Tier 2 capital at its discretion, subject to fulfilment of all the conditions specified at para 5 above.

Applicability

7. This circular is applicable to all Primary (Urban) Co-operative Banks. The instructions come into effect from April 1, 2023.

Yours faithfully,

(Usha Janakiraman)
Chief General Manager

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 ¹	
7	Credit balance in Profit & Loss Account, if any	
Deductions		
8	Debit balance in Profit & Loss Account, if any	
9	All Intangible Assets, including, inter alia, Deferred Tax Assets (DTA)	

Note:

- Funds raised through Perpetual Debt Instruments included in Tier 1 capital and debt capital instruments included in Tier 2 capital should not be reckoned as part of net worth.

¹ Please refer circular no. UBD.No.BPD.PCB.Cir.12/09.29.00/2003-04 dated September 4, 2003 read with [circular no. DCBR.BPD.\(PCB/RCB\)Cir.No.1/16.20.000/2018-19 dated July 6, 2018](#) for guidelines on creation of Investment Fluctuation Reserve (IFR) by Co-operative banks

2. Perpetual Cumulative Preference Shares (PCPS), Redeemable Non-Cumulative Preference Shares (RNCPS) and Redeemable Cumulative Preference Shares (RCPS) included in Tier 2 capital should not be reckoned as part of net worth.
3. No general or specific provisions should be included in computation of net worth.