CAB Training Cards

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Gist of RBI Guidelines on Maintenance of CRAR by Urban Co-operative Banks

I. Capital to Risk-weighted Assets Ratio (CRAR) norms for UCBs

- Since 2005, UCBs are required to maintain minimum CRAR of 9% under Basel I framework.
- CRAR has two components viz., **Capital Funds** (Tier-I + Tier-II) and **Risk-weighted Assets**.

$$\textbf{CRAR=} \frac{\textbf{Total Capital Funds (Tier I + Tier II)}}{\textbf{Risk Weighted Assets (RWA)}}$$

- Tier II capital will be limited to 100 percent of Tier I capital for the purpose of computation of CRAR.

II. Components of Tier-I capital

- Paid-up share capital
- Contributions received from associate/ nominal members, if withdrawal is restricted
- Contribution/ non-refundable admission fees collected from associate/ nominal members
- Capital Reserve representing surplus arising out of sale proceeds of assets
- Surplus in P&L Account (after appropriation for dividend)
- Perpetual Non-Cumulative Preference Shares (PNCPS)
- Innovative Perpetual Debt Instruments (IPDI)
- Special Reserve created u/s 36(1) (viii) of the IT Act, 1961 provided the bank has created DTL
- Free Reserves/ Funds as per the audited accounts.

Factors to be kept in mind while computing Tier-I capital

- For a Fund/ Reserve to be included in the Tier I, it should satisfy two criteria viz., it is created as an appropriation of net profit and should be a free reserve/ not a specific reserve.
- Free reserves shall exclude all reserves/ provisions created to meet anticipated loan losses, for frauds, for losses in other assets, IDR and for other outside liabilities.

- Intangible assets, losses (current or brought forward), provision required for liability devolved on bank, etc. should be deducted from Tier I Capital.

III. Components of Tier-II capital

- Undisclosed Reserves
- Revaluation Reserves (limited to 45%)
- Investment Fluctuation Reserve (IFR)
- Tier-II Preference Shares (PCPS, RNCPS & RCPS)
- Long Term (Subordinated) Deposits (limited to 50% of Tier-I)
- Subordinated Debt Instrument (limited to 50% of Tier-I)
- General Provisions & Loss Reserves (limited to 1.25% of RWA)

Computing General Provisions for inclusion in Tier II Capital

- Excess BDDR (general and not for any specific NPAs) may either be deducted from Gross NPAs for computing Net NPAs or be reckoned as Tier-II capital but cannot be used on both counts.
- Excess BDDR for specific NPAs (in excess of what is prescribed under prudential norms) can only be used for computing Net NPAs and not under Tier-II.
- Excess Provisions on Sale of NPAs can be considered under Tier-II.

IV. Risk Weights for Computation of CRAR

- Risk Weights for different categories of exposure ranges from 0% to 127.5%.
- While, Government Securities carries risk weight of 2.5%, inter-bank assets carry 20% risk weight.
- Commercial loans have risk weight of 100%.
- However, certain category of loans carry higher or lower risk weights viz., consumer/ personal loans – 125%, staff loan 20%, housing loans – 50% or 75% depending on LTV, CRE-RH carries 75% risk weight and gold loans below Rs.1.00 lakh carries 50% risk weight.
- Off-balance sheet exposures have to be applied 'credit conversion factor - CCF' first and then multiplied by relevant risk weight applicable to counter-party. For e.g., CCF for guarantees/ stand-by LC is 100%, for documentary credit/ trade LCs, the same is 20%.

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