



भारतीय रिज़र्व बैंक
Reserve Bank of India

SESSION ON MASTER DIRECTIONS ON INVESTMENT, MAINTENANCE OF MANDATORY CRR & SLR, NDTL COMPUTATION, CRAR AND NET WORTH COMPUTATION

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MASTER DIRECTIONS ON INVESTMENTS

Comprehensive Investment Policy

- Each UCB must have a formal investment policy approved by its Board of Directors.
- The policy should clearly define the objectives, risk limits, governance structures, and categorization rules for investments.

Eligible Instruments

- ☐ Government securities / SLR eligible securities
- ☐ Corporate bonds, subject to credit quality norms and rating requirements.
- ☐ Mutual fund units, commercial paper (CP), certificates of deposit (CD)
- ☐ Security receipts and other instruments, where permitted, with prescribed valuation and provisioning norms.



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MASTER DIRECTIONS ON INVESTMENTS

Categorization of Investments

- Held to Maturity (HTM)
- Available for Sale (AFS)
- Held for Trading (HFT)

Valuation of Securities (Marking to Market)

- ✓ For securities held under HTM categories no valuation is required.
- ✓ Concerns- No actual picture of your portfolio and knowledge to manage 25% asset size of BL. Remedies- Check your MTM in HTM also and calculate Duration of HTM portfolio.
- ✓ For securities held under AFS categories MTM valuation is to be done at least once in a quarter. Cost Benefit analysis plus credit risk assessment.
- ✓ For securities held under HFT categories MTM valuation is to be done at least once in a month.



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MASTER DIRECTIONS ON INVESTMENTS

Restrictions

- Non-SLR investment – 10% of previous year deposits
- Capital exposure limit for credit risk i.e. 15% of tier I capital for single borrower and 25% of tier I capital for group borrower
- Unrated Non -SLR securities within 10% of total Non-SLR securities
- Balances with other banks



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MASTER DIRECTIONS ON INVESTMENTS

Concept of Investment Depreciation Reserves and Investment Fluctuation Reserves

- UCBs shall make suitable provision for depreciation in the value of investments held under 'AFS' or 'HFT' categories out of current profits of the bank (i.e., charge the same to the Profit & Loss Account) and show the same as "Investment Depreciation Reserve (IDR)".
- UCBs shall maintain minimum IFR of 5 per cent of the investment portfolio. This minimum requirement shall be computed with reference to investments in HFT and AFS categories. UCBs may, at their discretion, build up a higher percentage of IFR depending on the size and composition of their portfolio, with the approval of their Board of Directors
- The amounts appropriated from the Profit & Loss Account/ to IFR, and the amount transferred from IFR to the Profit & Loss Account to meet depreciation requirement on investments shall be shown as 'below the line' extraordinary item after determining the profit for the year.



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AFS valuation example

Category of investment	Securities	Book Value	Market Value	MTM gain or loss	Net MTM
G-sec	1	98	97	-1	-2
	2	102	100	-2	
	3	100	101	1	
Bonds	1	95	99	4	6
	2	105	100	-5	
	3	99	101	2	
	4	102	107	5	
Other	1	100	99	-1	-2
	2	101	100	-1	
	Total				-4 (as no netting across investment is allowed)



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Reserve Bank of India (Urban Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Directions, 2025

Applicability & Legal Framework

- Applicable to all UCBs (Scheduled & Non-Scheduled)
- Issued under RBI Act, 1934 & BR Act, 1949
- Auditors to verify compliance with statutory provisions



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Maintenance of CRR

- ❖ Statutory requirement for maintenance under Section 42 (1) of RBI Act, 1934 (for Scheduled UCBs) and under Section 18 (1) of BR Act, 1949 (AACCS).
- ❖ Such percentage prescribed by RBI from time to time of Net Demand and Time Liabilities.

Eligible items

- Cash in Hand
- Balances held with the RBI
- Net balances in current account (for Non-Scheduled UCBs)
- Balances held with RBI under SDF
- Balances with DCCBs and STCB (for Non-Scheduled UCBs)



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Maintenance of CRR

- Incremental CRR
- Minimum CRR on daily basis

(minimum 90% of required CRR such that the average of CRR during the reporting fortnight is maintained)

- The Scheduled UCBs report the CRR Balances under Form 'B', within five days.
- The Non-Scheduled UCBs report the CRR Balances under Form I, within 20 days.
- There shall be no Provisional and Final Return.
- Penal interest – 3% above Bank Rate and 5% on succeeding day.



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Maintenance of SLR

- ❖ Statutory requirement for maintenance under Section 18 (1) of BR Act, 1949 (AACS).
- ❖ Such percentage prescribed by RBI from time to time of Net Demand and Time Liabilities(on last day of second preceding fortnight).

Eligible items

- Cash in Hand
- Gold at Market Value
- Unencumbered investment in approved securities



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Maintenance of SLR

- Not less than 18% of applicable NDTL.
- The UCBs report the SLR Balances under Form I along with Appendix II.
- Penal interest – 3% above Bank Rate and 5% on succeeding alternate Friday.



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Net Demand and Time Liabilities

- Step 1: Ascertain Demand Liabilities
- Step 2: Ascertain Time Liabilities
- Step 3: Add Other Demand & Time Liabilities (ODTL)
- Step 4: Compute liabilities to banking system
- Step 5: Net inter-bank assets
- $\text{NDTL} = (\text{Liabilities to Banking System} - \text{Assets with Banking System}) + \text{Liabilities to Others}$



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Net Demand and Time Liabilities

Inclusion

- Demand deposits
- Time deposits
- Borrowings (other than exempted)
- Interest accrued on deposits
- Bills payable, suspense balances, ODTL

Exclusion

- Paid-up capital & reserves
- Credit balance in P&L
- Refinance from RBI / NABARD / SIDBI / EXIM
- DICGC / ECGC claims pending adjustment



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Illustration: NDTL

- Demand Liabilities : ₹100.00 crore
- Time Liabilities : ₹150.00 crore
- Other DTL (ODTL) : ₹10.00 crore
- Total Liabilities to Others : ₹260.00 crore
- Liabilities to Banking System : ₹40.00 crore
- Assets with Banking System : ₹25.00 crore
- Net Inter-bank Liabilities : ₹15.00 crore
- Net Demand & Time Liabilities (NDTL) = ₹275.00 crore



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Illustration: CRR

- NDTL : ₹275.00 crore
- Applicable CRR Rate : 3.0%
- CRR Requirement = ₹8.25 crore
- Minimum Daily Maintenance (90%) : ₹7.43 crore
- Fortnightly Average Required : ₹8.25 crore
- Cash in hand (eligible) : ₹1.50 crore
- Balance with RBI : ₹5.80 crore
- Net balance in current accounts : ₹1.20 crore
- Total Eligible CRR Balance : ₹8.50 crore



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Illustration: SLR

- NDTL : ₹275.00 crore
- Applicable SLR Rate : 18.0%
- CRR Requirement = ₹49.50 crore
- Minimum Daily Maintenance (90%) : ₹7.43 crore
- Fortnightly Average Required : ₹8.25 crore
- Cash in hand (eligible) : ₹1.50 crore
- Gold (market value) : ₹3.00 crore
- Unencumbered Govt. Securities : ₹47.00 crore
- Total Eligible SLR Assets : ₹51.50 crore



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Key Audit Responsibilities

- Verify correctness of NDTL computation
- Check inclusion/exclusion of liabilities
- Ensure compliance with CRR & SLR percentages
- Verification of balances eligible as CRR
- Verification of eligible SLR assets
- Unencumbered status of securities



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Common Audit Observations

- Incorrect netting of inter-bank assets
- Wrong treatment of excluded liabilities
- Mismatch between books & returns
- Non-presence of daily position register



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Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025

Objective:

- Ensure **solvency and resilience**
- Absorb unexpected losses
- Protect depositor interests

Key indicators:

- Net Worth
- Capital to Risk Weighted Assets Ratio (CRAR)



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Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025

What is capital adequacy framework?

- The basic approach of capital adequacy framework is that a bank should have sufficient capital to provide a stable resource to absorb any losses arising from the risks in its business.
- Capital is divided into different tiers according to the characteristics / qualities of each qualifying instrument.



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Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025

Minimum Regulatory CRAR and Net Worth

UCB	CRAR	Net Worth	Remarks
Tier I	9%	₹2 crore	At least ₹1 crore by March 31, 2026 and ₹2 crore by March 31, 2028
Tier II, III and IV	12%	₹5 crore	At least ₹2.50 crore by March 31, 2026 and ₹5 crore by March 31, 2028



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Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025

- Components of Capital
- Types of Capital – Tier I Capital and Tier II Capital
- Risk weighted Assets
- Capital to Risk Weighted Assets Ratio
- Difference between Provisions and Reserves



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Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025

➤ Tier I Capital

- Paid-up share capital collected from regular members having voting rights.
- Contributions received from associate / nominal members
- Non-refundable fees
- Perpetual Non-Cumulative Preference Shares (PNCPS)
- Free reserves
- Perpetual Debt Instruments
- Revaluation Reserves
- Dividend Equalization Fund (transferred to General Reserves)



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Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025

➤ Tier II Capital

- General Provision and Loss Reserves
- Investment Fluctuation Reserve
- Perpetual Cumulative Preference Shares (PCPS)
- Redeemable Non-Cumulative Preference Shares (RNCPS)
- Redeemable Cumulative Preference Shares (RCPS)
- Long Term Subordinated Bond



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Two parameters for consideration of reserves as tier I capital

- It should be created out of appropriation
- It should be free

Item	Appropriation	Free to use	Nature
Statutory Reserves, Building Fund and General Reserves	Yes	Yes	Tier I
IFR, Dividend Equalisation Fund	Yes	No	Tier II
Standard Asset Provisions, General Provision	No	Yes	Tier II
	No	No	Provision



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Illustration: CRAR

- Share Capital = 200
- St. Reserve = 20
- Gen Reserves = 30
- BDDR required = 250
- BDDR Surplus = 50
- Revaluation Reserve = 100
- IFR (required) = 20
- Div. Equalisation Res = 100
- Std Asset provision = 50
- IDR (required) = 100
- Charity Fund = 10
- Staff Welfare Fund = 50
- Golden Jubilee Fund = 10
- Vehicle Fund = 50
- Building Fund = 50
- shortfall in provision = -100
- RWA = 1000



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Illustration: CRAR

Share Capital + St. Reserves+ Gen. Reserves + Building fund + Assessed shortfall in provision = $200+20+30+50-100= 200$

BDDR Surplus + Div. Equ. Fund + Prov. Std. Asset+ Charity Fund+ Staff Welfare Fund + Golden Jubilee Fund + Vehicle Fund = 1.25% of RWA = 12.5

Revaluation Reserve @45%= 45 (Depends on fulfilment of norms)

IFR=20

Total = $200+12.5+45+20=277.50$

CRAR= $277.50/1000 * 100 = 27.75\%$



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Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025

What is Net Worth?

Net Worth represents the bank's owned funds available to absorb losses

Components of Net Worth

- Paid-up share capital collected from regular members having voting rights.
- Contributions received from associate / nominal members
- Non-refundable fees
- Perpetual Non-Cumulative Preference Shares (PNCPS)
- Free reserves
- Excess IFR



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Net Worth vs CRAR – Conceptual Linkage

Net Worth:

- Absolute capital base of the bank
- Indicates long-term financial strength
- Minimum threshold prescribed by RBI

CRAR:

- Risk-sensitive capital adequacy measure
- Depends on Net Worth + other eligible capital
- Inversely related to Risk Weighted Assets (RWAs)

Key Linkage:

- Net Worth forms the core of Tier 1 Capital
- Adequate Net Worth is necessary but not sufficient for CRAR compliance
- Rapid asset growth or asset quality deterioration can erode CRAR even if Net Worth is positive



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- Vehicle Fund = 50
- Building Fund = 50
- shortfall in provision = -100
- RWA = 1000



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Illustration: Net Worth

Share Capital + St. Reserves+ Gen. Reserves + Building fund + Assessed
shortfall in provision = $200+20+30+50-100= 200$



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Common observation

- ❖ Non-deduction of share capital of non-voting members
- ❖ Non-deduction of Intangible Assets/Accumulated Losses
- ❖ Addition of Tier II Capital elements to Tier I Capital
- ❖ Effect of erosions/divergence not given in Net Worth/CRAR computation
- ❖ Incorrect margins assignment to Assets
- ❖ Tier II Capital considered more than Tier I Capital



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Loans and Advances

1. Violating the individual and group borrower exposure limit. (15 and 25% of Tier I capital).
2. Not meeting the targets/ Showing ineligible advances for Priority and Weaker Sector Lending.
3. Excessive exposure to housing, real estate and commercial real estate (10% of previous year total assets can be exceeded by another 5% for purpose of granting housing loans to individuals).
4. Breaching the ceiling on unsecured advances. (10% of total assets of previous year)
5. (i) Grant of Director related loans. (ii) Not maintaining a list of directors, their relative and business concerns in the branches.
6. Not taking membership of all the credit information companies (CICs).
7. Disposal of Non-Banking assets within the prescribed time-frame.



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Liquidity

1. Not calculating NDTL properly (not taking interest liability on matured deposits, credit balances in loan accounts into consideration).
2. Default in CRR (balances with private sector banks).
3. Not forming an Asset Liability Management Committee (ALCO).
4. ALCO having the Directors as its members.
5. Not preparing ALM Statements, placing such statements before the Board, non-submission to RBI.



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Systems and Control

1. Not allotting Unique Customer identification Code (UCIC) to all customers. Duplication of codes.
2. Large scale non-compliance of KYC guidelines. Not updating KYC information at prescribed periodicity.
3. Non Submission of CTR/STR to FIU-IND, New Delhi.
4. Not implementing applicable Cyber Security Controls



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Any Questions



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Thank You