

RBI/2004/53

Ref. UBD. No. BPD.PCB.Cir. 34 /13.05.00/2003-04.

February 11, 2004

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

Dear Sir/Madam,

**Maximum Limit on advances – Limits on credit Exposure to Individual/group of borrowers
- Computation of capital funds.**

Please refer to para 2(ii) of circular UBD No. DS 4/13.05.00/2000-01 dated August 25, 2000 read with circular UBD No. DS.PCB.Cir.25/13.05.00/2000-01 dated January 18, 2001. Also please refer to para (b) 2.1 of Circular UBD No. POT. PCB. Cir. No. 45/09.116.00/2000-01 dated April 25, 2001 in connection with Capital Adequacy Norms to Urban (Primary) Co-operative Banks.

2. A number of banks have sought clarification in regard to the reserves/funds, which should be included for arriving at the Capital Funds/Free Reserves/Tier I capital. We have examined such references and advise that for a fund to be included in the Capital Fund, the fund/reserve should satisfy the under noted two criteria,

- i) The reserve/fund should be created as an appropriation of profit and
- ii) It is a free reserve i. e. not a specific reserve.

For example, if the contingency fund has been created out of the appropriation of profit and not a earmarked/specific fund, it will be eligible for inclusion in Capital Fund. 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 subject to a limit of 1.25% of risk weighted assets, provided it is not attributed to any identified potential loss or diminution in value of an asset or a known liability. In view of the above, it is clarified that the funds like Centenary Celebration Fund, Dividend Equalisation Fund and Members uplift Fund; etc may not be included in the Capital Fund as they are earmarked for specific purpose.

3. Please acknowledge receipt of this circular to our Regional Office.

Yours faithfully,

Sd/-

(S. Karuppasamy)
Chief General Manager-in-Charge