

Annex 2

[Master Direction DOR.CAP.REC.No.61/21.01.002/2021-22 dated October 26, 2021](#) on Prudential Norms on Capital Adequacy for Local Area Banks (Directions), 2021:

Sr N o	Ref. Para.	Existing Extract	Amended text in RBI regulation (track change mode)
1	7(i)	Paid-up capital (ordinary shares), statutory reserves, and other disclosed free reserves, if any;	Paid-up capital (ordinary shares), statutory reserves, <u>AFS reserve^{1A}</u> , and other disclosed free reserves, if any; <i>Footnote 1A: Please refer to Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 dated September 12, 2023. It is also clarified that any negative balance in the AFS reserve shall be deducted from Tier I capital.</i>
2	12(i)	The following deductions shall be made from Tier I capital: (a) Intangible assets and losses in the current period and those brought forward from previous periods (b) Deferred tax assets (DTA)	The following deductions shall be made from Tier I capital: (a) Intangible assets and losses in the current period and those brought forward from previous periods (b) Deferred tax assets (DTA) (c) <u>The net unrealised gains arising on fair valuation of Level 3 financial instruments recognised in the Profit and Loss Account or in the AFS-Reserve^{1B}.</u> <i>Footnote 1B: Please refer to clause 28 and 41 of Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 dated September 12, 2023.</i>
3	17	The capital charge for market risk shall cover the capital charges for interest rate related instruments in the trading book, equities in the trading book and foreign exchange risk (including gold and other precious metals) in both trading and banking books. Trading book for the purpose of capital	The capital charge for market risk shall cover the capital charges for interest rate related instruments in the trading book, equities in the trading book and foreign exchange risk (including gold and other precious metals) in both trading and banking books. Trading book for the purpose of capital adequacy shall include <u>all</u>

Sr No	Ref. Para.	Existing Extract	Amended text in RBI regulation (track change mode)
		<p>adequacy shall include²:</p> <p>(i) Securities included under the Held for Trading category</p> <p>(ii) Securities included under the Available for Sale category</p> <p>(iii) Open gold position</p> <p>(iv) Open foreign exchange position</p> <p>(v) Trading positions in derivatives, and</p> <p>(vi) Derivatives entered into for hedging trading book exposures.</p> <p>Footnote 2: At present, LABs are not permitted to carry out activities mentioned in points (iii) to (vi). However, as and when these activities are allowed, the relevant instructions would become applicable to them.</p>	<p>instruments², that are classified as “Held for Trading” as per Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 dated September 12, 2023. All other instruments^{2A} will be included in the banking book and attract corresponding capital charge for credit risk (or counterparty credit risk, where applicable).</p> <p>Footnote 2: At present, LABs are not permitted to carry out activities involving foreign exchange or derivative positions. However, as and when these activities are allowed, the relevant instructions would become applicable to them.</p> <p>Footnote 2A: Accordingly, instruments classified under HTM, AFS, FVTPL (non-HFT) and investments in own subsidiaries, joint ventures and associates will also be part of banking book and will not attract market risk capital charge.</p>
4	19	<p>The capital charge for interest rate related instruments shall apply to the current market value of these items in bank’s trading book. The current market value shall be determined as per the extant RBI guidelines on valuation of investments.</p>	<p>The capital charge for interest rate related instruments shall apply to the fair value of these items in bank’s trading book. The fair value shall be determined as per the extant RBI guidelines on valuation of investments.</p>
5	23(a)	<p>Capital charge for equities in the trading book shall be applied to all instruments that exhibit market behavior similar to equities but not to non-convertible preference shares (which are covered by the interest rate risk requirements). The instruments covered include equity shares, whether voting or non-voting, convertible securities</p>	<p>Capital charge for equities in the trading book shall be applied to all instruments that exhibit market behavior similar to equities but not to non-convertible preference shares (which are covered by the interest rate risk requirements). The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, such as units of mutual</p>

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(vi) Derivatives entered into for hedging trading book exposures.¶

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		that behave like equities, such as units of mutual funds, and commitments to buy or sell equity. The capital charge for equities shall apply to the current market value of these items in the bank's trading book.				funds, and commitments to buy or sell equity. The capital charge for equities shall apply to the <u>fair</u> value of these items in the bank's trading book.			
6	23(b)	Investments in shares and units of Venture Capital Funds (VCFs) shall be assigned 150% risk weight for measuring the credit risk during first three years when these are held under HTM category. When these are held under or transferred to AFS, the capital charge for specific risk component of the market risk shall be fixed at 13.5% to reflect the risk weight of 150%. The charge for general market risk component shall be at 9% as in the case of other equities.				Investments in shares and units of Venture Capital Funds (VCFs) shall be assigned 150% risk weight for measuring the credit risk when these are held under <u>banking book</u> . When these are held under or transferred to <u>trading book</u> , the capital charge for specific risk component of the market risk shall be fixed at 13.5% to reflect the risk weight of 150%. The charge for general market risk component shall be at 9% as in the case of other equities.			
7	Annex 6 (A. Funded Risk Assets)	Sr. No.	Item	Risk Weight %	Sr. No.	Item	Risk Weight %		
		I	Balances		I	Balances			
					
		II	Investments (applicable to securities held in HTM)		II	Investments (applicable to securities held in <u>banking book</u>)			
						
8	Annex 7	S.No.	Nature of Investment	Maturity	Specific Risk Capital Charge (as % of	S.No.	Nature of Investment	Maturity	Specific Risk Capital Charge (as % of

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					exposure)				exposure)
		18.	Investments in Security Receipts issued by Securitisation Company/ Asset reconstruction Company and held under AFS portfolio	All	13.5	18.	Investments in Security Receipts issued by Securitisation Company/ Asset reconstruction Company	All	13.5
9	Annex 12 Example I Para 1.1	A bank may have the following position:				A bank may have the following position:			
		Sl. No.	Details	Amount (in ₹ Crore)		Sl. No.	Details	Amount (in ₹ Crore)	
		1	Cash & Balances with RBI	200.00		1	Cash & Balances with RBI	200.00	
		2	Bank balances	200.00		2	Bank balances	200.00	
		3.	Investments	2000.00		3.	Investments	2000.00	
			3.1 Held for Trading (Market Value)	500.00			3.1 Trading Book	1500.00	
			3.2 Available for Sale (Market Value)	1000.00			3.2 Banking Book	500.00	
			3.3 Held to Maturity	500.00					
		4	Advances (net)	2000.00		4	Advances (net)	2000.00	
						5	Other Assets	300.00	

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			5	Other Assets	300.00		6	Total Assets	4700.00				
			6	Total Assets	4700.00								
10	Annex 12 Example 1.3	For simplicity sake the details of investments are assumed to be as under: i) Government Securities					For simplicity sake the details of investments are assumed to be as under: i) Government Securities						
		Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type
		01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS	01/03/2010	31/03/2021	01/03/2022	100	12.50	Trading Book
		01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS	01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
		01/03/2012	31/03/2021	31/05/2021	100	12.00	AFS	01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
		01/03/2013	31/03/2021	01/03/2023	100	12.00	AFS	01/03/2013	31/03/2021	01/03/2023	100	12.00	Trading Book
		01/03/2016	31/03/2021	01/03/2028	100	11.50	AFS	01/03/2016	31/03/2021	01/03/2028	100	12.00	Trading Book
		01/03/2017	31/03/2021	01/03/2027	100	11.00	AFS	01/03/2017	31/03/2021	01/03/2027	100	11.50	Trading Book
		01/03/2018	31/03/2021	01/03/2023	100	10.50	HFT	01/03/2018	31/03/2021	01/03/2027	100	11.00	Trading Book
		01/03/2019	31/03/2021	01/03/2024	100	10.00	HTM	01/03/2019	31/03/2021	01/03/2023	100	10.50	Trading Book
		01/03/2020	31/03/2021	01/03/2020	100	8.00	HTM	01/03/2020	31/03/2021	01/03/2024	100	10.00	Banking Book
		01/03/2020	31/03/2021	01/03/2024	100	6.50	HTM	01/03/2020	31/03/2021	01/03/2020	100	8.00	Banking Book

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		1	1	1			M	01/03/2021	31/03/2021	01/03/2024	100	6.50	Banking Book
Total				1000					1000				
		ii) Bank Bonds						ii) Bank Bonds					
		Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type
		01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS	01/03/2010	31/03/2021	01/03/2022	100	12.50	Trading Book
		01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS	01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
		01/03/2012	31/03/2021	31/05/2021	100	12.00	AFS	01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
		01/03/2013	31/03/2021	01/03/2024	100	12.50	AFS	01/03/2013	31/03/2021	01/03/2024	100	12.50	Trading Book
		01/03/2016	31/03/2021	01/03/2025	100	11.50	HFT	01/03/2016	31/03/2021	01/03/2025	100	11.50	Trading Book
Total					500						500		
		iii) Other Securities						iii) Other Securities					
		Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type
		01/03/2010	31/03/2021	01/03/2022	100	12.50	HFT	01/03/2010	31/03/2021	01/03/2022	100	12.50	Trading Book
		01/05/2011	31/03/2021	01/05/2021	100	12.00	HFT	01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
		01/03/2012	31/03/2021	31/05/2021	100	12.00	HFT	01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book

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6	Total Assets	5000.00																																																																									
13	Annex 12 Example	For simplicity sake let us assume the details of investments in interest rate related securities as under: i) Government Securities	For simplicity sake let us assume the details of investments in interest rate related securities as under: i) Government Securities																																																																								

Deleted: Held for Trading

Deleted: 500

Deleted: Available for Sale

Deleted: 1000

Deleted: Held to Maturity

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Sr No	Ref. Para.	Existing Extract						Amended text in RBI regulation (track change mode)							
		Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type		
e II Para 1.3		01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS	01/03/2010	31/03/2021	01/03/2022	100	12.50	Trading Book	Deleted: AFS	
		01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS	01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book	Deleted: AFS	
		01/03/2012	31/03/2021	31/05/2021	100	12.00	AFS	01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book	Deleted: AFS	
		01/03/2013	31/03/2021	01/03/2023	100	12.00	AFS	01/03/2013	31/03/2021	01/03/2023	100	12.00	Trading Book	Deleted: AFS	
		01/03/2016	31/03/2021	01/03/2028	100	11.50	AFS	01/03/2016	31/03/2021	01/03/2028	100	11.50	Trading Book	Deleted: AFS	
		01/03/2017	31/03/2021	01/03/2027	100	11.00	AFS	01/03/2017	31/03/2021	01/03/2027	100	11.00	Trading Book	Deleted: AFS	
		01/03/2018	31/03/2021	01/03/2023	100	10.50	HFT	01/03/2018	31/03/2021	01/03/2027	100	11.00	Trading Book	Deleted: AFS	
		01/03/2019	31/03/2021	01/03/2024	100	10.00	HTM	01/03/2018	31/03/2021	01/03/2023	100	10.50	Trading Book	Deleted: HFT	
		01/03/2020	31/03/2021	01/03/2020	100	8.00	HTM	01/03/2019	31/03/2021	01/03/2024	100	10.00	Banking Book	Deleted: HTM	
		01/03/2021	31/03/2021	01/03/2021	100	6.50	HTM	01/03/2020	31/03/2021	01/03/2020	100	8.00	Banking Book	Deleted: HTM	
					1000			01/03/2021	31/03/2021	01/03/2021	100	6.50	Banking Book	Deleted: HTM	
		ii) Bank Bonds													
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Sr No	Ref. Para.	Existing Extract						Amended text in RBI regulation (track change mode)					
		Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type
		01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS	01/03/2010	31/03/2021	01/03/2022	100	12.50	Trading Book
		01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS	01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
		01/03/2012	31/03/2021	31/05/2021	100	12.00	AFS	01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
		01/03/2013	31/03/2021	01/03/2024	100	12.50	AFS	01/03/2013	31/03/2021	01/03/2024	100	12.50	Trading Book
		01/03/2016	31/03/2021	01/03/2035	100	11.50	HFT	01/03/2016	31/03/2021	01/03/2035	100	11.50	Trading Book
		Total			500			Total			500		
		iii) Other Securities						iii) Other Securities					
		Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type
		01/03/2010	31/03/2021	01/03/2022	100	12.50	HFT	01/03/2010	31/03/2021	01/03/2022	100	12.50	Trading Book
		01/05/2011	31/03/2021	01/05/2021	100	12.00	HFT	01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
		01/03/2012	31/03/2021	31/05/2021	100	12.00	HFT	01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
		01/03/2013	31/03/2021	01/03/2024	100	12.50	HTM	01/03/2013	31/03/2021	01/03/2024	100	12.50	Trading Book
		01/03/2016	31/03/2021	01/03/2035	100	11.50	HTM	01/03/2016	31/03/2021	01/03/2035	100	11.50	Banking Book
		Total			500			Total			500		

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Sr No	Ref. Para.	Existing Extract	Amended text in RBI regulation (track change mode)																																																																																																
14	Annex 12 Example II Para 2.1	<p>As per the guidelines, held for trading and available for sale securities would qualify to be categorized as Trading Book. Thus, trading book in respect of interest rate related investments in the instant case would be ₹1500 crore. In addition, equities position of ₹300 crore would be in the trading book, as indicated above. The derivative products held by banks are to be considered as part of trading book. Open position on foreign exchange and gold also would be considered for market risk. While computing the capital charge for credit risk, the securities held under trading book would be excluded and hence the credit risk based risk-weights would be as under:</p> <table border="1"> <thead> <tr> <th>Details of Assets</th> <th>Book Value</th> <th>Risk Weight</th> <th>Risk weighted Assets</th> </tr> </thead> <tbody> <tr> <td>Cash& RBI</td> <td>200</td> <td>0%</td> <td>0</td> </tr> <tr> <td>Bank balances</td> <td>200</td> <td>20%</td> <td>40</td> </tr> <tr> <td>Investments in (HTM category)</td> <td>300</td> <td>0%</td> <td>0</td> </tr> <tr> <td>Government</td> <td>0</td> <td>20%</td> <td>0</td> </tr> <tr> <td>Banks</td> <td>200</td> <td>100%</td> <td>200</td> </tr> <tr> <td>Corporate Bonds</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Advances (net)</td> <td>2000</td> <td>100%</td> <td>2000</td> </tr> <tr> <td>Other Assets</td> <td>300</td> <td>100%</td> <td>300</td> </tr> <tr> <td>Total</td> <td>3200</td> <td></td> <td>2540</td> </tr> </tbody> </table>	Details of Assets	Book Value	Risk Weight	Risk weighted Assets	Cash& RBI	200	0%	0	Bank balances	200	20%	40	Investments in (HTM category)	300	0%	0	Government	0	20%	0	Banks	200	100%	200	Corporate Bonds				Advances (net)	2000	100%	2000	Other Assets	300	100%	300	Total	3200		2540	<p>The derivative products held by banks are <u>assumed</u> to be part of trading book. Open position on foreign exchange and gold also would be considered for market risk. While computing the capital charge for credit risk, the securities held under trading book would be excluded and hence the credit risk based risk-weights would be as under:</p> <table border="1"> <thead> <tr> <th>Details of Assets</th> <th>Book Value</th> <th>Risk Weight</th> <th>Risk weighted Assets</th> </tr> </thead> <tbody> <tr> <td>Cash& RBI</td> <td>200</td> <td>0%</td> <td>0</td> </tr> <tr> <td>Bank balances</td> <td>200</td> <td>20%</td> <td>40</td> </tr> <tr> <td>Investments in (<u>Banking Book</u>)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Government</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Banks</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Corporate Bonds</td> <td>300</td> <td>0%</td> <td>0</td> </tr> <tr> <td></td> <td>0</td> <td>20%</td> <td>0</td> </tr> <tr> <td></td> <td>200</td> <td>100%</td> <td>200</td> </tr> <tr> <td>Advances (net)</td> <td>2000</td> <td>100%</td> <td>2000</td> </tr> <tr> <td>Other Assets</td> <td>300</td> <td>100%</td> <td>300</td> </tr> <tr> <td>Total</td> <td>3200</td> <td></td> <td>2540</td> </tr> <tr> <td>Credit Risk for OTC Derivatives:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>IRS</td> <td>100 (Credit conversion factor - 1% + 1%)</td> <td>100%</td> <td>8.00</td> </tr> </tbody> </table>	Details of Assets	Book Value	Risk Weight	Risk weighted Assets	Cash& RBI	200	0%	0	Bank balances	200	20%	40	Investments in (<u>Banking Book</u>)				Government				Banks				Corporate Bonds	300	0%	0		0	20%	0		200	100%	200	Advances (net)	2000	100%	2000	Other Assets	300	100%	300	Total	3200		2540	Credit Risk for OTC Derivatives:				IRS	100 (Credit conversion factor - 1% + 1%)	100%	8.00
Details of Assets	Book Value	Risk Weight	Risk weighted Assets																																																																																																
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Sr No	Ref. Para.	Existing Extract				Amended text in RBI regulation (track change mode)			
				Credit Risk for OTC Derivatives:				per year)	
		IRS	100 <i>(Credit conversion factor - 1% + 1% per year)</i>	100%	8.00	IRF	50 <i>(Credit conversion factor for maturities less than one year – 0.5%)</i>	100%	0.25
		IRF	50 <i>(Credit conversion factor for maturities less than one year – 0.5%)</i>	100%	0.25	Total	3350		2548.25
		Total	3350		2548.25				