

Master Circular- Prudential norms on Capital Adequacy

DBOD No. BP. BC. 2 / 21.01.002 / 2002- 2003

5 July 2002

**Chief Executives of all Scheduled Commercial Banks
(excluding RRBs and LABs)**

Dear Sir,

Master Circular- Prudential norms on Capital Adequacy

Please refer to the Master Circular No. DBOD. BP. BC. 21/ 21.01.002/ 2001- 2002 dated 31 August 2001 consolidating instructions/ guidelines issued to banks till 30 June 2001 on matters relating to prudential norms on capital adequacy. The Master Circular has been suitably updated by incorporating instructions issued upto 30 June 2002 and has also been placed on the RBI web-site ([http:// www.rbi.org.in](http://www.rbi.org.in)).

This Master Circular is a compilation of all the instructions contained in the circulars issued by RBI on the above subject, which are operational as on the date of this circular.

Yours faithfully,

**(M. R. Srinivasan)
Chief General Manager-in-Charge**

Encls : As above

Master Circular

PRUDENTIAL NORMS ON CAPITAL ADEQUACY

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RESERVE BANK OF INDIA

1. General

1.1 With a view to adopting the Basle Committee framework on capital adequacy norms which takes into account the elements of risk in various types of assets in the balance sheet as well as off-balance sheet business and also to strengthen the capital base of banks, Reserve Bank of India decided in April 1992 to introduce a risk asset ratio system for banks (including foreign banks) in India as a capital adequacy measure.

1.2 Essentially, under the above system the balance sheet assets, non-funded items and other off-balance sheet exposures are assigned weights according to the prescribed risk weights and banks have to maintain unimpaired minimum capital funds equivalent to the prescribed ratio on the aggregate of the risk weighted assets and other exposures on an ongoing basis. The broad details of the capital adequacy framework are detailed below.

2. Capital funds

2.1 Capital funds of Indian banks

For Indian banks, 'capital funds' would include the following elements:

2.1.1 Elements of Tier I capital

- i) Paid-up capital, statutory reserves, and other disclosed free reserves, if any.
- ii) Capital reserves representing surplus arising out of sale proceeds of assets.

2.1.2 Equity investments in subsidiaries, intangible assets and losses in the current period and those brought forward from previous periods, should be deducted from Tier I capital.

2.1.3 In the case of public sector banks which have introduced Voluntary Retirement Scheme (VRS), in view of the extra-ordinary nature of the event, the VRS related Deferred Revenue Expenditure would not be reduced from Tier I capital.

2.1.4 Elements of Tier II capital

- i) Undisclosed reserves and cumulative perpetual preference shares

These often have characteristics similar to equity and disclosed reserves. These elements have the capacity to absorb unexpected losses and can be included in capital, if they represent accumulations of post-tax profits and not encumbered by any known liability and should not be routinely used for absorbing normal loss or operating losses. Cumulative perpetual preference shares should be fully paid-up and should not contain clauses which permit redemption by the holder.

ii) Revaluation reserves

These reserves often serve as a cushion against unexpected losses, but they are less permanent in nature and cannot be considered as 'Core Capital'. Revaluation reserves arise from revaluation of assets that are undervalued on the bank's books, typically bank premises and marketable securities. The extent to which the revaluation reserves can be relied upon as a cushion for unexpected losses depends mainly upon the level of certainty that can be placed on estimates of the market values of the relevant assets, the subsequent deterioration in values under difficult market conditions or in a forced sale, potential for actual liquidation at those values, tax consequences of revaluation, etc. Therefore, it would be prudent to consider revaluation reserves at a discount of 55 percent while determining their value for inclusion in Tier II capital. Such reserves will have to be reflected on the face of the Balance Sheet as revaluation reserves.

iii) General provisions and loss reserves

Such reserves, if they are not attributable to the actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, can be included in Tier II capital. Adequate care must be taken to see that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering general provisions and loss reserves to be part of Tier II capital. General provisions/loss reserves will be admitted up to a maximum of 1.25 percent of total risk weighted assets.

iv) Hybrid debt capital instruments

In this category, fall a number of capital instruments which combine certain characteristics of equity and certain characteristics of debt. Each has a particular feature which can be considered to affect its quality as capital. Where these

instruments have close similarities to equity, in particular when they are able to support losses on an ongoing basis without triggering liquidation, they may be included in Tier II capital.

v) Subordinated debt

a) To be eligible for inclusion in Tier II capital, the instrument should be fully paid-up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses, and should not be redeemable at the initiative of the holder or without the consent of the Reserve Bank of India. They often carry a fixed maturity, and as they approach maturity, they should be subjected to progressive discount, for inclusion in Tier II capital. Instruments with an initial maturity of less than 5 years or with a remaining maturity of one year should not be included as part of Tier II capital. Subordinated debt instruments eligible to be reckoned as Tier II capital will be limited to 50 percent of Tier I capital.

b) In the case of public sector banks, the bonds issued to the VRS employees as a part of the compensation package, net of the unamortised VRS Deferred Revenue Expenditure, could be treated as Tier II capital, subject to compliance with the terms and conditions stipulated in para 2.4 below.

c) The subordinated debt instruments included in Tier II capital may be subjected to discount at the rates shown below:

Remaining Maturity of Instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

d) Banks should indicate the amount of subordinated debt raised as Tier II capital by way of explanatory notes/ remarks in the Balance Sheet as well as in Schedule 5 under 'Other Liabilities & Provisions'.

vi) The Investment Fluctuation Reserve would be eligible for inclusion in Tier II capital.

- vii) Banks are allowed to include the 'General Provisions on Standard Assets' and 'Investment Fluctuation Reserve' in Tier II capital. However, the provisions on standard assets and 'Investment Fluctuation Reserve' together with other 'general provisions/ loss reserves' will be admitted as Tier II capital up to a maximum of 1.25 per cent of the total risk-weighted assets.

2.1.5 Tier II elements should be limited to a maximum of 100 percent of total Tier I elements for the purpose of compliance with the norms.

2.1.6 A bank's aggregate investment in Tier II bonds issued by other banks and financial institutions shall be permitted upto 10 percent of the investing banks total capital. The total capital for this purpose will be the same as reckoned for the purpose of Capital Adequacy.

2.2 Capital funds of foreign banks operating in India

For foreign banks, 'capital funds' would include the following elements:

2.2.1 Elements of Tier I capital

- i) Interest-free funds from Head Office kept in a separate account in Indian books specifically for the purpose of meeting the capital adequacy norms.
- ii) Statutory reserves kept in Indian books.
- iii) Remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India.

Notes:

- a) The foreign banks are required to furnish to Reserve Bank, (if not already done), an undertaking to the effect that the banks will not remit abroad the remittable surplus retained in India and included in Tier I capital as long as the banks function in India.
- b) These funds may be retained in a separate account titled as 'Amount Retained in India for Meeting Capital to Risk-weighted Asset Ratio (CRAR) Requirements' under 'Capital Funds'.
- c) An auditor's certificate to the effect that these funds represent surplus remittable to Head Office once tax assessments are completed or tax appeals are decided and do not include funds in the nature of provisions towards tax or for any other contingency may also be furnished to Reserve Bank.

- d) It should be noted that once the banks treat any part of the remittable profits as capital funds for capital adequacy purposes, these funds cannot be hedged.
- iv) Capital reserve representing surplus arising out of sale of assets in India held in a separate account and which is not eligible for repatriation so long as the bank functions in India.
- v) Interest-free funds remitted from abroad for the purpose of acquisition of property and held in a separate account in Indian books.
- vi) The net credit balance, if any, in the inter-office account with Head Office/overseas branches will not be reckoned as capital funds. However, any debit balance in Head Office account will have to be set-off against the capital.

2.2.2 Elements of Tier II capital

To the extent relevant, elements of Tier II capital as indicated above in paragraph 2.1.4 in respect of Indian banks will be eligible.

2.2.3 The elements of Tier I & Tier II capital do not include foreign currency loans granted to Indian parties.

2.3 Minimum requirement of capital funds

Banks were required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) norm of 8 percent on an ongoing basis up to the year ending 31 March 1999. With effect from the year ending 31 March 2000, banks are required to maintain a minimum CRAR of 9 percent on an ongoing basis.

2.4 Issue of subordinated debt for raising Tier II capital

2.4.1 The Reserve Bank has given autonomy to Indian banks to raise rupee subordinated debt as Tier II capital, subject to the terms and conditions given in the *Annexure 1*. It should be ensured that the terms & conditions are strictly adhered to.

2.4.2 Foreign banks also would not require prior approval of RBI for raising subordinated debt in foreign currency through borrowings from Head Office for inclusion in Tier II capital. To ensure transparency and uniformity, detailed guidelines in this regard are given at *Annexure 1A*.

2.4.3 The banks should submit a report to Reserve Bank of India giving details of the Subordinated debt issued for raising Tier II capital, such as, amount raised, maturity of the

instrument, rate of interest together with a copy of the offer document, soon after the issue is completed.

3. Risk adjusted assets and off-balance sheet items

3.1 Risk adjusted assets would mean weighted aggregate of funded and non-funded items. Degrees of credit risk expressed as percentage weightings, have been assigned to balance sheet assets and conversion factors to off-balance sheet items.

3.2 Banks' investments in all securities should be assigned a risk weight of 2.5 percent for market risk. This will be in addition to the risk weights assigned towards credit risk since, in line with best practices, some capital cushion should also be provided for market risk in addition to credit risk.

3.3 The value of each asset/ item shall be multiplied by the relevant weights to produce risk adjusted values of assets and off-balance sheet items. The aggregate will be taken into account for reckoning the minimum capital ratio.

3.4 The risk-weights allotted to each of the items of assets and off-balance sheet items are furnished in the *Annexure 2*.

4. Reporting requirements

4.1 Banks should furnish an annual return indicating -

- i) capital funds,
- ii) conversion of off-Balance Sheet/non-funded exposures,
- iii) calculation of risk weighted assets, and
- iv) calculations of capital to risk assets ratio.

4.2 The format of the return is given in *Annexure 3*. In the case of Indian banks having branches abroad, the break-up and aggregate in respect of domestic and overseas operations will have to be furnished. Two officials who are authorised to sign the statutory returns submitted to Reserve Bank should sign the returns.

5. Capital Adequacy for Subsidiaries

5.1 The Basel Committee on Banking Supervision has proposed that the New Capital Adequacy Framework should be extended to include, on a consolidated basis, holding

companies that are parents of banking groups. On prudential considerations, it is necessary to adopt best practices in line with international standards, while duly reflecting local conditions.

5.2 Accordingly, banks may voluntarily build-in the risk weighted components of their subsidiaries into their own balance sheet on notional basis, at par with the risk weights applicable to the bank's own assets. Banks should earmark additional capital in their books over a period of time so as to obviate the possibility of impairment to their net worth when switchover to unified balance sheet for the group as a whole is adopted after sometime. The additional capital required may be provided in the bank's books in phases, beginning from the year ending March 2001.

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**PRUDENTIAL NORMS ON CAPITAL ADEQUACY**

**Issue of unsecured bonds as**  
**Subordinated Debt by banks for raising Tier II capital**  
(Vide paragraph 2.4.1)

**I. Rupee Subordinated Debt**

**1. Terms of Issue of Bond**

To be eligible for inclusion in Tier - II Capital, terms of issue of the bonds as subordinated debt instruments should be in conformity with the following:

(i) ***Amount***

The amount of subordinated debt to be raised may be decided by the Board of Directors of the banks.

(ii) ***Maturity period***

(a) Subordinated debt instruments with an initial maturity period of less than 5 years, or with a remaining maturity of one year should not be included as part of Tier-II Capital. Further, they should be subjected to progressive discount as they approach maturity at the rates shown below:

| <b>Remaining Maturity of Instruments</b>       | <b>Rate of Discount (%)</b> |
|------------------------------------------------|-----------------------------|
| Less than one year                             | 100                         |
| More than One year and less than Two years     | 80                          |
| More than Two years and less than Three years  | 60                          |
| More than Three years and less than Four years | 40                          |
| More than Four years and less than Five years  | 20                          |

(b) The bonds should have a minimum maturity of 5 years. However if the bonds are issued in the last quarter of the year i.e. from 1st January to 31st March, they should have a minimum tenure of sixty three months.

(iii) ***Rate of interest***

The interest rate should not be more than 200 basis points above the yield on Government of India securities of equal residual maturity at the time of issuing bonds. The instruments should be 'vanilla' with no special features like options etc.

(iv) ***Other conditions***

- a) The instruments should be fully paid-up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses and should not be redeemable at the initiative of the holder or without the consent of the Reserve Bank of India.
- b) Necessary permission from Exchange Control Department should be obtained for issuing the instruments to NRIs/OCBs/FIIs.
- c) Banks should comply with the terms and conditions, if any, set by SEBI/other regulatory authorities in regard to issue of the instruments.
- d) Nationalised banks should obtain permission from the Government for issuing the instruments.
- e) In the case of foreign banks rupee subordinated debt should be issued by the Head Office of the bank, through the Indian branch after obtaining specific approval from Exchange Control Department.

## **2. Inclusion in Tier II capital**

Subordinated debt instruments will be limited to 50 per cent of Tier-I Capital of the bank. These instruments, together with other components of Tier II capital, should not exceed 100% of Tier I capital.

## **3. Grant of advances against bonds**

Banks should not grant advances against the security of their own bonds.

## **4. Compliance with Reserve Requirements**

- i) The funds collected by various branches of the bank or other banks for the issue, and held pending finalisation of allotment will have to be taken into account for the purpose of calculating reserve requirements.
- ii) To the extent the instruments are treated as Tier II Capital [after discount at the rates mentioned at item 1(ii)(a)] they will be exempted from reserve requirements. However, in view of the multiple prescriptions on different categories of liabilities, including prescription of a zero reserve requirement on certain liabilities, as stipulated under the law, effective CRR and SLR maintained by the bank on total demand and time liabilities, including the total amount raised under subordinated debt, should not be less than 3% and 25% respectively.

## **5. Treatment of Investment in subordinated debt**

Investments by banks in subordinated debt of other banks will be assigned 100% risk weight for capital adequacy purpose. Also, the bank's aggregate investment in Tier II bonds issued by other banks and financial institutions shall be permitted upto 10 percent of the investing bank's total capital. The capital for this purpose will be the same as that reckoned for the purpose of

capital adequacy. In case any bank has already exceeded this limit of 10 percent, a reference may be made to Reserve Bank indicating the period within which the exposure would be brought within the stipulated limit. (*cf para 2(ii) of circular listed at item 8 part 'B' of Appendix*)

**II. Subordinated Debt in foreign currency and Subordinated Debt in the form of Foreign Currency Borrowings from Head Office by foreign banks**

Banks may take approval of RBI on a case-by-case basis.

**III. Reporting Requirements**

The banks should submit a report to Reserve Bank of India giving details of the capital raised, such as, amount raised, maturity of the instrument, rate of interest together with a copy of the offer document, soon after the issue is completed.

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**Tier II capital - Subordinated debt - Head Office borrowings  
in foreign currency raised by foreign banks operating  
in India for inclusion in Tier II capital**  
(Vide paragraph 2.4.2)

In terms of para II (b) of RBI circular No. DBOD. BP. BC. 5/21.01.002/98-99 dated February 8, 1999 foreign banks are required to obtain the approval of RBI, for raising subordinated debt in the form of foreign currency borrowings from Head Office. The requests are presently examined on a case-by-case approach. Detailed guidelines on the standard requirements and conditions for inclusion of such Head Office borrowings in foreign currency, as subordinated debt in Tier II capital are as indicated below:-

**Amount of borrowing**

2. The total amount of HO borrowing in foreign currency will be at the discretion of the foreign bank. However, the amount eligible for inclusion in Tier II capital as subordinated debt will be subject to a maximum ceiling of 50% of the Tier I capital maintained in India, and the applicable discount rate mentioned in para 5 below. Further as per extant instructions, the total of Tier II capital should not exceed 100% of Tier I capital.

**Maturity period**

3. Head Office borrowings should have a minimum initial maturity of 5 years. If the borrowing is in tranches, each tranche will have to be retained in India for a minimum period of five years. HO borrowings in the nature of perpetual subordinated debt, where there may be no final maturity date, will not be permitted.

**Features**

4. The HO borrowings should be fully paid up, i.e. the entire borrowing or each tranche of the borrowing should be available in full to the branch in India. It should be unsecured, subordinated to the claims of other creditors of the foreign bank in India, free of restrictive clauses and should not be redeemable at the instance of the HO.

**Rate of discount**

5. The HO borrowings will be subjected to progressive discount as they approach maturity at the rates indicated below:

| <b>Remaining maturity of borrowing</b>  | <b>Rate of discount</b>                                                                                                                |
|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| More than 5 years                       | Not Applicable ( the entire amount can be included as subordinated debt in Tier II capital subject to the ceiling mentioned in para 2) |
| More than 4 years and less than 5 years | 20%                                                                                                                                    |
| More than 3 years and less than 4 years | 40%                                                                                                                                    |
| More than 2 years and less than 3 years | 60%                                                                                                                                    |
| More than 1 year and less than 2 years  | 80%                                                                                                                                    |
| Less than 1 year                        | 100% (No amount can be treated as subordinated debt for Tier II capital)                                                               |

#### **Rate of interest**

6. The rate of interest on HO borrowings should not exceed the on-going market rate. Interest should be paid at half yearly rests.

#### **Withholding tax**

7. The interest payments to the HO will be subject to applicable withholding tax.

#### **Repayment**

8. All repayments of the principal amount will be subject to prior approval of Reserve Bank of India, Department of Banking Operations and Development.

#### **Documentation**

9. The bank should obtain a letter from its HO agreeing to give the loan for supplementing the capital base for the Indian operations of the foreign bank. The loan documentation should confirm that the loan given by Head Office would be subordinated to the claims of all other creditors of the foreign bank in India. The loan agreement will be governed by, and construed in accordance with the Indian law. Prior approval of the RBI should be obtained in case of any material changes in the original terms of issue.

#### **Disclosure**

10. The total amount of HO borrowings may be disclosed in the balance sheet under the head 'Subordinated loan in the nature of long term borrowings in foreign currency from Head Office'.

### **Reserve requirements**

11. The total amount of HO borrowings is to be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, will attract CRR/SLR requirements.

### **Hedging**

12. The entire amount of HO borrowing should remain fully swapped with banks at all times. The swap should be in Indian rupees.

### **Reporting & Certification**

**13. Such borrowings done in compliance with the guidelines set out above, would not require prior approval of Reserve Bank of India. However, information regarding the total amount of borrowing raised from Head Office under this circular, along with a certification to the effect that the borrowing is as per the guidelines, should be advised to the Chief General Managers-in-Charge of the Department of Banking Operations & Development (International Banking Section), Department of External Investments & Operations and Exchange Control Department (Forex Markets Division), Reserve Bank of India, Mumbai.**

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**Risk Weights for Calculation of CRAR**

*(Vide paragraph 3.3)*

**I. Domestic Operations**

**A. *Funded Risk Assets***

| <b>Sr. No.</b> | <b>Item of asset or liability</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Risk Weight %</b> |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <b>I</b>       | <b>Balances</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                      |
| 1.             | Cash, balances with RBI                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 0                    |
| 2.             | i. Balances in current account with other banks                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 20                   |
|                | ii. Claims on Bank /FIs (as per <i>Annexure 2A</i> )                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 20                   |
| <b>II</b>      | <b>Investments</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                      |
| 1.             | Investments in Government Securities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 2.5                  |
| 2.             | Investments in other approved securities guaranteed by Central/ State Government.                                                                                                                                                                                                                                                                                                                                                                                                                      | 2.5                  |
| 3.             | Investments in other securities where payment of interest and repayment of principal are guaranteed by Central Govt. (This will include investments in Indira/Kisan Vikas Patra (IVP/KVP) and investments in Bonds and Debentures where payment of interest and principal is guaranteed by Central Govt.)<br><i>(cf para (i) of circular listed at item 4 part 'B' of Appendix)</i>                                                                                                                    | 2.5                  |
| 4.             | Investments in other securities where payment of interest and repayment of principal are guaranteed by State Governments.<br><i>Note:</i> Where guarantee has been invoked and the concerned State Government has remained in default, banks should assign 102.5% risk weight. However the banks need to assign 102.5% risk weight only on those State Government guaranteed securities issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government. | 2.5                  |
| 5.             | Investments in other approved securities where payment of interest and repayment of principal are not guaranteed by Central/State Govt.                                                                                                                                                                                                                                                                                                                                                                | 22.50                |

|            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |        |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| 6.         | Investments in Government guaranteed securities of Government Undertakings which <b>do not</b> form part of the approved market borrowing programme.<br><i>Note:</i> In order to provide sufficient time to comply with this provision, banks are permitted to account for the risk weight on the <b>outstanding</b> stock of such securities in the portfolio of the banks <b>as on 31.03.2000</b> in two phases of 10 percent each in 2001-2002 and 2002-2003. This implies that on purchases after 31.03.2000, full 20 percent risk weight will have to be assigned during the year of purchase. Further, above securities will also attract uniform risk weight of 2.5 per cent towards market risk. | 22.50  |
| 7.         | Claims on commercial banks and public financial institutions [as per <i>Annexure 2A</i> ]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 22.50  |
| 8.         | Investments in bonds issued by other banks/PFIs [as per <i>Annexure 2A</i> ].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 22.50  |
| 9.         | Investments in securities which are guaranteed by banks or PFIs [as per <i>Annexure 2A</i> ] as to payment of interest and repayment of principal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 22.50  |
| 10.        | Investments in subordinated debt instruments and bonds issued by other banks or Public Financial Institutions for their Tier II capital.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 102.50 |
| 11.        | Deposits placed with SIDBI/NABARD in lieu of shortfall in lending to priority sector.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 102.50 |
| 12.        | Investment in Mortgage Backed Securities (MBS) of residential assets of Housing Finance Companies (HFCs) which are recognised and supervised by National Housing Bank (subject to satisfying terms & conditions given in <i>Annexure 2C</i> ).                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 52.50  |
| 13.        | All other investments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 102.50 |
|            | <i>Note:</i> Equity investments in subsidiaries, intangible assets and losses deducted from Tier I capital should be assigned zero weight                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |        |
| <b>III</b> | <b>Loans &amp; Advances</b> including bills purchased and discounted and other credit facilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |        |
| 1.         | Loans guaranteed by Govt. of India                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 0      |
| 2.         | Loans guaranteed by State Govts.<br><i>Note:</i> Loans guaranteed by State Govts. where guarantee has been invoked and the concerned State Govt. has remained in default as on March 31,2000, a risk weight of 20 percent should be assigned on such advances. Where State Govts. continue to be in default, even after March 31,2001, a risk weight of 100 percent should be assigned.                                                                                                                                                                                                                                                                                                                  | 0      |
| 3.         | Loans granted to public sector undertakings of Govt. of India                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 100    |
| 4.         | Loans granted to public sector undertakings of State Govts.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 100    |
| 5.         | Others                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 100    |
| 6.         | Leased assets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 100    |

|           |                                                                                                                                                                                                                                                                                                                                                                                          |     |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 7.        | Advances covered by DICGC/ECGC<br><i>Note:</i> The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstandings in excess of the amount guaranteed, will carry 100% risk weight.                                                                                                               | 50  |
| 8.        | SSI Advances Guaranteed by Credit Guarantee Fund Trust for Small Industries (CGTSI) up to the guaranteed portion.<br><i>Note:</i> Banks may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as appropriate to the counter-party. Two illustrative examples are given in <i>Annexure 2B</i> . | 0   |
| 9.        | Advances against term deposits, Life policies, NSCs, IVPs and KVPs where adequate margin is available.                                                                                                                                                                                                                                                                                   | 0   |
| 10.       | Loans and Advances granted to staff of banks which are fully covered by superannuation benefits and mortgage of flat/house.                                                                                                                                                                                                                                                              | 20  |
| 11.       | Housing loans to individuals against the mortgage of <b>residential housing properties</b> .                                                                                                                                                                                                                                                                                             | 50  |
| 12.       | Takeout Finance                                                                                                                                                                                                                                                                                                                                                                          |     |
|           | (i) Unconditional takeover (in the books of lending institution)                                                                                                                                                                                                                                                                                                                         |     |
|           | (a) Where full credit risk is assumed by the taking over institution                                                                                                                                                                                                                                                                                                                     | 20  |
|           | (b) Where only partial credit risk is assumed by taking over institution                                                                                                                                                                                                                                                                                                                 |     |
|           | i) the amount to be taken over                                                                                                                                                                                                                                                                                                                                                           | 20  |
|           | ii) the amount not to be taken over                                                                                                                                                                                                                                                                                                                                                      | 100 |
|           | (ii) Conditional take-over (in the books of lending and Taking over institution)                                                                                                                                                                                                                                                                                                         | 100 |
| <b>IV</b> | <b>Other Assets</b>                                                                                                                                                                                                                                                                                                                                                                      |     |
| 1.        | Premises, furniture and fixtures                                                                                                                                                                                                                                                                                                                                                         | 100 |
| 2.        | (i) Income tax deducted at source (net of provision)                                                                                                                                                                                                                                                                                                                                     | 0   |
|           | (ii) Advance tax paid (net of provision)                                                                                                                                                                                                                                                                                                                                                 | 0   |
|           | (iii) Interest due on Government securities                                                                                                                                                                                                                                                                                                                                              | 0   |
|           | (iv) Accrued interest on CRR balances and claims on RBI on account of Government transactions (net of claims of Government/RBI on banks on account of such transactions)                                                                                                                                                                                                                 | 0   |
|           | (v) All other assets                                                                                                                                                                                                                                                                                                                                                                     | 100 |

### B. Off-Balance Sheet Items

The credit risk exposure attached to off-Balance Sheet items has to be first calculated by multiplying the face value of each of the off-Balance Sheet items by 'credit conversion factor' as indicated in the table below. This will then have to be again multiplied by the weights attributable to the relevant counter-party as specified above.

| Sr. No. | Instruments                                                                                                                                                                                                                    | Credit Conversion Factor (%) |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| 1.      | Direct credit substitutes e.g. general guarantees of indebtedness (including standby L/Cs serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptance). | 100                          |
| 2.      | Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby L/Cs related to particular transactions).                                                                              | 50                           |
| 3.      | Short-term self-liquidating trade-related contingencies (such as documentary credits collateralised by the underlying shipments).                                                                                              | 20                           |
| 4.      | Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank.                                                                                                                      | 100                          |
| 5.      | Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain drawdown.                                                                                            | 100                          |
| 6.      | Note issuance facilities and revolving underwriting facilities.                                                                                                                                                                | 50                           |
| 7.      | Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of over one year.                                                                                                               | 50                           |
| 8.      | Similar commitments with an original maturity upto one year, or which can be unconditionally cancelled at any time.                                                                                                            | 0                            |
| 9.      | Aggregate outstanding foreign exchange contracts of original maturity -                                                                                                                                                        |                              |
|         | ? less than one year                                                                                                                                                                                                           | 2                            |
|         | ? for each additional year or part thereof                                                                                                                                                                                     | 3                            |
| 10.     | Take-out Finance in the books of taking-over institution                                                                                                                                                                       |                              |
|         | (i) Unconditional take-out finance                                                                                                                                                                                             | 100                          |
|         | (ii) Conditional take-out finance                                                                                                                                                                                              | 50                           |
|         | <b>Note:</b> As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee.                                              |                              |

NOTE: In regard to off-balance sheet items, the following transactions with non-bank counterparties will be treated as claims on banks and carry a risk-weight of 20%

- a) Guarantees issued by banks against the counter guarantees of other banks.
- b) Rediscounting of documentary bills accepted by banks. Bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank.

In all the above cases banks should be fully satisfied that the risk exposure is in fact on the other bank.

### C. Risk weights for Open positions

| Sr. No. | Item                                                                                                                                                                                                         | Risk weight (%) |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 1.      | Foreign exchange open position.                                                                                                                                                                              | 100             |
| 2.      | Open position in gold<br><i>Note:</i> The risk weighted position both in respect of foreign exchange and gold open position limits should be added to the other risk weighted assets for calculation of CRAR | 100             |

### D. Risk weights for Forward Rate Agreement (FRA) /Interest Rate Swap (IRS)

For reckoning the minimum capital ratio, the computation of risk weighted assets on account of FRAs / IRS should be done as per the two steps procedure set out below:

#### Step 1

The notional principal amount of each instruments is to be multiplied by the conversion factor given below:

| Original Maturity                | Conversion Factor |
|----------------------------------|-------------------|
| Less than one year               | 0.5 per cent      |
| One year and less than two years | 1.0 per cent      |
| For each additional year         | 1.0 per cent      |

#### Step 2

The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as specified below:

|                                          |              |
|------------------------------------------|--------------|
| Banks / All India Financial Institutions | 20 per cent  |
| All other (except Government)            | 100 per cent |

## II. Overseas operations (applicable only to Indian banks having branches abroad)

### A. Funded Risk Assets

| Sr. No. | Item of asset or liability                                                                                                              | Risk Weight % |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|
| i)      | Cash                                                                                                                                    | 0             |
| ii)     | Balances with Monetary Authority                                                                                                        | 0             |
| iii)    | Investments in Government securities                                                                                                    | 0             |
| iv)     | Balances in current account with other banks                                                                                            | 20            |
| v)      | All other claims on banks including but not limited to funds loaned in money markets, deposit placements, investments in CDs/FRNs. etc. | 20            |
| vi)     | Investment in non-bank sectors                                                                                                          | 100           |
| vii)    | Loans and advances, bills purchased and discounted and other credit facilities                                                          |               |
|         | a) Claims guaranteed by Government of India.                                                                                            | 0             |
|         | b) Claims guaranteed by State Governments                                                                                               | 0             |
|         | c) Claims on public sector undertakings of Government of India.                                                                         | 100           |
|         | d) Claims on public sector undertakings of State Governments                                                                            | 100           |
|         | e) Others                                                                                                                               | 100           |

|       |                                              |     |
|-------|----------------------------------------------|-----|
| viii) | All other banking and infrastructural assets | 100 |
|-------|----------------------------------------------|-----|

## B. Non-funded risk assets

| Sr. No. | Instruments                                                                                                                                                                                                                                  | Credit Conversion Factor (%) |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| i)      | Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances) | 100                          |
| ii)     | Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)                                                                                | 50                           |
| iii)    | Short-term self-liquidating trade related contingencies (such as documentary credits collateralised by the underlying shipments)                                                                                                             | 20                           |
| iv)     | Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank .                                                                                                                                   | 100                          |
| v)      | Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain drawdown                                                                                                           | 100                          |
| vi)     | Note issuance facilities and revolving underwriting facilities                                                                                                                                                                               | 50                           |
| vii)    | Other commitments (e.g. formal standby facilities and credit lines) with an original maturity of over one year.                                                                                                                              | 50                           |
| viii)   | Similar commitments with an original maturity up to one year, or which can be unconditionally cancelled at any time.                                                                                                                         | 0                            |

## III. Procedure

1. While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, banks may 'net-off' against the total outstanding exposure of the borrower -

- (a) advances collateralised by cash margins or deposits,
- (b) credit balances in current or other accounts which are not earmarked for specific purposes and free from any lien,
- (c) in respect of any assets where provisions for depreciation or for bad debts have been made
- (d) claims received from DICGC/ ECGC and kept in a separate account pending adjustment, and
- (e) subsidies received against IRDP advances and kept in a separate account.

2. After applying the conversion factor as indicated above, the adjusted off Balance Sheet value shall again be multiplied by the weight attributable to the relevant counter-party as specified.

3. Foreign exchange contracts with an original maturity of 14 calendar days or less, irrespective of the counterparty, may be assigned "zero" risk weight as per international practice.

4. Foreign Exchange and Interest Rate related Contracts

(i) Foreign exchange contracts include the following:

- (a) Cross currency interest rate swaps
- (b) Forward foreign exchange contracts
- (c) Currency futures
- (d) Currency options purchased
- (e) Other contracts of a similar nature

(ii) As in the case of other off-Balance Sheet items, a two stage calculation prescribed below shall be applied:

(a) Step 1 - The notional principal amount of each instrument is multiplied by the conversion factor given below:

| <b>Original Maturity</b>         | <b>Conversion Factor</b> |
|----------------------------------|--------------------------|
| Less than one year               | 2%                       |
| One year and less than two years | 5%<br>(i.e. 2% + 3%)     |
| For each additional year         | 3%                       |

(b) Step 2 - The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as given in IIA and above.

(iii) **Interest rate contracts** include the following:

- (a) Single currency interest rate swaps
- (b) Basis swaps
- (c) Forward rate agreements
- (d) Interest rate futures
- (e) Interest rate options purchased
- (f) Other contracts of a similar nature

(ii) As in the case of other off-Balance Sheet items, a two stage calculation prescribed below shall be applied:

(a) Step 1 - The notional principal amount of each instrument is multiplied by the percentages given below:

| <b>Original Maturity</b>         | <b>Conversion Factor</b> |
|----------------------------------|--------------------------|
| Less than one year               | 0.5%                     |
| One year and less than two years | 1.0%                     |
| For each additional year         | 1.0%                     |

(b) Step 2 - The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as given in IIA above.

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**ANNEXURE 2A**

**Master Circular**  
**PRUDENTIAL NORMS ON CAPITAL ADEQUACY**

**List of All-India Financial Institutions whose**  
**bonds/debentures would qualify for 20% Risk Weight for**  
**Capital Adequacy Ratio**

*(Vide items II(A)- 7, 8 & 9 of Annexure 2)*

1. Industrial Credit and Investment Corporation of India Ltd.
2. Industrial Finance Corporation of India Ltd.
3. Industrial Development Bank of India
4. Industrial Investment Bank of India Ltd.
5. Tourism Finance Corporation of India Ltd.
6. Risk Capital and Technology Finance Corporation Ltd.
7. Technology Development and Information Company of India Ltd.
8. Power Finance Corporation Ltd.
9. National Housing Bank
10. Small Industries Development Bank of India
11. Rural Electrification Corporation Ltd.
12. Indian Railways Finance Corporation Ltd.
13. National Bank for Agriculture and Rural Development
14. Export Import Bank of India
15. Infrastructure Development Finance Co. Ltd.
16. Housing and Urban Development Corporation Ltd. (HUDCO)
17. Indian Renewable Energy Development Agency Ltd. (IREDA)

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**Master Circular**  
**PRUDENTIAL NORMS ON CAPITAL ADEQUACY**

SSI Advances Guaranteed by Credit Guarantee Fund Trust  
for Small Industries (CGTSI) – Risk weights and  
Provisioning norms (paragraph III(9) of *Annexure 2*)

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**a) Risk-Weight**

Example I

CGTSI Cover : 75% of the amount outstanding or 75% of the unsecured amount or Rs.18.75 lakh , whichever is the least.

Realisable value of Security : Rs.1.50 lakh

|                                              |                  |
|----------------------------------------------|------------------|
| a) Balance outstanding                       | : Rs. 10.00 lakh |
| b) Realisable value of security              | : Rs. 1.50 lakh  |
| c) Unsecured amount (a) - (b)                | : Rs 8.50 lakh   |
| d) Guaranteed portion (75% of (c) )          | : Rs. 6.38 lakh  |
| e) Uncovered portion (8.50 lakh – 6.38 lakh) | : Rs. 2.12 lakh  |

|                            |                               |
|----------------------------|-------------------------------|
| Risk-weight on (b) and (e) | – Linked to the counter party |
| Risk-weight on (d)         | – Zero                        |

Example II

CGTSI cover : 75% of the amount outstanding or 75% of the unsecured amount or Rs.18.75 lakh whichever is the least.

Realisable value of Security : Rs. 10.00 lakh.

|                                              |                  |
|----------------------------------------------|------------------|
| a) Balance outstanding                       | : Rs. 40.00 lakh |
| b) Realisable value of security              | : Rs. 10.00 lakh |
| c) Unsecured amount (a) - (b)                | : Rs. 30.00 lakh |
| d) Guaranteed portion (max.)                 | : Rs. 18.75 lakh |
| e) Uncovered portion (Rs.30 lakh-18.75 lakh) | : Rs. 11.25 lakh |

|                         |                               |
|-------------------------|-------------------------------|
| Risk-weight (b) and (e) | - Linked to the counter party |
| Risk-weight on (d)      | - Zero                        |

\*\*\*\*\*

**Master Circular**  
**PRUDENTIAL NORMS ON CAPITAL ADEQUACY**

**Terms and conditions for the purpose of liberal Risk Weight for Capital Adequacy for investments in Mortgage Backed Securities (MBS) of residential assets of Housing Finance Companies (HFC).**

*(Vide item 2(I)(A)(II)(12) of Annexure 2)*

1(a) The right, title and interest of a HFC in securitised housing loans and receivables thereunder should irrevocably be assigned in favour of a Special Purpose Vehicle (SPV) / Trust.

1(b) Mortgaged securities underlying the securitised housing loans should be held exclusively on behalf of and for the benefit of the investors by the SPV/Trust.

1(c) The SPV or Trust should be entitled to the receivables under the securitised loans with an arrangement for distribution of the same to the investors as per the terms of issue of MBS. Such an arrangement may provide for appointment of the originating HFC as the servicing and paying agent. However, the originating HFC participating in a securitisation transaction as a seller, manager, servicer or provider of credit enhancement or liquidity facilities :

- i. shall not own any share capital in the SPV or be the beneficiary of the trust used as a vehicle for the purchase and securitisation of assets. Share capital for this purpose shall include all classes of common and preferred share capital;
- ii. shall not name the SPV in such manner as to imply any connection with the bank;
- iii. shall not have any directors, officers or employees on the board of the SPV unless the board is made up of at least three members and where there is a majority of independent directors. In addition, the official(s) representing the bank will not have veto powers;
- iv. shall not directly or indirectly control the SPV; or

- v. shall not support any losses arising from the securitisation transaction or by investors involved in it or bear any of the recurring expenses of the transaction.

1(d) The loans to be securitised should be loans advanced to individuals for acquiring/constructing residential houses which should have been mortgaged to the HFC by way of exclusive first charge.

1(e) The loans to be securitised should be accorded an investment grade credit rating by any of the credit rating agencies at the time of assignment to the SPV.

1(f) The investors should be entitled to call upon the issuer - SPV - to take steps for recovery in the event of default and distribute the net proceeds to the investors as per the terms of issue of MBS.

1(g) The SPV undertaking the issue of MBS should not be engaged in any business other than the business of issue and administration of MBS of individual housing loans.

1(h) The SPV or Trustees appointed to manage the issue of MBS should have to be governed by the provisions of Indian Trusts Act, 1882.

2. If the issue of MBS is in accordance with the terms and conditions stated in paragraph 1 above and includes irrevocable transfer of risk and reward of the housing loan assets to the Special Purpose Vehicle (SPV)/Trust, investment in such MBS by any bank would not be reckoned as an exposure on the HFC originating the securitised housing loan. However, it would be treated as an exposure on the underlying assets of the SPV / Trust.

**Master Circular**  
**PRUDENTIAL NORMS ON CAPITAL ADEQUACY**

**Statement of Capital Funds, Risk Assets/ Exposures and Risk Asset Ratio**  
(Vide paragraph 4.2)

**Part A - Capital Funds and Risk Assets Ratio**

(Amount in Rs. - 000s omitted)

|          |                                                                                                                                                                                                                                                                                                                                                                                                                                                      |  |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| <b>I</b> | <b>Capital Funds</b>                                                                                                                                                                                                                                                                                                                                                                                                                                 |  |
| <b>A</b> | <b>Tier I capital elements</b>                                                                                                                                                                                                                                                                                                                                                                                                                       |  |
| (i)      | Indian banks                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
|          | (a) Paid-up capital                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |
|          | <i>Less:</i>                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
|          | 1. Equity investments in subsidiaries                                                                                                                                                                                                                                                                                                                                                                                                                |  |
|          | 2. Intangible assets and losses                                                                                                                                                                                                                                                                                                                                                                                                                      |  |
|          | Total                                                                                                                                                                                                                                                                                                                                                                                                                                                |  |
|          | (b) Reserves & surplus                                                                                                                                                                                                                                                                                                                                                                                                                               |  |
|          | 1. Statutory reserves                                                                                                                                                                                                                                                                                                                                                                                                                                |  |
|          | 2. Share premium                                                                                                                                                                                                                                                                                                                                                                                                                                     |  |
|          | 3. Capital reserve (see note below)                                                                                                                                                                                                                                                                                                                                                                                                                  |  |
|          | 4. Other disclosed reserves (to be specified)                                                                                                                                                                                                                                                                                                                                                                                                        |  |
|          | <b>Total (a+b) = Tier I capital</b>                                                                                                                                                                                                                                                                                                                                                                                                                  |  |
|          | <i>Notes:</i> Capital reserves representing surplus on sale of assets and held in a separate account will be included.                                                                                                                                                                                                                                                                                                                               |  |
| (ii)     | Foreign banks                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |
|          | (a) 'Interest-free funds from Head Office' kept in a separate account in Indian books specifically for the purpose of meeting the capital adequacy norm                                                                                                                                                                                                                                                                                              |  |
|          | (b) Statutory reserves                                                                                                                                                                                                                                                                                                                                                                                                                               |  |
|          | (c) Remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India                                                                                                                                                                                                                                                                                                                                      |  |
|          | (d) Capital reserves representing surplus arising out of sale of assets in India held in a separate account and which is not repatriable so long as the bank functions in India                                                                                                                                                                                                                                                                      |  |
|          | (e) Interest-free funds remitted from abroad for the purpose of acquisition of property and held in a separate account in Indian books                                                                                                                                                                                                                                                                                                               |  |
|          | The net credit balance, if any, in the inter-office account with Head Office/branches abroad will not be reckoned as capital funds. However, any debit balance in Head Office account will have to be set-off against the capital. Similarly, revaluation reserves, general/ floating provisions and specific provisions made for loan losses and other asset losses or diminution in the value of any assets will not be reckoned as capital funds. |  |
| <b>B</b> | <b>Tier II capital elements</b>                                                                                                                                                                                                                                                                                                                                                                                                                      |  |
| (i)      | Undisclosed reserves and cumulative perpetual preference shares                                                                                                                                                                                                                                                                                                                                                                                      |  |

|            |                                                                                           |  |
|------------|-------------------------------------------------------------------------------------------|--|
| (ii)       | Revaluation reserves                                                                      |  |
| (iii)      | General provisions and loss reserves                                                      |  |
| (iv)       | Hybrid debt capital instruments                                                           |  |
| (v)        | Subordinated debts                                                                        |  |
| <b>II</b>  | <b>Risk Assets</b>                                                                        |  |
| (a)        | Adjusted value of funded risk assets i.e. on Balance Sheet items (to tally with Part 'B') |  |
| (b)        | Adjusted value of non-funded and off-Balance Sheet items (to tally with Part 'C')         |  |
| (c)        | Total risk-weighted assets (a + b)                                                        |  |
| <b>III</b> | <b>Percentage of capital funds to risk-weighted assets. [ I:II (c) ]</b>                  |  |

**Part B - Weighted Assets i.e. on-Balance Sheet Items**

|            |                                                                                                                                                                                           | (Amount in Rs. - 000s omitted) |             |                |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------|----------------|
| Sr. No.    |                                                                                                                                                                                           | Book Value                     | Risk Weight | Adjusted Value |
| <b>I</b>   | <b>Cash &amp; Bank Balance</b>                                                                                                                                                            |                                |             |                |
| (a)        | Cash in hand (including foreign currency notes)                                                                                                                                           |                                |             |                |
| (b)        | Balances with banks in India -                                                                                                                                                            |                                |             |                |
|            | i) Balances with RBI                                                                                                                                                                      |                                |             |                |
|            | ii) Balances with banks                                                                                                                                                                   |                                |             |                |
|            | 1. Current account (in India and outside India)                                                                                                                                           |                                |             |                |
|            | 2. Other accounts (in India and outside India)                                                                                                                                            |                                |             |                |
| <b>II</b>  | <b>Money at Call and Short Notice</b>                                                                                                                                                     |                                |             |                |
| <b>III</b> | <b>Investments</b>                                                                                                                                                                        |                                |             |                |
| (a)        | Government and other approved securities *                                                                                                                                                |                                |             |                |
| (b)        | Others (net of depreciation provided)                                                                                                                                                     |                                |             |                |
| <b>IV</b>  | <b>Advances **</b>                                                                                                                                                                        |                                |             |                |
|            | Loans and advances, bills purchased and discounted and other credit facilities                                                                                                            |                                |             |                |
| (a)        | Claims guaranteed by Government of India                                                                                                                                                  |                                |             |                |
| (b)        | Claims guaranteed by State Governments                                                                                                                                                    |                                |             |                |
| (c)        | Claims on public sector undertakings of Government of India                                                                                                                               |                                |             |                |
| (d)        | Claims on public sector undertakings of State Governments                                                                                                                                 |                                |             |                |
| (e)        | Others                                                                                                                                                                                    |                                |             |                |
|            | <i>Notes:</i>                                                                                                                                                                             |                                |             |                |
|            | 1. Netting may be done only for advances collateralised by cash margins in deposits and in respect of assets where provisions for depreciation for bad and doubtful debts have been made. |                                |             |                |
|            | 2. Equity investments in subsidiaries, intangible assets and losses deducted from Tier I capital should be assigned zero weight.                                                          |                                |             |                |
| <b>V</b>   | <b>Premises (net of depreciation provided)</b>                                                                                                                                            |                                |             |                |

|         |                                                                                                                                            | (Amount in Rs. - 000s omitted) |             |                |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------|----------------|
| Sr. No. |                                                                                                                                            | Book Value                     | Risk Weight | Adjusted Value |
| VI      | Furniture and fixtures (net of depreciation provided)                                                                                      |                                |             |                |
| VII     | Other assets (including branch adjustments, non-banking assets, etc.)                                                                      |                                |             |                |
|         | <b>Total</b>                                                                                                                               |                                |             |                |
| *       | Provision, if any, made for depreciation in investments in Government and other approved securities may be including by way of a footnote. |                                |             |                |
| **      | Provisions held, either general or specific, for bad and doubtful debts may be indicated by way of a footnote.                             |                                |             |                |

### Part C - Weighted Non-funded Exposures/Off-Balance Sheet Items

Each off-Balance Sheet item may be submitted in the format indicated below:

(Amount in Rs. - 000s omitted)

| Nature of Item | Book Value | Conversion Factor | Equivalent Value | Risk Weight | Adjusted Value |
|----------------|------------|-------------------|------------------|-------------|----------------|
|                |            |                   |                  |             |                |

*Note:* Netting may be done only for advances collateralised by cash margins or deposits and in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.

**Branches Abroad - Reporting Requirements:** Information relating to on-Balance Sheet and off-Balance Sheet items in respect of branches abroad should be furnished separately in formats 'B' & 'C' above using the appropriate conversion factor and risk weights.

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**Master Circular**  
**PRUDENTIAL NORMS ON CAPITAL ADEQUACY**

**Part – A**

**List of Circulars superseded by the Master Circular**

| <b>No.</b> | <b>Circular No.</b>                           | <b>Date</b> | <b>Subject</b>                                                                                                                                      | <b>Para No. in this circular</b>                                |
|------------|-----------------------------------------------|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 1.         | DBOD. No. IBS. BC.65/ 23.<br>10.015 / 2001-02 | 14.02.2002  | Subordinated debt for inclusion in Tier II capital – Head Office borrowings in foreign currency by Foreign Banks operating in India                 | 2.4.2                                                           |
| 2.         | DBOD No. BP. BC. 106/21.<br>01.002/2001- 02   | 24.05 2002  | Risk Weight on Housing Finance and Mortgage Backed Securities                                                                                       | Annexure<br>2(I)(A)(II)(1<br>2)Annexure<br>2(I)(A)(III)<br>(11) |
| 3.         | DBOD.No.BP.BC.128/21.04.<br>048/00-01         | 7.06.2001   | SSI Advances Guaranteed by Credit Guarantee Fund Trust for Small Industries (CGTSI)                                                                 | Annexure<br>2(III)(viii)                                        |
| 4.         | DBOD.BP.BC.110/21.01.002<br>/00-01            | 20.04.2001  | Risk Weight on Deposits placed with SIDBI /NABARD in lieu of shortfall in lending to Priority Sectors                                               | Annexure<br>2(II)(11)                                           |
| 5.         | DBOD.BP.BC.83/21.01.002/<br>00-01             | 28.02.2001  | Loans and advances to staff – assignment of risk weight and treatment in the balance sheet.                                                         | Annexure<br>2(I)(A)(10)<br>(III)                                |
| 6.         | DBOD.No.BP.BC.87/21.01.0<br>02/99             | 08.09.99    | Capital Adequacy Ratio - Risk Weight on Banks' Investments in Bonds/Securities Issued by Financial Institutions                                     | Annexure<br>2(I)(A)(2)<br>(ii)                                  |
| 7.         | DBOD.No.BP.BC.5/21.01.00<br>2/98-99           | 08.02.99    | Issue of Subordinated Debt for Raising Tier II Capital                                                                                              | 2.1.4 (v)(c)<br>2.4.1,<br>2.4.2                                 |
| 8.         | DBOD.No.BP.BC.119/21.01.<br>002/ 98           | 28.12.98    | Monetary & Credit Policy Measures - Capital Adequacy Ratio - Risk Weight on Banks' Investments in Bonds/Securities Issued by Financial Institutions | Annexure<br>2(I)(A)(2)<br>(ii)                                  |
| 9.         | DBOD.No.BP.BC.152/21.01.<br>002/ 96           | 27.11.96    | Capital Adequacy Measures                                                                                                                           | 2.3.1 (ii)                                                      |
| 10.        | DBOD.No.IBS.BC.64/23.61.<br>001/ 96           | 24.05.96    | Capital Adequacy Measures                                                                                                                           | 2.2.1 (a) &<br>(b)                                              |
| 11.        | DBOD.No.BP.BC.13/21.01.0<br>02/96             | 08.02.96    | Capital Adequacy Measures                                                                                                                           | Annexure<br>2(I)(A)(II)<br>(10)                                 |

| No. | Circular No.                      | Date     | Subject                                                                                 | Para No. in this circular                                                                                                                         |
|-----|-----------------------------------|----------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| 12. | DBOD.No.BP.BC.99/21.01.002/94     | 24.08.94 | Capital Adequacy Measures                                                               | 2.1.4 (ii)                                                                                                                                        |
| 13. | DBOD.No.BP.BC.9/21.01.002/94      | 08.02.94 | Capital Adequacy Measures                                                               | Annexure 2(I)(A)(II)(7), Annexure 2(I)(A)(III)(2), Annexure 2(I)(B), Annexure 2(I)(A)(III)(7), Annexure 2(I)(A)(IV)(2), Annexure 2(I)(A)(III)(9), |
| 14. | DBOD.No.IBS.BC.98/23-50-001-92/93 | 06.04.93 | Capital Adequacy Measures - Treatment of Foreign Currency Loans to Indian Parties (DFF) | 2.2.3                                                                                                                                             |
| 15. | DBOD.No.BP.BC.117/21.01.002-92    | 22.04.92 | Capital Adequacy Measures                                                               | 2                                                                                                                                                 |

### Part – B

#### List of Other Circulars containing Instructions/ Guidelines/Directives related to Prudential Norms

| No. | Circular No.                        | Para No. of circular | Date       | Subject                                                                                         | Para No. in this circular |
|-----|-------------------------------------|----------------------|------------|-------------------------------------------------------------------------------------------------|---------------------------|
| 1.  | DBOD.No.BP.BC.57/ 21.04.048/2001-02 | 2(v)                 | 10.01.2002 | Valuation of investments by banks                                                               | 2.1.4(vi)                 |
| 2.  | DBOD.BP.BC.73/21.04.018/2000-01     | 3                    | 30.01.2001 | Voluntary Retirement Scheme (VRS) Expenditure – Accounting and Prudential Regulatory Treatment. | 2.1.3 & 2.1.4(v)(b)       |
| 3.  | DBOD.No.BP.BC.31/21.04.048/ 2000    | 2 & 3                | 10.10.2000 | Monetary & Credit Policy Measures – Mid term review for the year 2000-01                        | 2.1.4 (vii), 5.2          |
| 4.  | DBOD.No.BP.BC.169/21.01.002/ 2000   | 3                    | 03.05.2000 | Monetary & Credit Policy Measures                                                               | 5.2                       |

| No. | Circular No.                      | Para No. of circular | Date       | Subject                                                                                                                      | Para No. in this circular                                                             |
|-----|-----------------------------------|----------------------|------------|------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| 5.  | DBOD.No.BP.BC.144/21.04.048/ 2000 | 1 (A), (B)(a)        | 29.02.2000 | Income Recognition, Asset Classification and Provisioning and Other Related Matters and Adequacy Standards - Takeout Finance | Annexure 2 (I)(A)(III)(11)                                                            |
| 6.  | DBOD.No.BP.BC.121/21.04.124/ 99   | 1(i)                 | 03.11.99   | Monetary & Credit Policy Measures                                                                                            | 3.2                                                                                   |
| 7.  | DBOD.No.BP.BC.101/21.04.048/ 99   | 2 & 3                | 18.10.99   | Income Recognition, Asset Classification and Provisioning – Valuation of Investments by Banks in Subsidiaries.               | 2.4.3, & 4.1                                                                          |
| 8.  | DBOD.No.BP.BC.82/21.01.002/99     | 2                    | 18.08.99   | Monetary & Credit Policy Measures                                                                                            | One Time Report                                                                       |
| 9.  | FSC.BC.70/24.01.001/99            | 5(i)                 | 17.7.1999  | Equipment Leasing Activity - Accounting / Provisioning Norms                                                                 | Annexure 2(I)(A)(III)(6),                                                             |
| 10. | MPD.BC.187/07.01.279/1999-2001    | 11                   | 7.7.1999   | Forward Rate Agreements / Interest Rate Swaps                                                                                | Annexure 2.(I)(D)                                                                     |
| 11. | DBOD.No.BP.BC.24/21.04.048/99     | 1 & 2                | 30.03.99   | Prudential Norms - Capital Adequacy - Income Recognition, Asset Classification and Provisioning                              | Annexure 2.(III)(1)                                                                   |
| 12. | DBOD.No.BP.BC.35/21.01.002/99     | 2(ii)                | 24.04.99   | Monetary & Credit Policy Measures                                                                                            | Annexure 2 (II)(10), 2.1.5                                                            |
| 13. | DBOD.No.BP.BC.103/21.01.002/ 98   | 1,2,3,4              | 31.10.98   | Monetary & Credit Policy Measures                                                                                            | 2.3, 3.2, Annexure 2 (I) (A) (II) (Sr.no.1–11) Annexure 2(I)(III)(2) Annexure 2(I)(C) |
| 14. | DBOD.No.BP.BC.32/21.04.018/98     | (i)                  | 29.04.98   | Monetary and Credit Policy Measures                                                                                          | Annexure 2 (I) (A) (II)(3)                                                            |
| 15. | DBOD.No.BP.BC.9/21.04.018/98      | (v)                  | 27.01.1998 | Balance Sheet of Bank - Disclosures                                                                                          | 2.1.4(v)(c)                                                                           |

| No. | Circular No.                 | Para No. of circular | Date     | Subject                                                                                        | Para No. in this circular |
|-----|------------------------------|----------------------|----------|------------------------------------------------------------------------------------------------|---------------------------|
| 16. | DBOD.No.BP.BC.9/21.04.048/97 | 1                    | 29.01.97 | Prudential Norms - Capital Adequacy, Income Recognition, Asset Classification and Provisioning | Annexure 2 (III)(1)       |