

Prudential Norms - Risk Weights for Computation of CRAR

I. A. Funded Risk Assets

Assets Items		Risk Weight
I.	Balances	
i.	Cash (including foreign currency notes) Balances with RBI	0
ii.	Balances in current account with UCBs	20
iii.	Balances in current account with other banks	20
II.	Investments	
i.	Investment in Government Securities	2.5
ii.	Investment in other Approved Securities guaranteed by Central Government / State Government	2.5
iii.	Investment in Other Securities where payment of interest and repayment of principal are guaranteed by Central Govt. (include investment in Indira / Kisan Vikas Patras and investments in bonds & debentures where payment of interest and repayment of principal is guaranteed by Central Govt. / State Government)	2.5
iv.	Investment in other securities where payment of interest and repayment of principal are guaranteed by State Govt.	2.5
	Note: Investment in securities where payment of interest or repayment of principal is guaranteed by State Government and which has become a non-performing investment, will attract 102.5 percentage risk weight	
v.	Investment in other Approved Securities where payment of interest and repayment of principal is not guaranteed by Central / State Govt.	22.5
	Investment in Govt. guaranteed securities of government undertakings which do not form part of the approved market borrowing Program	22.5
vi.	(a) Claims on commercial banks, District Central Co-operative Banks, and State Co-operative Banks such as fixed deposits, certificates of deposits, etc.	20
	(b) Claims on other Urban Co-operative banks such as term / fixed deposits	
vii.	Investments in bonds issued by All India Public Financial Institutions.	102.5
viii.	Investments in bonds issued by Public Financial Institutions for their Tier II Capital	102.5
ix.	Investment in bonds/ debentures/Security Receipts issued by Asset Reconstruction Company	102.5

	x.	All other Investments Note: <i>Intangible assets and losses deducted from Tier I capital should be assigned zero weight</i>	102.5
	xi.	The off balance sheet (net) position in 'WI' securities, scrip-wise.	2.5
III. Loans and Advances			
	i.	Loans and advances including bills purchased and discounted and other credit facilities guaranteed by GoI	0
	ii.	Loans guaranteed by State Govt	0
	iii.	A State Government guaranteed advance which has become a non performing advance	100
	iv.	Loans granted to PSUs of GoI	100
	v.	Real Estate Exposure	
	(a)	Mortgaged residential housing loan to individuals	
		- upto ₹30.00 lakh (LTV* ratio = or < 75 %)	50
		- above ₹30.00 lakh (LTV ratio = or < 75 %).	75
		- Irrespective of the loan amount (LTV ratio > 75 %).	100
	(b)	Commercial Real Estate	100
	(c)	Co-op / group housing societies and Housing Board and for any other purpose.	100
	(d)	Commercial Real Estate – Residential Housing	75
	* <i>LTV ratio should be computed as a percentage of total outstanding in the account (viz. "principal + accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the realizable value of the residential property mortgaged to the bank in the denominator</i>		
	vi.	Retail Loans and Advances	
	(a)	consumer credit including personal loan	125
	(b)	loans up to ₹1 lakh against gold and silver ornaments	50
	(c)	all other loans and advances including educational loan.	100
	(d)	Loans extended against primary / collateral security of shares / debentures	127.5
	vii.	Leased Assets	
	(a)	Loans and advances for eligible activities to NBFCs engaged in hire purchase / leasing activities now classified as Asset Finance Companies	100
	(b)	loans and advances for eligible activities to Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFC-ND-SI) engaged in hire purchase / leasing activities	125
	viii.	Advances covered by DICGC / ECGC	50
	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 outstanding in excess of the amount guaranteed, will carry 100% risk weight.</i>		

	ix.	Advances to the extent guaranteed under any existing or future schemes launched by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and National Credit Guarantee Trustee Company Ltd (NCGTC) satisfying the conditions as mentioned in the <u>circular-Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS) dated September 07, 2022</u> . The balance outstanding in excess of guaranteed portion will attract appropriate risk-weight	0
	x.	Advances for term deposits, Life policies, NSCs,IVPs and KVPs where adequate margin is available	0
	xi.	Loans to staff of banks, which are fully covered by superannuation benefits and mortgage of flat / house	20
Notes : 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 of the borrower 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 a/c pending adjustment in case these are not adjusted against the dues outstanding in the respective a/cs.	
IV.	Other Assets		
	1.	Premises, furniture and fixtures	100
V.	2.	Other assets	
	(i)	Interest due on Government securities	0
	(ii)	Accrued interest on CRR balances maintained with RBI	0
	(iii)	Interest receivable on staff loans	20
	(iv)	Interest receivable from banks	20
	(v)	All other assets	100
Market Risk on Open Position			
	1.	Market risk on foreign exchange open position (Applicable to Authorised Dealers only)	100
	2.	Market risk on open gold position	100

I. B. Off-Balance Sheet Items

The credit risk exposure attached to off-Balance Sheet items has to be first calculated by multiplying the face amount of each of the off-Balance Sheet items by 'credit conversion factors' 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.

Sl. No.	Instruments	Credit Conversion Factor (%)
1	Financial Guarantees/ Direct credit substitutes e.g., general guarantees of indebtedness (including stand L/Cs serving as financial guarantees for loans and securities) and acceptances (including endorsements with character of acceptance)	100
2	Performance Guarantees/ Related contingent items (e.g., 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 purchase, forward deposit and partly paid shams and securities, which represent commitments with certain draw down	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	(i) Guarantees issued by banks against the counter guarantees of other banks	20
	(ii) 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.	20
<p>Note : In these cases, banks should be fully satisfied that the risk exposure is, in fact, on the other bank. Bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above, will be assigned the risk weight, which is normally applicable to inter-bank exposures, for capital adequacy purposes. In the case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly.</p>		
10	Aggregate outstanding foreign exchange contracts of original maturity* -	
	Less than 14 calendar days	0
	more than 14 days but less than one year	2
	for each additional year or part thereof	3

Sl. No.	Instruments	Credit Conversion Factor (%)
	*In case effective bilateral netting contracts as specified in paragraph II(3) of this Annex are in place, Credit Conversion Factor (CCF) for foreign exchange contracts shall be as provided in paragraph II(1.3)(a) of this Annex and CCF of "zero" per cent for foreign exchange contracts which have original maturity of 14 calendar days or less will not be applicable.	
Notes :		
<p><i>While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, bank may 'net-off' against the total outstanding exposure of the borrower credit balances in current or other accounts which are not earmarked for specific purposes and free from any lien.</i></p>		
<p><i>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.</i></p>		

Note: At present, Primary Urban Cooperative Banks may not be undertaking most of the off balance sheet transactions. However, keeping in view their potential for expansion, risk-weights are indicated against various off balance sheet items, which, Primary Urban Cooperative Banks may undertake in future.

II. Additional Risk Weights (applicable to Authorised Dealers only)

1. Foreign Exchange and Interest Rate related Contracts

- 1.1 Foreign exchange contracts include the following:
 - (a) Cross currency swaps
 - (b) Forward foreign exchange contracts
 - (c) Currency futures
 - (d) Currency options purchased
 - (e) Other contracts of a similar nature
- 1.2 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
- 1.3 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:

Original maturity	Conversion factor	
	Interest rate contracts	Foreign Exchange Contracts
Less than one year	0.5%	2%
One year and less than two years	1.0%	5% (i.e., 2% + 3%)
For each additional year	1.0%	3%

When effective bilateral netting contracts as specified in paragraph II.3 of this Annex are in place, the conversion factors, as mentioned in the below table, shall be applicable⁷:

Original maturity	Conversion factor	
	Interest rate contracts	Foreign Exchange Contracts
Less than one year	0.35%	1.5%
One year and less than two years	0.75%	3.75% (i.e., 1.5% + 2.25%)
For each additional year	0.75%	2.25%

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

Note: At present, most of the Primary (Urban) Cooperative Banks are not carrying out forex transactions. However, those who have been given A.D's licence may undertake transactions mentioned above. In the event of any uncertainty in assigning risk weight against a specific transaction, RBI clarification may be sought for.

2. Repo in Corporate Bonds

UCBs which are lenders of funds in the repo transaction are required to provide counter-party credit risk corresponding to the risk weight for such exposure as applicable to the loan / investment exposure.

⁷ For purposes of calculating the credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, the original credit conversion factors (i.e., without considering the impact of bilateral netting) should be applied to the notional principal, which is defined as the net receipts falling due on each value date in each currency. In no case should the reduced factors above be applied to net notional amounts.

3. Requirement for recognition of Bilateral Netting Contract:

- (a) UCBs may net transactions subject to novation under which any obligation between a UCB and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.
- (b) UCBs may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.
- (c) In both cases (a) and (b), a UCB will need to satisfy that it has:
 - (i) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the UCB would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances.
 - (ii) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the UCB's exposure to be such a net amount under:
 - The law of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located.
 - The law that governs the individual transactions; and
 - The law that governs any contract or agreement necessary to effect the netting.
 - (iii) Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law.
- (d) Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capital requirements under these guidelines. A walkaway clause is a provision which permits a non-defaulting counterparty to make only limited payments or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.