



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**

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RBI/DOR/2025-26/275

DOR.CAP.REC.194/09-18-201/2025-26

November 28, 2025

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

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In exercise of powers conferred by Section 35A read with Section 56 of the Banking Regulation Act (BR Act), 1949, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest and in the interest of banking policy so to do, hereby, issues the Directions hereinafter specified.

## **Chapter I**

### **Preliminary**

#### **A Short Title and Commencement**

1. These Directions shall be called the Reserve Bank of India (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Directions, 2025.
2. These Directions shall come into effect immediately upon issuance.

#### **B Applicability**

3. These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'banks' or 'UCBs' and individually as a 'bank' or 'UCB').

*For the purpose of these Directions, Urban Co-operative Banks shall mean Primary Co-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.*

#### **C Definitions**

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:
  - (1) 'Credit Risk' is defined as the potential that a bank's borrower or counterparty may fail to meet its obligations in accordance with agreed terms. It is also the possibility of losses associated with diminution in the credit quality of borrowers or counterparties;
  - (2) 'Deferred Tax Assets (DTA)' and 'Deferred Tax Liabilities (DTL)' shall have the same meaning as assigned under the applicable Accounting Standards;
  - (3) 'Derivative' shall have the same meaning as assigned to it in section 45U(a) of the RBI Act, 1934;
  - (4) 'Market Risk' is defined as the risk of losses in on-balance sheet and off- balance sheet positions arising from movements in market prices;



- (5) 'Other approved securities' shall have the same meaning as defined under ['Reserve Bank of India \(Urban Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio\) Directions, 2025'](#);
  - (6) 'Public Financial Institution' shall have the same meaning as defined under sub-section 2(72) of the Companies Act, 2013; and
  - (7) 'Subordinated' refers to the status of the debt. In the event of the bankruptcy or liquidation of the debtor, subordinated debt only has a secondary claim on repayments, after depositors and other debt has been repaid.
5. All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the BR Act, 1949 or the RBI Act, 1934 or respective State Co-operative Societies Act and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.



## Chapter II

### Regulatory capital

#### A Net worth

6. A UCB shall have minimum net worth as under:
- (i) A Tier 1 UCB operating in a single district shall have minimum net worth of ₹2 crore;
  - (ii) All other UCBs (of all tiers) shall have minimum net worth of ₹5 crore;
  - (iii) A UCB which currently does not meet the minimum net worth requirement as above, shall achieve the minimum net worth of ₹2 crore or ₹5 crore (as applicable) in a phased manner. Such a UCB shall achieve at least 50 per cent of the applicable minimum net worth on or before March 31, 2026 and the entire stipulated minimum net worth on or before March 31, 2028.

#### *Explanation -*

- (a) Tier 1 - All unit UCBs and salary earners' UCBs (irrespective of deposit size), and all other UCBs having deposits up to ₹100 crore;
  - (b) Tier 2 – A UCB with deposits more than ₹100 crore and up to ₹1000 crore;
  - (c) Tier 3 – A UCB with deposits more than ₹1000 crore and up to ₹10,000 crore; and
  - (d) Tier 4 – A UCB with deposits more than ₹10,000 crore.
7. The computation of 'net worth' in this context shall be as per the table given below.

Sr. No.	Description	Amount (₹ crore)
1	Paid-up share capital collected from regular members having voting powers	
2	Perpetual Non-Cumulative Preference Shares (PNCPS)	
3	Contributions received from associate / nominal members where the bye-laws permit allotment of shares to them and provided there are restrictions on withdrawals of such shares, as applicable to regular members	



Sr. No.	Description	Amount (₹ crore)
4	Contribution / non-refundable admission fees collected from the nominal and associate members which is held separately as 'reserves' under an appropriate head since these are not refundable	
5	Free Reserves including 'Building Fund', Capital Reserves etc., but excluding Revaluation Reserves. Free Reserves shall exclude all reserves / provisions which are created to meet anticipated loan losses, losses on account of fraud, etc., depreciation in investments and other assets, and other outside liabilities.	
6	Investment Fluctuation Reserve (IFR) in excess of stipulated 5 per cent of investment in Available For Sale (AFS) and Held For Trading (HFT) categories	
7	Credit balance in Profit and Loss Account, if any	
Deductions		
8	Debit balance in Profit and Loss Account, if any	
9	All intangible assets, including <i>inter alia</i> Deferred Tax Assets (DTAs)	

**Note -**

- (1) Funds raised through Perpetual Debt Instruments (PDIs) included in Tier 1 capital and debt capital instruments included in Tier 2 capital shall not be reckoned as part of net worth.
- (2) Perpetual Cumulative Preference Shares (PCPS), Redeemable Non-Cumulative Preference Shares (RNCPS) and Redeemable Cumulative Preference Shares (RCPS) included in Tier 2 capital shall not be reckoned as part of net worth.
- (3) No general or specific provisions shall be included in computation of net worth.

**B Statutory requirements**

8. In terms of the provisions contained in section 11 read with section 56 of the BR Act, 1949, no co-operative bank shall commence or carry on banking business unless the aggregate value of its paid-up capital and reserves is not less than one lakh of rupees. In addition, under section 22(3)(d) of the above Act, the Reserve Bank prescribes the minimum entry point capital (entry point norms) from time to time, for setting-up of a new UCB.



## **C Minimum regulatory capital**

9. A UCB shall maintain minimum Capital to Risk Weighted Assets Ratio (CRAR) as under:
- (1) A Tier 1 UCB shall maintain a minimum CRAR of 9 per cent of on an ongoing basis.
  - (2) A UCB in Tiers 2 to 4 shall maintain a minimum CRAR of 12 per cent on an ongoing basis.
  - (3) A UCB in Tiers 2 to 4, which does not currently meet the revised CRAR of 12 per cent, shall achieve the same in a phased manner. Such a UCB shall achieve the CRAR of at least 10 per cent by March 31, 2024, 11 per cent by March 31, 2025, and 12 per cent by March 31, 2026.

## **D Composition of capital**

10. The computation of CRAR shall be as under:

$$\text{CRAR} = \frac{\text{Eligible total capital}}{\text{Total Risk Weighted Assets (RWAs)}}$$

The capital funds (eligible total capital) for capital adequacy purposes shall consist of Tier 1 and Tier 2 capital as defined below. The total of Tier 2 capital shall be limited upto a maximum of 100 per cent of total Tier 1 capital for the purpose of compliance with CRAR norms. The RWAs shall be calculated as per paragraph 17 given below.

## **E Tier 1 capital**

11. Tier 1 capital shall comprise the following:
- (i) Paid-up share capital collected from regular members having voting rights.
- Note* - A UCB is permitted to raise share capital, as hitherto, by way of (a) issue of shares to persons within its area of operation, in accordance with the provisions of its bye-laws, and (b) issue of additional shares to the existing members;



- (ii) Contributions received from associate / nominal members where the bye-laws permit allotment of shares to them and provided there are restrictions on withdrawal of such shares, as applicable to regular members;
- (iii) Contribution / non-refundable admission fees collected from the associate and nominal members which is held separately as 'reserves' under an appropriate head since these are not refundable;
- (iv) Perpetual Non-Cumulative Preference Shares (PNCPS) which comply with the regulatory requirements as specified in paragraph 12;
- (v) Free Reserves as per the audited accounts. Reserves, if any, created to meet outside liabilities shall not be included in the Tier 1 Capital. Free reserves shall exclude all reserves / provisions which are created to meet anticipated loan losses, losses on account of fraud, etc., depreciation in investments and other assets and other outside liabilities.
- (vi) Capital reserves representing surplus arising out of sale proceeds of assets;
- (vii) Perpetual Debt Instruments (PDIs) which comply with the regulatory requirements as specified in paragraph 13;
- (viii) Any surplus (net) in profit and loss account, i.e., balance after appropriation towards dividend payable, education fund, other funds whose utilisation is defined, asset loss, if any, etc.;
- (ix) Outstanding amount in Special Reserve created under section 36(1)(viii) of the Income Tax Act, 1961;
- (x) Revaluation Reserves, arising out of change in the carrying amount of a bank's property consequent upon its revaluation, may be reckoned as Tier 1 capital at a discount of 55 per cent, subject to meeting the following conditions:
  - (a) A bank is able to sell the property readily at its own shall and there is no legal impediment in selling the property;
  - (b) the revaluation reserves are presented / disclosed separately under 'Reserve Fund and Other Reserves' in the balance sheet;





- (c) revaluations are realistic, in accordance with applicable Accounting Standards;
- (d) valuations are obtained, from two independent valuers, at least once in every three years;
- (e) where the value of the property has been substantially impaired by any event, these are to be immediately revalued and appropriately factored into capital adequacy computation;
- (f) the external auditor(s) of a bank have not expressed a qualified opinion on the revaluation of the property; and
- (g) the instructions on valuation of properties and other specific requirements as mentioned in the [Reserve Bank of India \(Urban Co-operative Banks - Credit Risk Management\) Directions, 2025](#).

Revaluation reserves which do not qualify as Tier 1 capital shall also not qualify as Tier 2 capital. A bank may choose to reckon revaluation reserves in Tier 1 capital or Tier 2 capital at its discretion, subject to fulfilment of all the conditions specified above.

**Note -**

- (1) The amount held under the head 'Building Fund' shall be treated as part of Free Reserves.
- (2) 'Bad and Doubtful Debt Reserve (BDDR)', complying with all the terms and instructions mentioned below, shall also be treated as Free Reserves. In this regard, instructions for treatment of BDDR for prudential purposes are as per following:
  - (i) With effect from the FY 2024-25, all provisions as per Income Recognition, Asset Classification and Provisioning (IRACP) norms, whether accounted for under the head 'BDDR' or any other head of account, shall be charged as an expense to the Profit and Loss Account in the accounting period in which they are recognised. The eligibility of such provisions for regulatory capital purposes shall continue to be as defined in the extant guidelines on capital adequacy.



- (ii) After charging all applicable provisions as per IRACP norms and other extant regulations to the Profit and Loss Account, a bank shall make any appropriations of net profits below the line to BDDR, if required, as per the applicable statutes or otherwise.
- (iii) As a one-time measure, with a view to facilitate rectification and smoother transition to an accounting standard compliant approach, the following regulatory treatment is prescribed:
  - (a) Previously, a bank may have created provisions required as per IRACP norms by appropriating from the net profit rather than recognizing the same as an expense in the Profit and Loss Account. The balances in BDDR as on March 31, 2024, representing such provisions as per IRACP norms (that have been created by directly appropriating from net profits instead of recognising as an expense in the Profit and Loss Account) in the previous years (hereafter referred to as 'BDDR2024') shall be identified and quantified.
  - (b) As at March 31, 2025, to the extent of BDDR2024, an appropriation shall be made directly (i.e., 'below the line') from the Profit and Loss Account or General Reserves to provisions for Non-Performing Assets (NPAs) (i.e., liability). Such provisions shall be permitted to be netted off from Gross NPAs (GNPAs) to arrive at Net NPAs (NNPAs).
  - (c) To the extent the balances in BDDR are not required as per applicable statute, the same can also be transferred to General Reserves / Balance in Profit and Loss Account below the line.
  - (d) After passing the above entries, the balances in the BDDR can be reckoned as Tier 1 Capital. However, balance in the BDDR shall not be reduced from GNPAs to arrive at NNPAs.
- (3) Balances in Dividend Equalisation Fund (DEF), created through appropriations of profits and transferred to general reserves / free reserves, shall be considered as Tier 1 Capital.
- (4) For a fund to be included in the Tier 1 Capital, the fund shall satisfy two criteria, viz., the fund shall be created as an appropriation of net profit and shall be a free reserve and not a specific reserve. However, if the same has been created not



by appropriation of profit, but by a charge on the profit then this fund is in effect a provision, and hence shall be eligible for being reckoned only as Tier 2 Capital as defined in paragraph 14(i) and subject to a limit of 1.25 per cent of RWAs, provided it is not attributed to any identified potential loss or diminution in value of an asset or a known liability.

(5) Outstanding Innovative Perpetual Debt Instruments (IPDIs) shall also be eligible to be reckoned as Tier 1 Capital subject to the ceilings prescribed in paragraph 13.

(6) Deduction from regulatory capital

(i) Amount of intangible assets, losses in current year and those brought forward from previous periods, deficit in NPA provisions, income wrongly recognised on NPAs, provision required for liability devolved on a bank, etc., shall be deducted from Tier 1 Capital.

(ii) If a UCB's contribution is in the form of subordinated units of any AIF scheme, then it shall deduct the entire investment from its capital funds – proportionately from both Tier 1 and Tier 2 capital (wherever applicable).

*Note* - A UCB shall also refer to [Reserve Bank of India \(Urban Co-operative Banks – Undertaking of Financial Services\) Directions, 2025](#) in this regard.

(iii) A UCB shall be guided by the [Reserve Bank of India \(Urban Co-operative Banks – Transfer and Distribution of Credit Risk\) Directions, 2025](#) for the prudential treatment of unrealised profits arising because of transfer of loan exposures and Security Receipts (SR) guaranteed by the Government of India.

(iv) In terms of [Reserve Bank of India \(Urban Co-operative Banks – Credit Facilities\) Directions, 2025](#), if a bank is the Default Loss Guarantee (DLG) provider, it shall deduct full amount of the DLG, which is outstanding, from its capital.

### **E.1 Guidelines on issuance of Perpetual Non-Cumulative Preference Shares (PNCPS) for inclusion in Tier 1 Capital**

12. A UCB is permitted to issue PNCPS at face value to its members or any other person residing within its area of operation, with the prior approval of the Reserve



Bank. The UCB shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum, through the Pravaah Portal of the Reserve Bank. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. The amounts raised through PNCPS shall comply with the following terms and conditions to qualify for inclusion as Tier 1 Capital:

(1) Limits

The outstanding amount of PNCPS and PDI along with outstanding IPDI shall not exceed 35 per cent of total Tier 1 Capital at any point of time. The above limit shall be based on the amount of Tier 1 Capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any. PNCPS issued in excess of the overall ceiling of 35 per cent, shall be eligible for inclusion under Upper Tier 2 capital, subject to limits prescribed for Tier 2 capital. However, the investors' rights and obligations shall remain unchanged.

(2) Amount

The amount of PNCPS to be raised shall be decided by the Board of Directors of a UCB.

(3) Maturity

The PNCPS shall be perpetual.

(4) Options

- (i) PNCPS shall not be issued with a 'put option' or 'step up option'.
- (ii) PNCPS may be issued with a 'call option', subject to following conditions:
  - (a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
  - (b) Call option shall be exercised only with the prior approval of Department of Regulation, Reserve Bank. While considering the proposals received from a UCB for exercising the call option, the Reserve Bank would, among other things, take into consideration the



UCB's CRAR position, both at the time of exercise of the call option and after exercise of the call option.

(5) Classification in the Balance Sheet

These instruments shall be classified as 'Capital' and shown separately in the balance sheet.

(6) Dividend

The rate of dividend payable to the investors shall be a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

(7) Payment of dividend

(i) The payment of dividend by a bank shall be subject to availability of distributable surplus out of current year's profits, and if:

- (a) the CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank;
- (b) the impact of such payment does not result in the UCB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank; and
- (c) the balance sheet as at the end of the previous year does not show any accumulated loss.

(ii) The dividend shall not be cumulative, i.e., dividend missed in a year shall not be paid in subsequent years even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. When dividend is paid at a rate lesser than the prescribed rate, the unpaid amount shall not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum.

(iii) All instances of non-payment of dividend / payment of dividend at a rate less than that specified shall be reported by the issuing UCB to the concerned Regional Office of Department of Supervision, Reserve Bank and Department of Regulation, Reserve Bank (latter at e-mail [capdor@rbi.org.in](mailto:capdor@rbi.org.in)).

(8) Seniority of claim



The claims of the investors in PNCPS shall be senior to the claims of investors in equity shares and subordinated to the claims of all other creditors and the depositors.

(9) Voting rights

The investors in PNCPS shall not be eligible for any voting rights.

(10) Discount

The PNCPS shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.

(11) Other Conditions

- (i) PNCPS shall be fully paid-up, unsecured, and free of any restrictive clauses;
- (ii) A UCB shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the PNCPS, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of Department of Regulation, Reserve Bank for seeking confirmation of the eligibility of the instrument for inclusion in Tier 1 Capital.

(12) Compliance with reserve requirements

- (i) The total amount raised by a UCB by issue of PNCPS shall not be reckoned as liability for calculation of Net Demand and Time Liabilities (NDTL) for the purpose of reserve requirements and, as such, shall not attract CRR / SLR requirements.
- (ii) However, the amount collected from members / prospective investors and held pending allotment of the PNCPS, shall be reckoned as liability for the purpose of calculating the NDTL and shall, accordingly, attract reserve requirements. Such amounts shall not be reckoned for calculation of capital funds.

(13) Reporting requirements

A UCB issuing PNCPS shall submit a report to the concerned Regional Office of Department of Supervision, Reserve Bank and Department of Regulation,



Reserve Bank (latter at email: [capdor@rbi.org.in](mailto:capdor@rbi.org.in)), giving details of the capital raised, including the terms and conditions of the issue together with a copy of the Prospectus / Offer Document, soon after the issue is completed.

(14) Investments in PNCPS and advances for purchase of PNCPS

A UCB shall not grant any loan or advance to any person for purchasing its own PNCPS or the PNCPS of other banks. Further, a UCB shall not invest in PNCPS of other banks and shall not grant advances against the security of the PNCPS issued by them or other banks.

**E.2 Guidelines on issuance of Perpetual Debt Instruments (PDIs) eligible for inclusion Tier 1 Capital**

13. A UCB may issue PDI as bonds or debentures to its members or any other person residing within its area of operation, with the prior approval of the Reserve Bank. The UCB shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum through the Pravaah Portal of the Reserve Bank. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. PDI can also be issued through conversion of a portion of existing deposits of the institutional depositors as a part of revival plan / financial reconstruction of the UCB with consent of depositors as per applicable regulatory instructions. The amounts raised through PDI shall comply with the following terms and conditions to qualify for inclusion as Tier 1 Capital:

(1) Limit

- (i) The amount of PDI reckoned for Tier 1 Capital shall not exceed 15 per cent of total Tier 1 capital (As per paragraph 12, the outstanding amount of PNCPS and PDI along with outstanding IPDI shall not exceed 35 per cent of total Tier 1 Capital at any point of time). The outstanding IPDIs shall also be covered in the aforementioned ceiling of 15 per cent and reckoned for capital purposes as hitherto. PDI in excess of the above limits shall be eligible for inclusion under Tier 2 Capital, subject to the limits prescribed for Tier 2 Capital. However, the investors' rights and obligations shall remain unchanged.



- (ii) The aforesaid ceiling of 15 per cent for PDI can be exceeded with prior approval of the Department of Regulation, Reserve Bank, if PDI are issued as part of revival plan / financial reconstruction of a UCB.
- (iii) The eligible amount shall be computed with reference to the amount of Tier 1 Capital as on March 31 of the previous year, after deduction of goodwill, and other intangible assets, but before deduction of equity investment in subsidiaries, if any.

(2) Amount

The amount of PDI to be raised may be decided by the Board of Directors of a UCB.

(3) Maturity

These instruments shall be perpetual.

(4) Options

- (i) The PDI shall not be issued with a 'put option' or 'step-up' option.
- (ii) However, PDI may be issued with a call option subject to following conditions:
  - (a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
  - (b) Call option shall be exercised only with the prior approval of Department of Regulation, Reserve Bank. While considering the proposals received from a UCB for exercising the call option, the Reserve Bank would, among other things, take into consideration a UCB's CRAR position both at the time of exercise of the call option and after exercise of the call option.

(5) Classification

PDI shall be classified as 'Borrowings' and shown separately in the balance sheet.





(6) Rate of interest

The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

(7) Lock-in-Clause

(i) PDI shall be subjected to a lock-in-clause in terms of which the issuing UCB shall not be liable to pay interest, if

(a) The UCB's CRAR is below the minimum regulatory requirement prescribed by the Reserve Bank; or

(b) the impact of such payment results in the UCB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.

(ii) However, a UCB may pay interest with the prior approval of the Department of Regulation, Reserve Bank when the impact of such payment may result in net loss or increase the net loss, provided the CRAR meets the regulatory norm. For this purpose, net loss is defined as either (a) the accumulated loss at the end of the previous financial year or (b) the loss incurred during the current financial year.

(iii) The interest shall not be cumulative.

(iv) All instances of invocation of the lock-in-clause shall be reported by the issuing UCB to the concerned Regional Office of Department of Supervision, Reserve Bank and Department of Regulation, Reserve Bank (latter at email: [capdor@rbi.org.in](mailto:capdor@rbi.org.in)).

(8) Seniority of claim

The claims of the investors of PDI shall be superior to the claims of investors in equity shares and PNCPS but subordinated to the claims of all other creditors and the depositors. Among investors in PDI and outstanding IPDI, the claims shall rank *pari passu* with each other.

(9) Discount

The PDI shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.



(10) Other conditions

- (i) PDI shall be fully paid-up, unsecured and free of any restrictive clauses.
- (ii) A UCB shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the PDI, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of the Department of Regulation, Reserve Bank for seeking confirmation of the eligibility of the instrument for inclusion in Tier 1 Capital.

(11) Compliance with Reserve requirements

The total amount raised by a UCB through the issue of PDI shall not be reckoned as liability for calculation of NDTL for the purpose of reserve requirements and, as such, shall not attract CRR / SLR requirements. However, the amount collected from members / prospective investors and pending issue of PDI, shall be reckoned as liability for the purpose of calculating the NDTL and shall, accordingly, attract reserve requirements. Such amounts pending issue of PDI, shall not be reckoned for calculation of capital funds.

(12) Reporting requirements

A UCB issuing PDI shall submit a report to the concerned Regional Office of Department of Supervision, Reserve Bank and Department of Regulation, Reserve Bank (latter at email: [capdor@rbi.org.in](mailto:capdor@rbi.org.in)) giving details of the amount raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document, soon after the issue is completed.

(13) Investments in PDI and advances for purchase of PDI

A UCB shall not grant any loan or advance to any person for purchasing its PDI or PDI of other banks. A UCB shall not invest in PDI issued by other banks (except when the PDI are issued as a part of revival plan of a UCB as mentioned in paragraph 13) and shall not grant advances against the security of PDI issued by them or other banks.

**F Tier 2 Capital**

14. Tier 2 capital shall comprise the following:



(i) General provisions and loss reserves

These shall include such provisions of general nature appearing in the books of a bank which are not attributed to any identified potential loss or diminution in value of an asset or a known liability. Adequate care shall be taken to ensure that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering any amount of general provision as part of Tier 2 Capital as indicated above. To illustrate, general provision for Standard Assets, excess provision on transfer of stressed loans, etc., shall be considered for inclusion under this category. Such provisions, which are considered for inclusion in Tier 2 Capital, shall be admitted up to 1.25 per cent of total RWAs.

As per the extant instructions, provisions made for NPAs as per prudential norms are deducted from the amount of GNPA's to arrive at the amount of NNPA's. The prudential treatment of different type of provisions and its treatment for capital adequacy purposes is given below:

(a) Additional General Provisions (Floating Provisions)

Additional general provisions (floating provisions) for bad debts, i.e., provisions not earmarked for any specific loan impairments (NPAs) may be used either for netting off of gross NPAs or for inclusion in Tier 2 Capital within the overall ceiling of 1.25 per cent of total RWAs but shall not be used on both counts.

(b) Additional Provisions for NPAs at higher than prescribed rates

In cases where a bank makes specific provision for NPAs in excess of what is prescribed under the prudential norms, the total specific provision may be deducted from the amount of GNPA's while reporting the amount of NNPA's. The additional specific provision made by a bank shall not be reckoned as Tier 2 Capital.

(c) Excess provisions on transfer of stressed loans to Asset Reconstruction Companies (ARC)

In terms of instructions issued vide [Reserve Bank of India \(Urban Co-operative Banks – Transfer and Distribution of Credit Risk\) Directions](#),



2025 excess provisions on transfer of stressed loans to ARC, until reversal, shall continue to be shown under 'provisions' and shall be considered as Tier 2 Capital within the overall ceiling of 1.25 per cent of RWAs.

(d) Provisions for Diminution in Fair Value

Provisions for diminution in the fair value of restructured accounts, both in respect of standard assets and NPAs, are permitted to be netted from the relative loan asset and shall not be reckoned as Tier 2 Capital.

(ii) Investment Fluctuation Reserve (IFR)

Balances in the IFR, created in terms of [Reserve Bank of India \(Urban Co-operative Banks – Classification, Valuation, and Operation of Investment Portfolio\) Directions, 2025](#) shall be eligible for inclusion in Tier 2 Capital.

(iii) Tier 2 Capital instruments

A UCB may issue the following instruments to augment its Tier 2 Capital:

- (a) Upper Tier 2 instruments - Perpetual Cumulative Preference Shares (PCPS), Redeemable Non-Cumulative Preference Shares (RNCPS) and Redeemable Cumulative Preference Shares (RCPS) which comply with the regulatory requirements as specified in paragraph 15.
- (b) Lower Tier 2 instruments - Long Term Subordinated Bonds (LTSB) which comply with the regulatory requirements as specified in paragraph 16.

**Note -**

Outstanding Long Term (Subordinated) Deposits (LTD) shall also be eligible to be reckoned as Tier 2 capital subject to the ceilings prescribed in paragraph 10 and Paragraph 16.



## **F.1 Guidelines on issuance Perpetual Cumulative Preference Shares (PCPS), Redeemable Non-Cumulative Preference Shares (RNCPS) and Redeemable Cumulative Preference Shares (RCPS) for inclusion in Upper Tier 2 capital**

15. A UCB is permitted to issue PCPS / RNCPS / RCPS, at face value, to its members or any other person residing within its area of operation, with the prior approval of the Reserve Bank. The UCB shall submit the application seeking permission, together with the Prospectus / Offer Document / Information Memorandum through the Pravaah Portal of the Reserve Bank. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application. These three instruments, collectively referred to as Tier 2 preference shares, shall comply with the following terms and conditions, to qualify for inclusion as Upper Tier 2 Capital.

### **(1) Limits**

The outstanding amount of these instruments along with other components of Tier 2 Capital shall not exceed 100 per cent of Tier 1 Capital at any point of time. The above limit shall be based on the amount of Tier 1 Capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any.

### **(2) Amount**

The amount to be raised may be decided by the Board of Directors of a UCB.

### **(3) Maturity**

The Tier 2 preference shares could be either perpetual (PCPS) or dated (RNCPS and RCPS) instruments with a minimum maturity of 10 years.

### **(4) Options**

- (i) These instruments shall not be issued with a 'put option' or 'step up option'.
- (ii) These instruments may be issued with a 'call option', subject to following conditions:
  - (a) The call option on the instrument is permissible after the instrument has run for at least ten years; and



- (b) Call option shall be exercised only with the prior approval of Department of Regulation, Reserve Bank. While considering the proposals received from a bank for exercising the call option, the Reserve Bank would, among other things, take into consideration the UCB's CRAR position both at the time of exercise of the call option and after exercise of the call option.

(5) Classification in the Balance Sheet

These instruments shall be classified as 'Borrowings' and shown separately in the Balance sheet.

(6) Coupon

The coupon payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

(7) Payment of Coupon

- (i) The coupon payable on these instruments shall be treated as interest and accordingly debited to Profit and Loss Account. However, it shall be payable only if:
  - (a) a UCB's CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank.
  - (b) the impact of such payment does not result in a UCB's CRAR falling below or remaining below the minimum regulatory requirement.
  - (c) a UCB shall not have a net loss. For this purpose, the net loss is defined as either (i) the accumulated loss at the end of the previous financial year or (ii) the loss incurred during the current financial year.
- (ii) In the case of PCPS and RCPS, the unpaid / partly unpaid coupon shall be treated as a liability. The interest amount due and remaining unpaid may be allowed to be paid in later years subject to the UCB complying with the above requirements.
- (iii) In the case of RNCPS, deferred coupon shall not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. A UCB can however pay a coupon at a rate lesser



than the specified rate if adequate profit is available and the level of CRAR conforms to the regulatory minimum, subject to conformity with paragraph 15(7)(i).

- (iv) All instances of non-payment of interest or payment of interest at a rate lesser than the specified rate shall be reported by the issuing UCB to the concerned Regional Office of Department of Supervision, Reserve Bank and Department of Regulation, Reserve Bank (latter at email: [capdor@rbi.org.in](mailto:capdor@rbi.org.in)).

(8) Redemption / repayment of redeemable Tier 2 preference shares

RNCPS and RCPS shall not be redeemable at the initiative of the holder. Redemption of these instruments at maturity shall be made only with the prior approval of the Department of Regulation, Reserve Bank subject *inter alia* to the following conditions:

- (i) a UCB's CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank.
- (ii) the impact of such payment does not result in the UCB's CRAR falling below or remaining below the minimum regulatory requirement.

(9) Seniority of Claim

The claims of the investors in these instruments shall be senior to the claims of investors in instruments eligible for inclusion in Tier 1 Capital and subordinate to the claims of all other creditors including those in lower Tier 2 Capital and the depositors. Amongst the investors of various instruments included in Upper Tier 2 Capital, the claims shall rank *pari passu* with each other.

(10) Voting Rights

The investors in Tier 2 preference shares shall not be eligible for any voting rights.

(11) Progressive Discount for the purpose of computing CRAR

The Redeemable Preference Shares (both cumulative and non-cumulative) shall be subjected to progressive discount for capital adequacy purposes over the last five years of their tenor, as under:



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

(12) Other conditions

- (i) The Tier 2 preference shares shall be fully paid-up, unsecured, and free of any restrictive clauses.
- (ii) A UCB shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the Tier 2 preference shares, provided they are not in conflict with any terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of Department of Regulation, Reserve Bank for seeking confirmation of the eligibility of the instrument for inclusion in Tier 2 Capital.

(13) Compliance with Reserve Requirements

- (i) The total amount raised by a UCB through the issue of these instruments shall be reckoned as a liability for the calculation of NDTL for the purpose of reserve requirements and, as such, shall attract CRR / SLR requirements.
- (ii) The amount collected from members / prospective investors and held pending allotment shall not be reckoned for calculation of capital funds until the allotment process is over.

(14) Reporting Requirements

A UCB issuing these instruments shall submit a report to the concerned Regional Office of Department of Supervision, Reserve Bank and Department of Regulation, Reserve Bank (latter at email: [capdor@rbi.org.in](mailto:capdor@rbi.org.in)), giving details of the capital raised, including the terms and conditions of issue together with a copy of the Prospectus / Offer Document soon after the issue is completed.





- (15) Investments in Tier 2 preference shares and advances for purchase of Tier 2 preference shares.

A UCB shall not grant any loan or advance to any person for purchasing its own Tier 2 preference shares or Tier 2 preference shares of other banks. A UCB shall not invest in Tier 2 preference shares issued by other banks and shall not grant advances against the security of Tier 2 preference shares issued by them or other banks.

## **F.2 Guidelines on issuance Long Term Subordinated Bond (LTSB) eligible for inclusion in Lower Tier 2 Capital**

16. A UCB is permitted to issue LTSB to its members, or any other person residing within its area of operation. The amounts raised through LTSB shall comply with the following terms and conditions to be eligible for inclusion in Lower Tier 2 Capital:

### **(1) Eligibility**

- (i) A UCB, fulfilling the following criteria as per its latest audited financial statements, is permitted to issue LTSB without seeking specific permission of the Reserve Bank in this regard:
  - (a) The CRAR shall be at least one percentage point above the minimum CRAR applicable to UCBs;
  - (b) GNPA less than 7 per cent and NNPA not more than 3 per cent;
  - (c) Net profit for at least three out of the preceding four years, subject to the UCB not having incurred net loss in the immediate preceding year;
  - (d) No default in maintenance of CRR / SLR during the preceding year;
  - (e) The UCB has at least two professional directors on its Board;
  - (f) Core Banking Solution (CBS) is fully implemented; and
  - (g) No monetary penalty has been imposed on the UCB for violation of Reserve Bank's directives / guidelines during the two financial years preceding the year in which the LTSB are being issued.
- (ii) Prior permission of the Reserve Bank is required for a UCB which does not comply with the above criteria. The UCB shall submit the application



seeking permission, together with the Prospectus / Offer Document / Information Memorandum through the Pravaah Portal of the Reserve Bank. A certificate from a Chartered Accountant to the effect that the terms of the offer document are in compliance with these instructions shall also be submitted along with the application.

(2) Limit

The amount of LTSB eligible to be reckoned as Tier 2 Capital shall be limited to 50 per cent of total Tier 1 Capital. The outstanding LTDs shall also be covered in the aforementioned ceiling of 50 per cent and reckoned for capital purposes as hitherto. These instruments, together with other components of Tier 2 Capital shall not exceed 100 per cent of Tier 1 Capital. The aforementioned limit shall be based on the amount of Tier 1 Capital after deduction of goodwill and other intangible assets, but before the deduction of equity investments in subsidiaries, if any.

(3) Amount

The amount to be raised may be decided by the Board of Directors of a UCB.

(4) Maturity

LTSB shall be issued with a minimum maturity of ten years.

(5) Options

- (i) The LTST shall not be issued with a 'put option' or 'step-up' option.
- (ii) However, LTST may be issued with a 'call option' subject to following conditions:
  - (a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
  - (b) Call option shall be exercised only with the prior approval of Department of Regulation, Reserve Bank. While considering the proposal received from a UCB for exercising the call option, the Reserve Bank would, among other things, take into consideration the UCB's CRAR position both at the time of exercise of the call option and after exercise of the call option.



(6) Classification in the Balance Sheet

These instruments shall be classified as 'Borrowings' and shown separately in the balance sheet.

(7) Interest Rate

LTSB may bear a fixed rate of interest, or a floating rate of interest referenced to a market determined rupee interest benchmark rate.

(8) Redemption / Repayment

Redemption / repayment at maturity shall be made only with the prior approval of the Department of Regulation, Reserve Bank.

(9) Seniority of Claims

LTSB shall be subordinated to the claims of depositors and other creditors but shall rank senior to the claims of investors in instruments eligible for inclusion in Tier 1 Capital and holders of preference shares (both Tier 1 and Tier 2 capital). Among investors of instruments included in Lower Tier 2 Capital (i.e., including outstanding LTDs, if any), the claims shall rank *pari passu* with each other.

(10) Progressive Discount

These bonds shall be subjected to a progressive discount for capital adequacy purposes in the last five years of their tenor, as under:

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

(11) Other Conditions

- (i) LTBSB shall be fully paid-up, unsecured, and free of any restrictive clauses.
- (ii) A UCB shall also comply with the terms and conditions, if any, stipulated by other regulatory authorities in regard to issue of the LTBSB, provided they are not in conflict with the terms and conditions specified in these guidelines. Any instance of conflict shall be brought to the notice of the



Department of Regulation, Reserve Bank for seeking confirmation of the eligibility of the instrument for inclusion in Tier 2 Capital.

(12) Reserve Requirement

The total amount raised through the issue of LTSB shall be reckoned as liability for the calculation of NDTL for the purpose of reserve requirements and, as such, shall attract CRR / SLR requirements. The amount collected by the UCB from members / prospective investors and held by it pending issue of LTSB, shall not be reckoned for calculation of capital funds.

(13) Reporting requirements

A UCB issuing LTSB shall submit a report to the concerned Regional Office of Department of Supervision, Reserve Bank and Department of Regulation, Reserve Bank (latter at email: [capdor@rbi.org.in](mailto:capdor@rbi.org.in)) giving details of the amount raised, including the terms and conditions of issue together with a copy of Prospectus / Offer Document, soon after the issue is completed.

(14) Investments in LTSB and advances for purchase of LTSB

A UCB shall not grant any loan or advance to any person for purchasing its LTSB or LTSB of other banks. A UCB shall neither invest in LTSB issued by other banks nor it shall grant advances against the security of LTSB issued by them or other banks.



## Chapter III

### Computation of risk weighted asset (RWA)

#### A Capital charge for credit risk

17. RWAs is calculated by multiplying assigned risk-weights to (a) on balance sheet exposure and (b) credit equivalent of off-balance sheet exposure. The credit equivalent of off-balance sheet exposure is calculated by multiplying notional amount of off-balance sheet exposure with credit conversion factors (CCFs). Risk weights for different categories of exposures of a bank and CCFs for off-balance sheet exposure of a bank are as under:

##### (1) On balance sheet items

Assets items		Risk weight
I.	Balances	
i.	Cash (including foreign currency notes) balances with the Reserve Bank	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 the Central Government / State Government	2.5
iii.	Investment in other securities where payment of interest and repayment of principal are guaranteed by Central Government (include investment in Indira / Kisan Vikas Patras and investments in bonds and debentures where payment of interest and repayment of principal is guaranteed by Central Government / State Government)	2.5
iv.	Investment in other securities where payment of interest and repayment of principal are guaranteed by State Government	2.5
	<i>Note</i> - Investment in securities where payment of interest or repayment of principal is guaranteed by the State Government and which has become a non-performing investment, shall attract 102.5 percentage risk weight.	
v.	Investment in other approved securities where payment of interest and repayment of principal is not guaranteed by the Central / State Government	22.5
	Investment in Government guaranteed securities of government undertakings which do not form part of the approved market borrowing program	22.5



Assets items				Risk weight	
	vi.	(a)	Claims on commercial banks, central co-operative banks, and state co-operative banks such as fixed deposits, certificates of deposits, etc.	20	
		(b)	Claims on other UCBs 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 2 Capital		102.5	
	ix.	Investment in bonds / debentures / Security Receipts issued by Asset Reconstruction Company (ARC)		102.5	
	x.	All other Investments <i>Note</i> - Intangible assets and losses deducted from Tier 1 Capital shall be assigned zero per cent risk weight		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 Government of India		0	
	ii.	Loans guaranteed by State Government		0	
	iii.	A State Government guaranteed advance which has become an NPA		100	
	iv.	Loans granted to public sector undertaking of the Government of India		100	
	v.	Real estate exposure			
		(a)	Mortgaged residential housing loan to individuals		
			-	up to ₹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-operative / group housing societies and Housing Board and for any other purpose.		100	
		(d)	Commercial real estate - Residential housing		75
	*LTV ratio shall 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 a bank in the denominator				
	vi.	Retail loans and advances			
		(a)	consumer credit including personal loan		125
		(b)	loans up to ₹1 lakh against gold and silver ornaments		50



Assets items			Risk weight
	(c)	All other loans and advances including educational loan	100
	(d)	Loans extended against primary / collateral security of shares / debentures	125
	Leased assets		
	vii.	(a) Loans and advances for eligible activities to non-banking financial company (NBFC) engaged in hire purchase / leasing activities now classified as asset finance companies	100
		(b) Loans and advances for eligible activities to non-deposit taking NBFC (wherever allowed) engaged in hire purchase / leasing activities	125
	viii.	Advances covered by DICGC / ECGC	50
	<b>Note</b> - The risk weight of 50% shall 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, shall carry 100% risk weight.		
	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 below in paragraph 17(6). The balance outstanding in excess of guaranteed portion shall 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 a bank, which are fully covered by superannuation benefits and mortgage of flat / house	20
	<b>Notes:</b> While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, a bank 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 account pending adjustment in case these are not adjusted against the dues outstanding in the respective accounts.	
IV.	Other Assets		
	1.	Premises, furniture and fixtures	100
	2.	Other assets	
		(i) Interest due on Government securities	0
		(ii) Accrued interest on CRR balances maintained with the Reserve Bank	0



Assets items				Risk weight
		(iii)	Interest receivable on staff loans	20
		(iv)	Interest receivable from a bank	20
		(v)	All other assets (including contribution by a UCB towards eligible funds with NABARD, NHB, SIDBI, MUDRA Ltd., or any other entity specified by RBI, on account of shortfall in priority sector lending target)	100
V.	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

## (2) 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 CCF as indicated in the table below. This shall then have to be again multiplied by the risk weights attributable to the relevant counterparty as specified above.

Sr. No.	Instruments	CCF (%)
1	Financial guarantees / direct credit substitutes, e.g., general guarantees of indebtedness (including stand by Letter of Credits (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 stand by 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 shares 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





Sr. No.	Instruments	CCF (%)
8	Similar commitments with an original maturity up to one year, or which can be unconditionally cancelled at any time	0
9	(i) Guarantees issued by a bank against the counter guarantees of other banks	20
	(ii) Rediscounting of documentary bills accepted by a bank. Bills discounted by a bank which have been accepted by another bank shall be treated as a funded claim on a bank	20
	<p><b>Note</b> - In these cases, a bank shall 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') shall be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above, shall 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 shall 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
	<p>*In case effective bilateral netting contracts as specified in paragraph 17(5) are in place, CCF for foreign exchange contracts shall be as provided in paragraph of 17(3)(ii) and CCF of 'zero' per cent for foreign exchange contracts which have original maturity of 14 calendar days or less shall not be applicable.</p>	
	<b>Notes:</b>	
	<p>While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, a UCB 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.</p>	
	<p>After applying the CCF as indicated above, the adjusted off-balance sheet value shall again be multiplied by the risk weight attributable to the relevant counter-party as specified.</p>	

**Note** - At present, a UCB shall not be undertaking most of the off-balance sheet transactions. However, keeping in view its potential for expansion, risk-weights are



indicated against various off balance sheet items, which, a UCB may undertake in future.

(3) Additional risk weights (applicable to Authorised Dealers only)

(i) Foreign exchange and interest rate related contracts

(a) Foreign exchange contracts include the following:

- (i) Cross currency swaps
- (ii) Forward foreign exchange contracts
- (iii) Currency futures
- (iv) Currency options purchased
- (v) Other contracts of a similar nature

(b) Interest rate contracts include the following:

- (i) Single currency interest rate swaps (IRSs)
- (ii) Basis swaps
- (iii) Forward rate agreements
- (iv) Interest rate futures (IRFs)
- (v) Interest rate options purchased
- (vi) 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.

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 17(5) are in place, the conversion factors, as mentioned in the Table below, shall be applicable:

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 counterparty as given in 17(1) above.

*Note -*

- (i) At present, most of the UCBs are not carrying out forex transactions. However, those who have been given Authorised Dealer's (AD's) license may undertake transactions mentioned above.
- (ii) For the purpose of calculating the credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which the notional principal is equivalent to cash flows, the original CCF (i.e., without considering the impact of bilateral netting) shall 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 shall the reduced factors above be applied to the net notional amounts.

(4) Repo in corporate bonds

A UCB which is a lender of funds in the repo transaction is required to provide counterparty credit risk corresponding to the risk weight for such exposure as applicable to the loan / investment exposure.

(5) Requirement for recognition of bilateral netting contract

- (i) A UCB 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.

- (ii) A UCB may also net transactions subject to any legally valid form of bilateral netting not covered in paragraph 17(5)(i), including other forms of novation.
- (iii) In both cases under paragraphs 17(5)(i) and 17(5)(ii), a UCB shall satisfy that it has:
  - (a) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the UCB shall 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.
  - (b) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities shall find the UCB's exposure to be such a net amount under:
    - (i) 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;
    - (ii) The law that governs the individual transactions;
    - (iii) The law that governs any contract or agreement necessary to effect the netting; and
    - (iv) 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.
- (iv) Contracts containing walkaway clauses shall 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.



- (6) Conditions to be satisfied in respect of exposures guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH, and NCGTC for applicability of the risk weight of zero per cent:
- (i) Prudential aspects: The guarantees provided under the respective schemes shall comply with the requirements for credit risk mitigation in terms of [paragraphs 167 to 176 of Reserve Bank of India \(Commercial Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#). Among other requirements, such guarantees shall be direct, explicit, irrevocable, and unconditional.
  - (ii) Restrictions on permissible claims: Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by Member Lending Institutions (MLI), pay out cap, etc., the zero per cent risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations.
  - (iii) In case of a portfolio-level guarantee, effective from April 1, 2023, the extent of exposure subjected to first loss absorption by the MLI, if any, shall be subjected to full capital deduction and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations, on a pro rata basis. The maximum capital charge shall be capped at a notional level arrived at by treating the entire exposure as unguaranteed.
  - (iv) Subject to the aforementioned prescriptions, any scheme launched after September 7, 2022, under any of the aforementioned trust funds, in order to be eligible for zero per cent risk weight, shall provide for settlement of the eligible guaranteed claims within thirty days from the date of lodgement, and the lodgement shall be permitted within sixty days from the date of default.
  - (v) Some illustrative examples of risk weights applicable on claims guaranteed under specific existing schemes are as under:



Scheme name	Guarantee cover	Risk weight (RW)
1. Credit Guarantee Fund Scheme for Factoring (CGFSF)	The first loss of 10 per cent of the amount in default to be borne by Factors. The remaining 90 per cent (i.e., second loss) of the amount in default will be borne by NCGTC and Factors in the ratio of 2:1 respectively	<ul style="list-style-type: none"> <li>First loss of 10 per cent amount in default – Full capital deduction</li> <li>60 per cent amount in default borne by NCGTC- 0 per cent RW.</li> <li>Balance 30 per cent amount in default</li> </ul> <u>Counterparty / Regulatory Retail Portfolio (RRP) RW as applicable.</u> <b>Note</b> - The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.
2. Credit Guarantee Fund Scheme for Skill Development (CGFSD)	75 per cent of the amount in default. 100 per cent of the guaranteed claims shall be paid by the Trust after all avenues for recovery have been exhausted and there is no scope for recovering the default amount.	<ul style="list-style-type: none"> <li>Entire amount in default - <u>Counterparty / Regulatory Retail Portfolio (RRP) RW as applicable.</u></li> </ul>
3. Credit Guarantee Fund for Micro Units (CGFMU)	<u>Micro Loans</u> The first loss to the extent of 3 per cent of amount in default. Out of the balance, guarantee will be to a maximum extent of 75 per cent of the amount in default in the crystallized portfolio	<ul style="list-style-type: none"> <li>First loss of 3 per cent amount in default – Full capital deduction</li> <li>72.75 per cent of the amount in default - 0 per cent RW, subject to maximum of</li> </ul> $((15\% * CP) - C) * \left[ \frac{SLA}{CP} \right]$ <p>Where-</p> <ul style="list-style-type: none"> <li>CP = Crystallized Portfolio (sanctioned amount)</li> <li>C = Claims received in previous years, if any, in the crystallized portfolio</li> </ul>



Scheme name	Guarantee cover	Risk weight (RW)
		<p>o SLA = Sanctioned limit of each account in the crystallized portfolio</p> <p>o 15 per cent represents the payout cap</p> <ul style="list-style-type: none"> <li>Balance amount in default - <u>Counterparty / RRP RW as applicable.</u></li> </ul> <p><b>Note</b> - The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.</p>
4.CGTMSE guarantee coverage for Micro-Enterprises	<p><u>up to ₹5 lakh</u></p> <p>85 per cent of the amount in default subject to a maximum of ₹4.25 lakh</p> <p><u>Above ₹5 lakh and up to ₹50 lakh</u></p> <p>75 per cent of the amount in default subject to a maximum of ₹37.50 lakh</p> <p><u>Above ₹50 lakh &amp; up to ₹200 lakh</u></p> <p>75 per cent of the amount in default subject to a maximum of ₹150 lakh</p>	<ul style="list-style-type: none"> <li>Guaranteed amount in default – <u>0 per cent RW*</u></li> <li>Balance amount in default - <u>Counterparty / RRP RW as applicable.</u></li> </ul>
<p>*In terms of the payout cap stipulations of CGTMSE, claims of the member lending institutions will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. However, since the balance claims will be settled in subsequent year / s as the position is remedied, the entire extent of guaranteed portion may be assigned zero per cent risk weight.</p>		

**Note-**

- (a) Guarantee coverage, first loss percentage and payout cap ratio may be factored in as given below and as amended from time to time in the respective schemes.



- (b) The above regulatory stipulation shall be applicable to a bank to the extent it is recognised as eligible MLIs under the respective schemes.

## **B Capital charge for market risk**

18. The market risk positions, which are subject to capital charge are as under:

- (i) The risks pertaining to interest rate related instruments and equities in the trading book; and
- (ii) Foreign exchange risk (including open position in precious metals) throughout a bank (both banking and trading books).

*Explanation:* For this purpose, trading book includes securities and positions which are held in Held for Trading (HFT) and Available for Sale (AFS) categories. Banking book, for this purpose, includes all assets, liabilities and off-balance sheet positions which are not in the trading book.

19. To account for capital requirement for market risk, a UCB shall assign an additional risk weight of 2.5 per cent on investments. These additional risk weights are clubbed with the risk weights prescribed for credit risk in respect of investment portfolio of a UCB as per paragraph 17, and the UCB is not required to provide for the same separately. Further, a UCB shall assign a risk weight of 100 per cent on the open position limits on foreign exchange and gold, and build up IFR as per extant instructions.

*Note:* A UCB having AD Category I license is not required to maintain capital for market risk as above, since it shall separately provide capital for market risk in terms of paragraph 20 below.

20. A UCB having AD Category I license shall provide capital for market risk as given below.

Scope and coverage of capital charge for market risks

(1) Trading book for the purpose of capital adequacy shall include:

- (i) Securities included under the Held for Trading category
- (ii) Securities included under the Available for Sale category
- (iii) Open gold position limits





- (iv) Open foreign exchange position limits
  - (v) Trading positions in derivatives, and
  - (vi) Derivatives entered into for hedging trading book exposures.
- (2) A UCB shall manage the market risk in its books on an ongoing basis and ensure that the capital requirements for market risks are being maintained on a continuous basis, i.e., at the close of each business day. A UCB shall maintain strict risk management systems to monitor and control intra-day exposures to market risk.
- (3) Capital charge for market risk shall not be relevant for securities which have already matured and remain unpaid. These securities shall attract capital charge only for credit risk. On completion of 90 days delinquency, these shall be treated on par with NPAs for deciding the appropriate risk weights for credit risk.

#### Measurement of capital charge for interest rate risk

- (4) This paragraph describes the framework for measuring the risk of holding or taking positions in debt securities and other interest rate related instruments in the trading book.
- (5) The capital charge for interest rate related instruments shall apply to current market value of these items in a UCB's trading book. Since a UCB shall maintain capital for market risk on an ongoing basis, it shall mark to market its trading positions on a daily basis. The current market value shall be determined as per extant [Reserve Bank of India \(Urban Co-operative Banks – Classification, Valuation and Operation of Investment Portfolio\) Directions, 2025](#).
- (6) The minimum capital requirement is expressed in terms of two separately calculated charges, (i) 'specific risk' charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer, both for short (short position is not allowed in India except in derivatives and Central Government securities) and long positions, and (ii) 'general market risk' charges towards interest rate risk in the portfolio, where long and short positions (which is not allowed in India except in derivatives and Central Government securities) in different securities or instruments can be offset.



## Capital charge for specific risk

- (7) The capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer. The specific risk charges for various kinds of exposures shall be applied as detailed below:

Sr. No.	Nature of Investment	Maturity	Specific Risk Capital Charge (as per cent of exposure)
	<b>Claims on Government</b>		
1.	Government Securities	All	0.0
2.	Other approved securities guaranteed by Central / State Government.	All	0.0
3.	Other securities where payment of interest and repayment of principal are guaranteed by Central Govt. (This shall 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.)	All	0.0
4.	Other securities where payment of interest and repayment of principal are guaranteed by State Governments.	All	0.0
5.	Other approved securities where payment of interest and repayment of principal are not guaranteed by Central / State Govt.	All	1.80
6.	Government guaranteed securities of Government Undertakings which do not form part of the approved market borrowing programme.	All	1.80
7.	State government guaranteed securities included under items 2, 4 and 6 above where the investment is non-performing. However, a bank shall maintain capital at 9 per cent only on those State Govt guaranteed securities issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government.	All	9.00
	<b>Claims on banks</b>		
8.		For residual term to final	0.30



Sr. No.	Nature of Investment	Maturity	Specific Risk Capital Charge (as per cent of exposure)
	Claims on a bank, including investments in securities which are guaranteed by a bank as to payment of interest and repayment of principal	maturity 6 months or less	
		For residual term to final maturity between 6 and 24 months	1.125
		For residual term to final maturity exceeding 24 months	1.80
9.	Subordinated debt instruments and bonds issued by other banks for their Tier 2 capital.	All	9.00
	<b>Claims on Others</b>		
10.	All other investments including	All	9.00
11.	Direct investment in equity shares, convertible bonds, debentures, and units of equity oriented mutual funds	All	11.25
12.	Investments in Venture Capital Funds	All	13.5
13.	Investments in instruments issued by NBFC wherever allowed	All	11.25

**Note** - Though the capital charge for specific risk in respect of various instruments has been mentioned in the table above, a UCB is not permitted to invest in many such instruments. It shall invest in securities that are permitted by the Reserve Bank from time to time.

Further, in case of investment in securitisation exposures, an UCB shall keep capital charge equal to the actual exposure and will be subjected to supervisory scrutiny and suitable action.



- (8) The category 'claim on Government' shall include all forms of Government securities including dated Government securities, Treasury Bills and other short-term investments and instruments where repayment of both principal and interest are fully guaranteed by the Government. The category 'Claims on others' shall include issuers of securities other than Government and a bank. Certain types of investments mentioned in the above Table are not applicable for UCBs.

#### General market risk

- (9) The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates. The capital charge is the sum of four components:
- (i) the net short (which is not allowed in India except in derivatives) or long position in the whole trading book;
  - (ii) a small proportion of the matched positions in each time-band (the 'vertical disallowance');
  - (iii) a larger proportion of the matched positions across different time bands (the 'horizontal disallowance'); and
  - (iv) a net charge for positions in options, where appropriate.
- (10) A UCB shall adopt the standardised duration method to arrive at the capital charge. Accordingly, a UCB is required to measure the general market risk charge by calculating the price sensitivity (modified duration) of each position separately. Under this method, the mechanics are as follows:
- (i) first calculate the price sensitivity (modified duration) of each instrument;
  - (ii) next apply the assumed change in yield to the modified duration of each instrument between 0.6 and 1.0 percentage points depending on the maturity of the instrument (see Table 1 below);
  - (iii) slot the resulting capital charge measures into a maturity ladder with the fifteen-time bands as set out in Table 1; and
  - (iv) subject long and short positions (which is not allowed in India except in derivatives and Central Government securities) in each time band to a 5 per cent vertical disallowance designed to capture basis risk.



- (11) carry forward the net positions in each time-band for horizontal offsetting subject to the disallowances set out in Table 2 below.

**Table 1: Duration method – time bands and assumed changes in yield**

Time Bands	Assumed Change in Yield	Time Bands	Assumed Change in Yield
<b>Zone 1</b>		<b>Zone 3</b>	
1 month or less	1.00	3.6 to 4.3 years	0.75
1 to 3 months	1.00	4.3 to 5.7 years	0.70
3 to 6 months	1.00	5.7 to 7.3 years	0.65
6 to 12 months	1.00	7.3 to 9.3 years	0.60
<b>Zone 2</b>		9.3 to 10.6 years	0.60
1.0 to 1.9 years	0.90	10.6 to 12 years	0.60
1.9 to 2.8 years	0.80	12 to 20 years	0.60
2.8 to 3.6 years	0.75	Over 20 years	0.60

**Table 2 Horizontal disallowances**

Zones	Time band	Within the zones	Between adjacent zones	Between zones 1 and 3
Zone 1	1 month or less	40%	40%	100%
	1 to 3 months			
	3 to 6 months			
	6 to 12 months			
Zone 2	1.0 to 1.9 years	30%		
	1.9 to 2.8 years			
	2.8 to 3.6 years			
Zone 3	3.6 to 4.3 years	30%		
	4.3 to 5.7 years			
	5.7 to 7.3 years			
	7.3 to 9.3 years			
	9.3 to 10.6 years			
	10.6 to 12 years			
	12 to 20 years			
	over 20 years			

#### Capital charge for interest rate derivatives

- (12) The measurement of capital charge for market risks shall include all interest rate derivatives and off-balance sheet instruments in the trading book and derivatives entered into for hedging trading book exposures which would react to changes in the interest rates, like FRAs, interest rate positions, etc. The details of



measurement of capital charge for interest rate derivatives are furnished in paragraph 21.

- (13) Two examples for computing capital charge for market risks, including the vertical and horizontal disallowances are given in paragraph 22.

#### Capital charge for interest rate risk in foreign currencies

- (14) Details of computing capital charges for interest rate risks in foreign currencies are as under:

- (i) Capital charges shall be calculated for each currency separately and then summed with no offsetting between positions of opposite sign.
- (ii) In the case of those currencies in which business is insignificant (where the turnover in the respective currency is less than 5 per cent of overall foreign exchange turnover), separate calculations for each currency are not required. A UCB may, instead, slot within each appropriate time-band, the net long or short position for each currency. However, these individual net positions are to be summed within each time-band, irrespective of whether they are long or short positions, to produce a gross position figure. The gross positions in each time-band shall be subject to the assumed change in yield set out in Table 1 above (refer paragraph 20(10)) with no further offsets.

#### Measurement of capital charge for equities in the trading book

- (15) The capital charge for equities shall apply on their current market value in a UCB's trading book. Minimum capital requirement to cover the risk of holding or taking positions in equities in the trading book is set out below. This shall be applied to all instruments that exhibit market behaviour similar to equities but not to non-convertible preference shares (which are covered by the interest rate risk requirements). The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, for example: units of mutual funds, and commitments to buy or sell equity.

#### Specific and general market risk

- (16) Capital charge for specific risk (akin to credit risk) shall be 11.25 per cent and specific risk is computed on a UCB's gross equity positions (i.e., the sum of all



long equity positions and of all short equity positions – short equity position is, however, not allowed for a bank in India). The general market risk charge shall also be 9 per cent on the gross equity positions.

- (17) A UCB is, however, not permitted to take exposure in equities, except as provided in the [Reserve Bank of India \(Urban Co-operative Banks – Classification, Valuation and Operation of Investment Portfolio\) Directions, 2025](#).

#### Measurement of capital charge for foreign exchange risk and gold open positions

- (18) Foreign exchange open positions and gold open positions are at present risk-weighted at 100 per cent. Thus, capital charge for market risks in foreign exchange and gold open position is 9 per cent. These open positions, limits or actual whichever is higher, shall continue to attract capital charge at 9 per cent. This capital charge is in addition to the capital charge for credit risk on the on-balance sheet and off-balance sheet items pertaining to foreign exchange and gold transactions.

#### Aggregation of the capital charge for market risks

- (19) For computing the total capital charge for market risks, the calculations shall be plotted in the following Table 3:

**Table 3: Aggregation of the capital charge for market risk**

(₹ in crore)

Risk Category	Capital charge
I. Interest Rate (a + b)	
a. General market risk	
Net position (parallel shift)	
Horizontal disallowance (curvature)	
Vertical disallowance (basis)	
Options	
b. Specific risk	
II. Equity (a + b)	
a. General market risk	
b. Specific risk	
III. Foreign Exchange and Gold	
IV. Total capital charge for market risks (I + II + III)	



## (20) Calculation of total RWAs and capital ratio

- (i) Arrive at the RWAs for credit risk in the banking book (i.e., all exposures other than those specified in paragraphs 20 (1) to 20 (3)).
- (ii) Convert the capital charge for market risk to notional RWAs by multiplying the capital charge arrived at Table 3 under paragraph 20(19) above by  $100 \div 9$  [the present requirement of CRAR is 9 per cent and hence notional risk weighted assets are arrived at by multiplying the capital charge by  $(100 \div 9)$ ]
- (iii) Add the RWAs for credit risk as at (i) above and notional risk-weighted assets of trading book as at (ii) above to arrive at total RWAs for a UCB.
- (iv) Compute capital ratio on the basis of regulatory capital maintained and RWAs.

## (21) Computation of capital available for market risk:

Capital required for supporting credit risk shall be deducted from total capital funds to arrive at capital available for supporting market risk. This is illustrated below:

₹ in Crore)			
1.	Capital funds		105
	Tier 1 Capital -----	55	
	Tier 2 Capital -----	50	
2.	Total risk weighted assets (RWAs)		1140
	RWA for credit risk -----	1000	
	RWA for market risk -----	140	
3.	Total CRAR		9.21
4.	Minimum capital required to support credit risk ( $1000 * 9\%$ )		90
	Tier 1 - 45 (@ 4.5% of 1000) -----	45	
	Tier 2 - 45 (@ 4.5% of 1000) -----	45	
5.	Capital available to support market risk ( $105 - 90$ )		15
	Tier 1 - ( $55 - 45$ ) -----	10	
	Tier 2 - ( $50 - 45$ ) -----	5	

## (22) Disclosure and reporting requirements

- (i) The disclosure requirement for a UCB is as under:





### Market risk in trading book

<b>Qualitative disclosures</b>  (a) The general qualitative disclosure requirement for market risk including the portfolios covered by the standardised approach	
<b>Quantitative disclosures</b>  The capital requirements for:  Interest rate risk;  Equity position risk; and  Foreign exchange risk.	

### (23) Reporting

A UCB shall furnish data in the above format as on the last day of each calendar quarter to the Regional Office of the Reserve Bank. The reporting format for the purpose of monitoring the capital ratio is given as Annex I.

### 21. Measurement of capital charge for market risks in respect of interest rate derivatives and options

#### Interest rate derivatives

(1) The measurement system shall include all interest rate derivatives and off-balance-sheet instruments in the trading book, which react to changes in interest rates (e.g., futures and forward contracts, including forward rate agreements (FRAs), interest rate and cross-currency swaps, forward foreign exchange positions, etc.).

#### (2) Calculation of positions

(i) The derivatives shall be converted into positions in the relevant underlying and be subjected to specific and general market risk charges as described in the guidelines. To calculate the capital charge, the amounts reported shall be the market value of the principal amount of the underlying or of the notional underlying. For instruments where the apparent notional amount differs from the effective notional amount, a bank shall use the effective notional amount.

(ii) Futures and forward contracts (including FRA)



These instruments are treated as a combination of a long and a short position in a notional government security. The maturity of a future or an FRA shall be the period until delivery or exercise of the contract, plus - where applicable - the life of the underlying instrument. For example, a long position in a June three-month interest rate future (taken in April) is to be reported as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months. Where a range of deliverable instruments may be available to fulfil the contract, the bank shall have flexibility to elect which deliverable security goes into the duration ladder but shall take account of any conversion factor defined by the exchange.

(iii) Swaps

Swaps shall be treated as two notional positions in government securities with relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed shall be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap. For swaps that pay or receive a fixed or floating interest rate against some other reference price, e.g., a stock index, the interest rate component shall be slotted into the appropriate repricing maturity category, with the equity component being included in the equity framework. Separate legs of cross-currency swaps are to be reported in the relevant maturity ladders for the currencies concerned.

(3) Calculation of capital charge for derivatives under the standardised methodology

(i) Allowable offsetting of matched positions

(a) A bank may exclude the following from the interest rate maturity framework altogether (for both specific and general market risk):

- (i) Long and short positions (both actual and notional) in identical instruments with exactly the same issuer, coupon, currency, and maturity.



- (ii) A matched position in a future or forward, and its corresponding underlying may also be fully offset, (the leg representing the time to expiry of the future should however be reported) and thus excluded from the calculation.
- (b) When the future or the forward comprises a range of deliverable instruments, offsetting of positions in the future or forward contract and its underlying shall only be permissible in cases where there is a readily identifiable underlying security which is most profitable for the trader with a short position to deliver. The price of this security, sometimes called the 'cheapest-to-deliver', and the price of the future or forward contract shall in such cases move in close alignment.
- (c) No offsetting shall be allowed between positions in different currencies; the separate legs of cross-currency swaps or forward foreign exchange deals are to be treated as notional positions in the relevant instruments and included in the appropriate calculation for each currency.
- (d) In addition, opposite positions in the same category of instruments may in certain circumstances be regarded as matched and allowed to offset fully. To qualify for this treatment the positions shall relate to the same underlying instruments, be of the same nominal value and be denominated in the same currency. In addition:
  - (i) **for futures:** offsetting positions in the notional or underlying instruments to which the futures contract relates shall be for identical products and mature within seven days of each other;
  - (ii) **for swaps and FRAs:** the reference rate (for floating rate positions) shall be identical and the coupon closely matched (i.e., within 15 basis points); and
  - (iii) **for swaps, FRAs and forwards:** the next interest fixing date or, for fixed coupon positions or forwards, the residual maturity must correspond within the following limits:
    - (a) **less than one month hence:** same day;



(b) **between one month and one year hence:** within seven days; and

(c) **over one year hence:** within thirty days.

(e) A bank with large swap books may use alternative formulae for these swaps to calculate the positions to be included in the duration ladder. The method shall be to calculate the sensitivity of the net present value implied by the change in yield used in the duration method and allocate these sensitivities into the time-bands set out in Table 2 in paragraph 20(11).

(ii) Specific risk

Interest rate and currency swaps, FRAs, forward foreign exchange contracts, and interest rate futures shall not be subjected to a specific risk charge. This exemption also applies to futures on an interest rate index (e.g., SOFR). However, in the case of futures contracts where the underlying is a debt security, or an index representing a basket of debt securities, a specific risk charge shall apply according to the credit risk of the issuer as set out in paragraphs above.

(iii) General market risk

General market risk applies to positions in all derivative products in the same manner as for cash positions, subject only to an exemption for fully or very closely matched positions in identical instruments as defined in paragraphs above. The various categories of instruments shall be slotted into the maturity ladder and treated according to the rules identified earlier.

**Table 4 - Summary of treatment of interest rate derivatives**

Instrument	Specific risk charge	General Market risk charge
<b>Exchange-traded Future</b>		
- Government debt security	No	Yes, as two positions
- Corporate debt security	Yes	Yes, as two positions
- Index on interest rates (e.g., MIBOR)	No	Yes, as two positions
<b>OTC Forward</b>		
- Government debt security	No	Yes, as two positions
- Corporate debt security	Yes	Yes, as two positions
- Index on interest rates (e.g., MIBOR)	No	Yes, as two positions



<b>FRAs, Swaps</b>	No	Yes, as two positions
<b>Forward Foreign Exchange</b>	No	Yes, as one position in each currency
<b>Options</b> - Government debt security - Corporate debt security - Index on interest rates (e.g., MIBOR) - FRAs, Swaps	No Yes No No	

## Options

- (4) In recognition of the wide diversity of a bank's activities in options and the difficulties of measuring price risk for options, alternative approaches are permissible as under:
- simplified approach described in paragraph 21(6) below for a bank that only has positions in purchased options (Unless all their written option positions are hedged by perfectly matched long positions in exactly the same options, in which case no capital charge for market risk is required); and
  - intermediate approaches as set out in paragraph 21(7) below for a bank that has written option positions.
- (5) In the simplified approach, the positions for the options and the associated underlying, cash or forward, are not subject to the standardised methodology but are instead 'carved-out' and subject to separately calculated capital charges that incorporate both general market risk and specific risk. The risk numbers thus generated are then added to the capital charges for the relevant category, i.e., interest rate related instruments, equities, and foreign exchange as described in paragraphs 20(1) to 20(18). The delta-plus method uses the sensitivity parameters, or 'Greek letters' associated with options to measure their market risk and capital requirements. Under this method, the delta-equivalent position of each option becomes part of the standardised methodology set out in paragraphs 20(1) to 20(18), with the delta-equivalent amount subject to the applicable general market risk charges. Separate capital charges are then applied to the gamma and vega risks of the option positions. The scenario approach uses simulation techniques to calculate changes in the value of an options portfolio for changes in the level and volatility of its associated underlying. Under this approach, the general market risk charge is determined by the scenario 'grid'



(i.e., the specified combination of underlying and volatility changes) that produces the largest loss. For the delta-plus method and the scenario approach the specific risk capital charges are determined separately by multiplying the delta-equivalent of each option by the specific risk weights set out in paragraphs 20(1) to 20(17).

(6) Simplified approach

A bank which handles a limited range of purchased options only shall be free to use the simplified approach set out in the **Table 5** below, for particular trades. As an example of how the calculation would work, if a holder of 100 shares currently valued at ₹10 each holds an equivalent put option with a strike price of ₹11, the capital charge shall be: ₹1,000 x 20.25 per cent (i.e., 11.25 per cent specific plus 9 per cent general market risk) = ₹202.50, less the amount the option is in the money (₹11 - ₹10) x 100 = ₹100, i.e., the capital charge shall be ₹102.50. A similar methodology applies for options whose underlying is a foreign currency or an interest rate related instrument.

**Table 5-Simplified approach: capital charges**

Capital charges Position	Treatment
Long cash and Long put Or Short cash and Long call	The capital charge shall be the market value of the underlying security <sup>i</sup> multiplied by the sum of specific and general market risk charges <sup>ii</sup> for the underlying less the amount the option is in the money (if any) bounded at zero <sup>iii</sup> .
Long call Or Long put	The capital charge will be the lesser of: (i) the market value of the underlying security multiplied by the sum of specific and general market risk charges for the underlying (ii) the market value of the option (book value may be used in cases where the position does not fall within the trading book e.g., options on certain foreign exchange or commodities positions not belonging to the trading book)

*Note -*

- (i) In some cases, such as foreign exchange, it may be unclear which side is the 'underlying security'; this shall be taken to be the asset which shall be received if the option were exercised. In addition, the nominal value shall be used for items where the market value of the underlying instrument could be zero, e.g., caps and floors, swaptions, etc.



- (ii) Some options (e.g., where the underlying is an interest rate or a currency) bear no specific risk, but specific risk shall be present in the case of options on certain interest rate-related instruments (e.g., options on a corporate debt security or corporate bond index; refer paragraphs 20(1) to 20 (14) for the relevant capital charges) and for options on equities and stock indices (refer paragraphs 20(15) to 20 (17)). The charge under this measure for currency options shall be 9 per cent.
  - (iii) For options with a residual maturity of more than six months, the strike price shall be compared with the forward, not current, price. A bank unable to do this shall take the 'in-the-money' amount to be zero.
- (7) Intermediate approaches
- (i) Delta-plus method
    - (a) A bank which writes options shall be allowed to include delta-weighted options positions within the standardised methodology set out in paragraphs 20(1) to 20(18). Such options shall be reported as a position equal to the market value of the underlying multiplied by the delta.
    - (b) However, since delta does not sufficiently cover the risks associated with options positions, a bank shall also be required to measure gamma (which measures the rate of change of delta) and vega (which measures the sensitivity of the value of an option with respect to a change in volatility) sensitivities in order to calculate the total capital charge. These sensitivities shall be calculated according to an approved exchange model, or to the bank's proprietary options pricing model subject to oversight by the Reserve Bank. Further, Reserve Bank may require a bank doing business in certain classes of exotic options (e.g., barriers, digitals) or in options 'at-the-money' that are close to expiry to use either the scenario approach or the internal models' alternative, both of which can accommodate more detailed revaluation approaches.
    - (c) Delta-weighted positions with debt securities or interest rates as the underlying shall be slotted into the interest rate time-bands, as set out



in **Table 2** of paragraph 20(11), under the following procedure. A two-legged approach shall be used as for other derivatives, requiring one entry at the time the underlying contract takes effect, and a second at the time the underlying contract matures. For instance, a call option bought on a June three-month interest-rate future will, in April, be considered, on the basis of its delta-equivalent value, to be a long position with a maturity of five months and a short position with a maturity of two months. The written option shall similarly be slotted as a long position with a maturity of two months and a short position with a maturity of five months. Floating rate instruments with caps or floors shall be treated as a combination of floating rate securities and a series of European-style options. For example, the holder of a three-year floating rate bond indexed to six-month SOFR with a cap of 15 per cent will treat it as:

- (i) a debt security that reprices in six months; and
- (ii) a series of five written call options on an FRA with a reference rate of 15 per cent, each with a negative sign at the time the underlying FRA takes effect and a positive sign at the time the underlying FRA matures. The rules applying to closely-matched positions set out in paragraph 21(3)(i) shall also apply in this respect.

*Explanation* - Two-months call option on a bond future, where delivery of the bond takes place in September, would be considered in April as being long the bond and short a five-month deposit, both positions being delta-weighted.

- (d) The capital charge for options with equities as the underlying shall also be based on the delta-weighted positions which shall be incorporated in the measure of market risk described in paragraphs 20(15) to 20(17). For purposes of this calculation, each national market is to be treated as a separate underlying. The capital charge for options on foreign exchange and gold positions shall be based on the method set out in paragraph 20(18). For delta risk, the net delta-





based equivalent of the foreign currency and gold options shall be incorporated into the measurement of the exposure for the respective currency (or gold) position.

- (e) In addition to the above capital charges arising from delta risk, there shall be further capital charges for Gamma and Vega risks. A bank using the delta-plus method shall be required to calculate the gamma and vega for each option position (including hedge positions) separately. The capital charges shall be calculated in the following way:

- (i) for each individual option a 'gamma impact' shall be calculated according to a Taylor series expansion as:

$$\text{Gamma impact} = \left(\frac{1}{2}\right) \times \text{Gamma} \times VU^2$$

where  $VU$  = Variation of the underlying of the option.

- (ii)  $VU$  shall be calculated as follows:

- (a) for interest rate options if the underlying is a bond, the price sensitivity shall be worked out as explained. An equivalent calculation should be carried out where the underlying is an interest rate.
- (b) for options on equities and equity indices; which are not permitted at present, the market value of the underlying shall be multiplied by 9 per cent.

*Note* - The basic rules set out here for interest rate and equity options do not attempt to capture specific risk when calculating gamma capital charges. However, Reserve Bank may require specific banks to do so.

- (c) for foreign exchange and gold options, the market value of the underlying shall be multiplied by 9 per cent.
- (iii) For this calculation the following positions shall be treated as the same underlying:



- (a) for interest rates, each time-band as set out in Table 2 under paragraph 20(11) (positions shall be slotted in separate maturity ladders by currency);

*Note* - A bank using the duration method shall use the time-bands as set out in Table 3 of the guidelines.

- (b) for equities and stock indices, each national market; and
  - (c) for foreign currencies and gold, each currency pair and gold.
- (iv) Each option on the same underlying shall have a gamma impact that is either positive or negative. These individual gamma impacts shall be summed, resulting in a net gamma impact for each underlying that is either positive or negative. Only those net gamma impacts that are negative shall be included in the capital calculation.
  - (v) The total gamma capital charge shall be the sum of the absolute value of the net negative gamma impacts as calculated above.
  - (vi) For volatility risk, a bank shall be required to calculate the capital charges by multiplying the sum of the vegas for all options on the same underlying, as defined above, by a proportional shift in volatility of  $\pm 25$  per cent.
  - (vii) The total capital charge for vega risk shall be the sum of the absolute value of the individual capital charges that have been calculated for vega risk.

(ii) Scenario approach

- (a) A more sophisticated bank shall also have the option to base the market risk capital charge for options portfolios and associated hedging positions on scenario matrix analysis. This shall be accomplished by specifying a fixed range of changes in the option portfolio's risk factors and calculating changes in the value of the option portfolio at various points along this 'grid'. For calculating the capital charge, the bank shall revalue the option portfolio using



matrices for simultaneous changes in the option's underlying rate or price and in the volatility of that rate or price. A different matrix shall be set up for each individual underlying as defined in paragraph 21(7)(i)(e) above. As an alternative, a bank which is a significant trader in options for interest rate options shall be permitted, at the discretion of the Reserve Bank, to base the calculation on a minimum of six sets of time-bands. When using this method, not more than three of the time-bands as defined in paragraphs 20(1) to 20(18) shall be combined into any one set.

- (b) The options and related hedging positions shall be evaluated over a specified range above and below the current value of the underlying. The range for interest rates is consistent with the assumed changes in yield in Table under of paragraph 20(11). The bank using the alternative method for interest rate options set out in paragraph 21(7)(ii)(a) above shall use, for each set of time-bands, the highest of the assumed changes in yield applicable to the group to which the time-bands belong (for example, if the time-bands 3 to 4 years, 4 to 5 years, and 5 to 7 years are combined, the highest assumed change in yield of these three bands shall be 0.75). The other ranges are  $\pm 9$  per cent for equities and  $\pm 9$  per cent for foreign exchange and gold. For all risk categories, at least seven observations (including the current observation) should be used to divide the range into equally spaced intervals.
- (c) The second dimension of the matrix entails a change in the volatility of the underlying rate or price. A single change in the volatility of the underlying rate or price equal to a shift in volatility of + 25 per cent and - 25 per cent is expected to be sufficient in most cases. As circumstances warrant, however, the Reserve Bank may choose to require that a different change in volatility be used and / or that intermediate points on the grid be calculated.
- (d) After calculating the matrix, each cell contains the net profit or loss of the option and the underlying hedge instrument. The capital charge



for each underlying shall then be calculated as the largest loss contained in the matrix.

- (e) In drawing up these intermediate approaches it has been sought to cover the major risks associated with options. In doing so, it is conscious that so far as specific risk is concerned, only the delta-related elements are captured; to capture other risks would necessitate a much more complex regime. On the other hand, in other areas, the simplifying assumptions used have resulted in a relatively conservative treatment of certain options positions.
- (f) Besides the options risks mentioned above, the Reserve Bank is conscious of the other risks also associated with options, e.g., rho (rate of change of the value of the option with respect to the interest rate) and theta (rate of change of the value of the option with respect to time). While not proposing a measurement system for those risks at present, it expects a bank undertaking significant options business at the very least to monitor such risks closely. Additionally, a bank shall be permitted to incorporate rho into its capital calculations for interest rate risk, if it wishes to do so.

22. Examples for computing capital charge for credit and market risks are as under.

- (1) Example 1: Case where the trading book does not contain equities and interest rate related derivative instruments

Assumptions:

- (i) A UCB may have the following position:

Sr. No.	Details	Amount (in ₹ Crore)
1	Cash and Balances with the Reserve Bank	200.00
2	Bank balances	200.00
3.	Investments:	
	Held for trading IHFT)	500.00
	Available for Sale (AFS)	1000.00
	Held to Maturity (HTM)	500.00



Sr. No.	Details	Amount (in ₹ Crore)
4	Advances (net)	2000.00
5	Other Assets	300.00
6	<b>Total Assets</b>	<b>4700.00</b>

(ii) In terms of counterparty, the investments are assumed to be as under.

Government - ₹1000 crore

Banks - ₹500 crore

Others - ₹500 crore

For simplicity, the details of investments are assumed to be as under:

(a) Government Securities

Date of Issue	Date of reporting	Maturity Date	Amount (₹ in crore)	Coupon (%)	Type
01/03/1992	31/03/2003	01/03/2004	100	12.50	AFS
01/05/1993	31/03/2003	01/05/2003	100	12.00	AFS
01/03/1994	31/03/2003	31/05/2003	100	12.00	AFS
01/03/1995	31/03/2003	01/03/2015	100	12.00	AFS
01/03/1998	31/03/2003	01/03/2010	100	11.50	AFS
01/03/1999	31/03/2003	01/03/2009	100	11.00	AFS
01/03/2000	31/03/2003	01/03/2005	100	10.50	HFT
01/03/2001	31/03/2003	01/03/2006	100	10.00	HTM
01/03/2002	31/03/2003	01/03/2012	100	8.00	HTM
01/03/2003	31/03/2003	01/03/2023	100	6.50	HTM
<b>Total</b>			<b>1000</b>		

(b) Bank bonds

Date of Issue	Date of reporting	Maturity Date	Amount (₹ in crore)	Coupon (%)	Type
01/03/1992	31/03/2003	01/03/2004	100	12.50	AFS
01/05/1993	31/03/2003	01/05/2003	100	12.00	AFS
01/03/1994	31/03/2003	31/05/2003	100	12.00	AFS
01/03/1995	31/03/2003	01/03/2006	100	12.50	AFS



Date of Issue	Date of reporting	Maturity Date	Amount (₹ in crore)	Coupon (%)	Type
01/03/1998	31/03/2003	01/03/2007	100	11.50	HFT
Total			500		

(c) Other securities

Date of Issue	Date of reporting	Maturity Date	Amount (₹ in crore)	Coupon (%)	Type
01/03/1992	31/03/2003	01/03/2004	100	12.50	HFT
01/05/1993	31/03/2003	01/05/2003	100	12.00	HFT
01/03/1994	31/03/2003	31/05/2003	100	12.00	HFT
01/03/1995	31/03/2003	01/03/2006	100	12.50	HTM
01/03/1998	31/03/2003	01/03/2017	100	11.50	HTM
Total			500		

(d) Overall position

(₹ in crore)				
Break-up of total investments				
	Government securities	Bank bonds	Other securities	Total
HFT	100	100	300	500
AFS	600	400	0	1000
Trading Book	700	500	300	1500
HTM	300	0	200	500
Total	1000	500	500	2000

(iii) As per the extant instructions to arrive at the risk-weight for the above position the following table would be helpful:

(₹ in crore)			
Details of Assets	Book Value	Risk Weight (%)	RWA
Cash & balances with the Reserve Bank	200	0	0
Bank balances	200	20	40
<u>Investments:</u>			
Government	1000	2.5	25
Banks	500	22.5	112.5
Others	500	102.5	512.5
Advances (net)	2000	100	2000



(₹ in crore)			
Details of Assets	Book Value	Risk Weight (%)	RWA
Other Assets	300	100	300
<b>Total</b>	<b>4700</b>		<b>2990</b>

Assuming that the bank has a capital of ₹400 crore, the CRAR works out to 13.38%.

#### (iv) Computation of RWA

##### (a) RWA for credit Risk

As per the guidelines, held for trading and available for sale securities shall qualify to be categorized as trading book. Thus, trading book in the instant case shall be ₹1500 crore. While computing the credit risk, the securities held under trading book shall be excluded and hence the credit risk-based risk-weights be as under:

Sr. No.	Details of Assets	Book Value	Risk Weight (%)	RWA
1	Cash and balances with the Reserve Bank	200	0	0
2	Bank balances	200	20	40
3	Investments:			
	Government	300	0	0
	Banks	0	20	0
	Others	200	100	200
4	Advances (net)	2000	100	2000
5	Other Assets	300	100	300
6	<b>Total Assets</b>	<b>3200</b>		<b>2540</b>

##### (b) RWA for market risk (Trading Book)

##### *Specific risk*

(i) Government securities: ₹700 crore - NIL

(ii) Bank bonds:

(Amount in ₹ crore)

Details	Capital charge	Amount	Capital charge
For residual term to final maturity 6 months or less	0.30%	200	0.60



For residual term to final maturity between 6 and 24 months	1.125%	100	1.125
For residual term to final maturity exceeding 24 months	1.80%	200	3.60
<b>Total</b>		<b>500</b>	<b>5.325</b>

(iii) Other securities: ₹300 crore @ 9% = ₹27 crore

(iv) Total charge for specific risk (i)+(ii)+(iii) = ₹0 crore+ ₹5.325 crore + ₹27 crore = ₹32.325 crore

Therefore, capital charge for specific risk in trading book is ₹32.33 crore.

### *General market risk*

(v) Modified duration is used to arrive at the price sensitivity of an interest rate related instrument. For all the securities listed below, date of reporting is taken as 31 / 3 / 2003.

(Amount in ₹ crore)				
Counter Party	Maturity Date	Amount (market value)	Coupon (%)	Capital Charge For general market risk
Government	01/03/2004	100	12.50	0.84
Government	01/05/2003	100	12.00	0.08
Government	31/05/2003	100	12.00	0.16
Government	01/03/2015	100	12.50	3.63
Government	01/03/2010	100	11.50	2.79
Government	01/03/2009	100	11.00	2.75
Government	01/03/2005	100	10.50	1.35
Banks	01/03/2004	100	12.50	0.84
Banks	01/05/2003	100	12.00	0.08
Banks	31/05/2003	100	12.00	0.16
Banks	01/03/2006	100	12.50	1.77
Banks	01/03/2007	100	11.50	2.29
Others	01/03/2004	100	12.50	0.84
Others	01/05/2003	100	12.00	0.08
Others	31/05/2003	100	12.00	0.16
	<b>Total</b>	<b>1500</b>		<b>17.82</b>





(v) Total charge for market risk

Adding the capital charges for specific risk as well as general market risk shall give the total capital charge for the trading book of interest rate related instruments. Therefore, capital charge for market risks = ₹32.33 crore + ₹17.82 crore, i.e., ₹50.15 crore. The capital charge shall be converted into equivalent RWA by multiplying it with  $(100 \div 9)$  [as for a Tier 1 UCB, the minimum CRAR is 9 per cent]. Thus, RWAs for market risk shall be  $50.15 \times (100 \div 9) = ₹557.23$  crore.

(vi) Computing the capital ratio

(Amount in ₹ crore)		
1	Total Capital	400
2	RWA for Credit Risk	2540.00
3	RWA for Market Risk	557.23
4	Total RWA (2+3)	3097.23
5	CRAR $[(1 \div 4) \times 100]$	12.91%

(2) Example 2: Indicating computation of capital charge for credit and market risks - with equities and interest rate related derivative instruments. Foreign exchange and gold open positions also have been assumed.

Assumptions

(i) A UCB may have the following position:

Sr. No.	Details	₹ in Crore
1	Cash and balances with the Reserve Bank	200.00
2	Bank balances	200.00
3	Investments	
	Held for trading	500.00
	Available for sale	1000.00
	Held to maturity	500.00
	Equities	300.00
4	Advances (net)	2000.00
5	Other Assets	300.00
6	<b>Total Assets</b>	<b>5000.00</b>



(ii) Foreign exchange open position limit is assumed as ₹60 crore and gold open position is assumed at ₹40 crore. It is also assumed that the UCB is having the following positions in interest rate related derivatives:

(a) Interest Rate Swaps (IRS), ₹100 crore – bank receives floating rate interest and pays fixed, next interest fixing is after 6 months, and the residual life of the swap is 8 years, and

(b) Long position in interest rate future (IRF), ₹50 crore, delivery after 6 months, the life of the underlying government security is 3.5 years.

(iii) In terms of counterparty the investments are assumed to be as under:

a) Interest rate related securities	
Government	₹1000 crore
Banks	₹500 crore
Corporate Bonds	₹500 crore
b) Equities	
Others	₹300 crore

(iv) For interest rate swaps and interest rate futures the counterparties are assumed to be corporates.

(v) For simplicity, following assumptions are made regarding investments in interest rate related securities:

(a) Government securities

Date of Issue	Date of reporting	Maturity Date	Amount (in ₹ crore)	Coupon (%)	Type
01/03/1992	31/03/2003	01/03/2004	100	12.50	AFS
01/05/1993	31/03/2003	01/05/2003	100	12.00	AFS
01/03/1994	31/03/2003	31/05/2003	100	12.00	AFS
01/03/1995	31/03/2003	01/03/2015	100	12.50	AFS
01/03/1998	31/03/2003	01/03/2010	100	11.50	AFS
01/03/1999	31/03/2003	01/03/2009	100	11.00	AFS
01/03/2000	31/03/2003	01/03/2005	100	10.50	HFT
01/03/2001	31/03/2003	01/03/2006	100	10.00	HTM
01/03/2002	31/03/2003	01/03/2012	100	8.00	HTM
01/03/2003	31/03/2003	01/03/2023	100	6.50	HTM



<b>Total</b>			<b>1000</b>		
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(b) Bank bonds

Date of Issue	Date of reporting	Maturity Date	Amount (in ₹ crore)	Coupon (%)	Type
01/03/1992	31/03/2003	01/03/2004	100	12.50	AFS
01/05/1993	31/03/2003	01/05/2003	100	12.00	AFS
01/03/1994	31/03/2003	31/05/2003	100	12.00	AFS
01/03/1995	31/03/2003	01/03/2006	100	12.50	AFS
01/03/1998	31/03/2003	01/03/2007	100	11.50	HFT
<b>Total</b>			<b>500</b>		

(c) Other securities

Date of Issue	Date of reporting	Maturity Date	Amount (in ₹ crore)	Coupon (%)	Type
01/03/1992	31/03/2003	01/03/2004	100	12.50	HFT
01/05/1993	31/03/2003	01/05/2003	100	12.00	HFT
01/03/1994	31/03/2003	31/05/2003	100	12.00	HFT
01/03/1995	31/03/2003	01/03/2006	100	12.50	HTM
01/03/1998	31/03/2003	01/03/2017	100	11.50	HTM
<b>Total</b>			<b>500</b>		

(d) Overall position

	Break-up of total investments (₹ in crore)					
	Interest rate related instruments				Equity	Grand Total
	Government Securities	Bank bonds	Other securities	Total		
<b>HFT</b>	100	100	300	500	300	800
<b>AFS</b>	600	400	0	1000	0	1000
<b>Trading Book</b>	700	500	300	1500	300	1800
<b>HTM</b>	300	0	200	500	0	500
<b>Grand Total</b>	1000	500	500	2000	300	2300

(vi) As per the extant instructions to arrive at the RWAs for the bank with the above position the following table would be helpful.

(₹ in crore)			
Details of assets	Book value	Risk weight	RWAs
Cash & balances with the Reserve Bank	200	0%	0
Bank balances	200	20%	40
Interest rate related			



(₹ in crore)			
Details of assets	Book value	Risk weight	RWAs
<u>Investments:</u>			
Government Banks Others	1000	2.5%	25
	500	22.5%	112.5
	500	102.5%	512.5
<u>Other investments:</u>			
Equities	300	102.5%	307.5
Advances (net)	2000	100%	2000
Other Assets	300	100%	300
<b>Total Assets</b>	<b>5000</b>		<b>3297.5</b>
IRS	100	1% + 1% per year (Credit Conversion Factor) and 100% RW	8.00
IRF	50	1% + 1% per year (Credit Conversion Factor) and 100% RW	4.00
Forex + Gold Open position	60 + 40 =100	100%	100.00
<b>Total RWAs</b>			<b>3407.50</b>

Assuming that the bank has a capital of ₹400 crore, the CRAR works out to 11.74%.

#### (vii) Computation of RWA

##### (a) RWAs for credit risk

As per the guidelines, held for trading and available for sale securities shall qualify to be categorized as Trading Book. Thus, trading book in respect of interest rate related investments in the instant case shall be ₹1500 crore. In addition, equities position of ₹300 crore shall be in the trading book. The derivative products held by banks shall be considered as part of trading book. Open position on foreign exchange and gold also shall be considered for market risk. While computing the capital charge for credit risk, the securities held under trading book shall be excluded and hence the credit risk based risk-weights shall be as under:

(Amount in ₹ crore)			
Details of assets	Book value	Risk weight	RWA
Cash & balances with the Reserve Bank	200	0%	0
Bank balances	200	20%	40
Investments in (HTM category)			
Government	300	0%	0



Banks	0	20%	0
Others	200	100%	200
Advances (net)	2000	100%	2000
Other Assets	300	100%	300
<b>Total</b>	<b>3200</b>		<b>2540</b>
Credit risk for OTC derivatives			
IRS	100	100%	8.00
		(credit conversion factor – 1% + 1% per year)	
IRF	50	100%	0.25
		(credit conversion factor for maturities less than one year – 0.5%)	
<b>Total</b>	<b>3350</b>		<b>2548.25</b>

(b) RWA for market risk (Trading Book)

(i) Specific risk

Investments in interest rate related instruments:

(a) Government securities - ₹700 crore - NIL

(b) Bank bonds

(Amount in ₹ crore)

Details	Capital charge	Amount	Capital Charge
For residual term to final maturity 6 months or less	0.30%	200	0.600
For residual term to final maturity between 6 and 24 months	1.125%	100	1.125
For residual term to final maturity exceeding 24 months	1.80%	200	3.600
<b>Total</b>		<b>500</b>	<b>5.325</b>

(c) Others ₹300 crore @ 9% = ₹27 crore

(d) Total: (a) + (b) + (c) = ₹0 crore+ ₹5.325 crore+ ₹27 crore = ₹32.325 crore

(e) Equities – capital charge of 9% = ₹27 crore

(f) Total specific charge (d + e) = ₹32.325 crore + ₹27 crore = ₹59.33



Therefore, capital charge for specific risk in the trading book is ₹59.33 crore (₹32.33 crore + ₹27 crore).

(ii) General market risk

(a) Investments in interest rate related instruments

Modified duration is used to arrive at the price sensitivity of an interest rate related instrument. For all the securities listed below, date of reporting is taken as 31 / 3 / 2003.

(Amount in ₹ crore)

Counter Party	Maturity Date	Amount market value	Coupon (%)	Capital Charge for general market risk
Government	01 / 03 / 2004	100	12.50	0.84
Government	01 / 05 / 2003	100	12.00	0.08
Government	31 / 05 / 2003	100	12.00	0.16
Government	01 / 03 / 2015	100	12.50	3.63
Government	01 / 03 / 2010	100	11.50	2.79
Government	01 / 03 / 2009	100	11.00	2.75
Government	01 / 03 / 2005	100	10.50	1.35
Banks	01 / 03 / 2004	100	12.50	0.84
Banks	01 / 05 / 2003	100	12.00	0.08
Banks	31 / 05 / 2003	100	12.00	0.16
Banks	01 / 03 / 2006	100	12.50	1.77
Banks	01 / 03 / 2007	100	11.50	2.29
Others	01 / 03 / 2004	100	12.50	0.84
Others	01 / 05 / 2003	100	12.00	0.08
	31 / 05 / 2003	100	12.00	0.16
	<b>Total</b>	<b>1500</b>		<b>17.82</b>

(b) Positions in interest rate related derivatives

(i) Interest rate swap

Counter Party	Maturity Date	Notional Amount (i.e., market value)	Modified duration or price	Assumed change in yield	Capital charge
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			<b>sensitivity</b>	<b>(ACI)</b>	
GOI	30 / 09 / 2003	100	0.47	1.00	0.47
GOI	31 / 03 / 2011	100	5.14	0.60	(-) 3.08
					<b>(-) 2.61</b>

(ii) Interest rate future

<b>Counter Party</b>	<b>Maturity Date</b>	<b>Notional Amount (i.e., market value)</b>	<b>Modified duration or price sensitivity</b>	<b>Assumed change in yield (ACI)</b>	<b>Capital charge</b>
GOI	30 / 09 / 2003	50	0.45	1.00	(-) 0.225
GOI	31 / 03 / 2007	50	2.84	0.75	1.070
					<b>0.84</b>

(c) Disallowances

The price sensitivities calculated as above have been slotted into a duration-based ladder with fifteen time-bands as shown in table at the end of the paragraph. Long and short positions within a time band have been subjected to vertical disallowance of 5 per cent. In the instant case, vertical disallowance is applicable under 3-6 month time band and 7.3-9.3 year time band. Then, net positions in each time band have been computed for horizontal offsetting subject to the disallowances mentioned in the table. In the instant case, horizontal disallowance is applicable only in respect of Zone 3. Horizontal disallowances in respect of adjacent zones are not applicable in the instant case.

(i) Calculation of vertical disallowance

While calculating capital charge for general market risk on interest rate related instruments, a UCB shall recognise the basis risk (different types of instruments whose price responds differently for movement in general rates) and gap risk (different maturities within time bands). This is addressed by a small capital charge (5 per cent) on matched (off-setting) positions in each time band ('vertical disallowance')

An off-setting position, for vertical disallowance, shall be either the sum of long positions and or the short positions within a time band, whichever is lower. In the table at the end of the paragraph, except for the time band 3-6 months in Zone 1 and the time band of 7.3-9.3 years, where there are off-setting positions of (-)0.45 and 2.79, there is no offsetting position in any other time band. The sum of long positions in the



3-6 months' time band is +0.47 and the sum of short positions in this time band is (-)0.22. This offsetting position of 0.22 is subjected to a capital charge of 5 per cent i.e., 0.01. The sum of long positions in the 7.3-9.3 years' time band is +2.79 and the sum of short positions in this time band is (-)3.08. This off-setting position of 2.79 is subjected to a capital charge of 5 per cent, i.e., 0.1395. It may be mentioned here that if a UCB does not have both long and short positions in the same time band, there is no need for any vertical disallowance. A UCB is not allowed to take any short position in its books, except in derivatives and Central Government securities. Therefore, a UCB shall generally not be subjected to vertical disallowance unless it has a short position in derivatives.

(ii) Calculation of horizontal disallowance

While calculating capital charge for general market risk on interest rate related instruments, a UCB shall subject its positions to a second round of off-setting across time bands with a view to give recognition to the fact that interest rate movements are not perfectly correlated across maturity bands (yield curve risk and spread risk) i.e., matched long and short positions in different time bands may not perfectly off-set. This is achieved by a 'horizontal disallowance'.

An off-setting position, for horizontal disallowance, shall be either the sum of long positions and or the short positions within a Zone, whichever is lower. In the above example, except in Zone 3 (7.3 to 9.3 years) where there is an off-setting (matched) position of (-)0.29, there is no off-setting position in any other Zone. The sum of long positions in this Zone is 10.81 and the sum of short positions in this Zone is (-) 0.29. This off-setting position of 0.29 is subject to horizontal disallowance as under:

Within the same Zone (Zone 3) 30% of 0.29	= 0.09
Between adjacent Zones (Zone 2 and 3)	= NIL
Between Zones 1 and Zone 3	= NIL

(d) If a UCB does not have both long and short positions in different time zones, there is no need for any horizontal disallowance. A UCB is not allowed to take any short position in its books except in derivatives and Central Government securities. Therefore, a UCB shall generally not be subjected to horizontal disallowance unless it has short positions in derivatives.

(e) Total capital charge for interest rate related instruments is shown below:





For overall net position	16.06
For vertical disallowance	0.15
For horizontal disallowance in Zone 3	0.09
For horizontal disallowance in adjacent zones	Nil
For horizontal disallowance between Zone 1 and 3	Nil
<b>Total capital charge for interest rate related instruments</b>	<b>16.30</b>

(f) The total capital charge in this example for general market risk for interest rate related instruments shall be computed as under:

Sl. No.	Capital charge	Amount (In ₹)
1	For the vertical disallowance (under 3-6 month time band)	1,12,500
2	For the vertical disallowance (under 7.3-9.3 year time band)	13,95,000
3	For the horizontal disallowance (under Zone 3)	9,00,000
4	For the horizontal disallowances between adjacent zones	0
5	For the overall net open position (17.82 – 2.61 + 0.84)	16,06,00,000
<b>6</b>	<b>Total capital charge for general market risk on interest rate related instruments (1 + 2 + 3 + 4 + 5)</b>	<b>16,30,07,500</b>

(g) Equities: Capital charge for general market risk for equities shall be 9 per cent. Thus, general market risk capital charge on equities shall be ₹27 crore.

(h) Forex / gold open position: Capital charge on forex / gold open position shall be computed at 9 per cent. Thus, the same shall be ₹9 crore.

(i) Capital charge for market risks in this example shall be computed as under:

(Amount in ₹ crore)

Details	Capital charge for Specific Risk	Capital charge for General Market Risk	Total
Interest instruments rate related	32.33	16.30	48.63
Equities	27.00	27.00	54.00
Forex / Gold	-	9.00	9.00
Total	59.33	52.30	111.63



### (viii) Computing capital ratio

The capital charge for market risks in the trading book shall be converted into equivalent RWAs by multiplying it by  $(100 \div 9)$ , i.e.,  $₹111.63 \times (100 \div 9) = ₹1240.33$  crore [as a UCB requires minimum CRAR of 9 per cent]. Therefore, RWA for market risk shall be ₹1240.33 crore.

(Amount in ₹ crore)

1	Total capital	400.00
2	RWAs for credit risk	2548.25
3	RWAs for market risk	1240.33
4	Total RWAs (2+3)	3788.58
5	CRAR $[(1 \div 4) \times 100]$	10.56 %

### (3) Example for computing the capital charge including the vertical and horizontal disallowances on interest rate related instruments

[Paragraph 22 (2)(vii)(c) above]																
	** $0.22 \times 5\% = 0.01$				@ $2.79 \times 5\% = 0.14$			# $0.29 \times 30\% = 0.09$								
	Zone 1				Zone 2			Zone 3								
Time-band	0-1 month	1-3 month	3-6 month	6m - 1y	1-1.9y	1.9-2.8y	2.8-3.6y	3.6-4.3y	4.3-5.7y	5.7-7.3y	7.3-9.3y	9.3-10.6y	10.6-12y	12-20y	Over 20y	Capital Charge
Position		0.72		2.51		1.35	1.77	2.29		2.75	2.79		3.63			17.82
Derivatives (long)			0.47					1.07								1.54
Derivatives (short)			(-)0.22								(-)3.08					(-)3.30
Net Position		0.72	0.25	2.51		1.35	1.77	3.36		2.75	(-)0.29		3.63			16.06
Vertical Disallowance (5%)			0.01**								0.14@					0.15
Horizontal Disallowance 1 (under Zone 3)											0.09#					0.09



Horizontal disallowance 2																
Horizontal Disallowance 3																



## **Chapter IV**

### **Other instructions**

#### **A Share linking to Borrowings**

23. Borrowings from a UCB (except in the case of advances against fixed deposits) shall be linked to shareholdings of the borrowing members as below:
- (i) 5 per cent of the borrowings, if the borrowings are on unsecured basis.
  - (ii) 2.5 per cent of the borrowings, in case of secured borrowings.
  - (iii) In case of secured borrowings by Micro and Small Enterprises (MSEs), 2.5 per cent of the borrowings, of which 1 per cent is to be collected initially and the balance of 1.5 per cent is to be collected in the course of next 2 years.
24. The above share linking norms is applicable for member's shareholdings upto the limit of 5 per cent of the total paid up share capital of a bank. Where a member is already holding 5 per cent of the total paid up share capital of a UCB, it shall not be necessary for the member to subscribe to any additional share capital on account of the application of extant share linking norms. In other words, a borrowing member may be required to hold shares for an amount that may be computed as per the extant share linking norms or for an amount that is 5 per cent of the total paid up share capital of a bank, whichever is lower.
25. Share-linking to borrowing norms shall be discretionary for a UCB which meets the minimum regulatory CRAR applicable and a Tier 1 CRAR of 5.5 per cent as per the latest audited financial statements and the last CRAR as assessed by the Reserve Bank during statutory inspection. Such a UCB shall have a Board-approved policy on share-linking to borrowing norms which shall be implemented in a transparent, consistent, and non-discriminatory manner. The policy may be reviewed by the Board at the beginning of the accounting year. A UCB, which does not maintain the minimum CRAR applicable and Tier 1 CRAR of 5.5 per cent, shall continue to be guided by the norms on share-linking to borrowing as specified above.
26. PNCPs held by members / subscribers, may be treated as shares for the purpose of compliance with the extant share linking to borrowing norms.



## **B Refund of share capital**

27. In terms of section 12(2)(ii) read with section 56 of the BR Act, 1949, a UCB shall not withdraw or reduce its share capital, except to the extent and subject to such conditions as the Reserve Bank may specify in this behalf. A UCB may refund the share capital to its members, or nominees / heirs of deceased members, on demand (subject to the member fulfilling all the eligibility conditions for refund), subject to the following conditions:

- (i) The bank complies with the minimum applicable regulatory CRAR, both as per the latest audited financial statements and the last CRAR as assessed by the Reserve Bank during statutory inspection;
- (ii) Such refund does not result in the CRAR of the bank falling below the minimum regulatory CRAR applicable to a bank; and
- (iii) For computing CRAR as above, accretion to capital funds (as per audited data) after the balance sheet date, other than by way of profits, may be taken into account. Any reduction in capital funds, including by way of losses, during the aforesaid period shall also be considered.

## **C Protection of investors in regulatory capital instruments**

28. A UCB, which issue regulatory capital instruments specified in paragraphs 11 and 14 shall adhere to the following conditions:

- (i) For floating rate instruments, a bank shall not use its fixed deposit rate as benchmark.
- (ii) A specific sign-off, as quoted below, from the investors, for having understood the features and risks of the instruments, shall be incorporated in the common application form of the proposed issue:

**"By making this application, I / we acknowledge that I / we have understood the terms and conditions of the issue of [Name of the share / security] being issued by [Name of a bank] as disclosed in the Prospectus and Offer Document".**

- (iii) A UCB shall ensure that all the publicity material / offer document, application form and other communication with the investor shall clearly state in bold letters (Arial font, size 14, equivalent size in English /



Vernacular version) how a PNCPS / PCPS / RNCPS / RCPS / PDI / LTSB, as the case may be, is different from a fixed deposit, and that these instruments are not covered by deposit insurance.

- (iv) The procedure for transfer to legal heirs in the event of death of the subscriber of the instrument shall also be specified.

#### **D Reporting**

- 29. A bank shall furnish to the Department of Supervision of respective Regional Offices annual return indicating (i) capital funds, (ii) conversion of off-balance sheet / non-funded exposures, (iii) calculation of RWAs, and (iv) calculation of capital funds and risk assets ratio. The format of the return is given in the Annex I. The returns shall be signed by two officials who are authorized to sign the statutory returns submitted to the Reserve Bank.



## **Chapter V**

### **Repeal Provisions**

#### **A Repeal and Savings**

30. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Prudential Norms on Capital Adequacy for Urban Co-operative Banks stand repealed, as communicated vide circular [DOR.RRC.REC.302/33-01-010/2025-26](#) dated November 28, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
31. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:
- (i) any right, obligation or liability acquired, accrued, or incurred thereunder;
  - (ii) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
  - (iii) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

#### **B Application of other laws not barred**

32. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

#### **C Interpretations**

33. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of



these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

(Sunil T S Nair)  
Chief General Manager





## Annex I

### Statement of Capital, RWAs and CRAR

#### (1) Capital funds

(₹ in Crore)

Table I: Capital funds			
		Amount	Remark
I	Total Capital (Tier 1 + Tier 2) (I.1+I.2)		
I.1	Of which, Tier 1 capital funds (A+B+C)		
	(a) Paid-up capital		
	(b) Less: intangible assets and losses		
A	Net paid-up capital (a - b)		
B	Total reserves and surplus (a + b + c + d + e)		
	(a) Statutory reserves		
	(b) Capital reserves		
	(c) Revaluation reserves (discount of 55 per cent)*		
	(d) Surplus in profit and loss account**		
	(e) Any other free reserve (please specify)		
C	Regulatory capital (Included in Tier 1) (a + b + c) ***		
	(a) Perpetual Non-Cumulative Preference Shares (PNCPS)		
	(b) Perpetual Debt Instrument (PDI)		
	(c) Innovative Perpetual Debt Instruments (IPDI)****		

Table I: Capital funds

	<p><b>Notes:</b></p> <p>*Subject to conditions mentioned on Paragraph 11(x) of these Directions.</p> <p>Capital reserves representing surplus on sale of assets and held in a separate account shall be included.</p> <p>Revaluation reserves, general / floating provisions and specific provisions made for loan losses and other asset losses or diminution in the value of any assets shall not be reckoned as capital funds.</p> <p>**In case of surplus in profit and loss account [not allocated and yet to be approved by AGM], the following assumptions may be made:</p> <p>The current year's surplus may be notionally arrived at to the extent recommended by the Board of Directors to be allocated among various reserves / funds and retained in business.</p> <p>Where the Board of Directors have not decided the distribution of the surplus, it may be notionally arrived at on the basis of last three years' average.</p> <p>*** The outstanding amount of PNCPS and PDI along with outstanding IPDI shall not exceed 35 per cent of total Tier 1 Capital at any point of time. The above limit shall be based on the amount of Tier 1 Capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any. PNCPS issued in excess of the overall ceiling of 35 per cent, shall be eligible for inclusion under upper Tier 2 capital, subject to limits prescribed for Tier 2 Capital. However, investors' rights and obligations shall remain unchanged.</p> <p>****Outstanding IPDIs</p>		
		Amount	Remarks
I.2	Of which, total Tier 2 Capital (A - B)		
A	Tier 2 Capital (A.1+A.2)		
A.1	Upper Tier 2 Capital (1+2+3+4+5+6+7)		
1	Undisclosed reserves		
2	Revaluation reserves***		
3	General provisions and loss reserves #		
4	Investment fluctuation reserves		
5	Hybrid debt capital instruments <sup>§</sup>		
6	Perpetual Non-Cumulative Preference Shares (PNCPS) <sup>§§</sup>		
7	Tier 2 preference shares <sup>\$\$\$</sup>		
	Perpetual Cumulative Preference Shares (PCPS)		
	Redeemable Non-Cumulative Preference Shares (RNCPS)		
	Redeemable Cumulative Preference Shares (RCPS)		
A.2	Lower Tier 2 Capital		

Table I: Capital funds			
8	Subordinated debts \$\$\$\$		
	Long Term Subordinated Bonds (LTSBs)		
	Long Term (Subordinated) Deposits (LTDs)\$\$\$\$\$		
B	Head room deduction		
Table II: Risk weighted assets			
II	Total risk weighted assets (a + b)		
	Risk weighted value of funded assets i.e., on balance sheet items (tallies with Part 'B')		
	Risk weighted value of non-funded and off-balance sheet items (tallies with Part 'C')		
III	Percentage of capital funds to risk-weighted assets ( $\frac{I}{II} * 100$ )		
<p><b>Notes:</b></p> <p>***Subject to conditions mentioned on Paragraph 11(x) of these Directions.</p> <p># Includes general provision on standard assets. Such provisions which are considered for inclusion in Tier 2 capital shall be admitted up to 1.25 per cent of total RWAs.</p> <p>§ The amount of PDI reckoned for Tier 2 capital shall not exceed 15 per cent of total Tier 1 Capital. The outstanding IPDI shall also be covered in the aforementioned ceiling of 15 per cent and reckoned for capital purposes. PDI in excess of the above limits shall be eligible for inclusion under Tier 2 Capital, subject to the limits prescribed for Tier 2 Capital. However, investors' rights and obligations shall remain unchanged.</p> <p>\$\$ PNCPs issued in excess of the overall ceiling of 35 per cent (PNCPs and PDI not exceeding 35 per cent of Tier 1 Capital at any point of time), shall be eligible for inclusion under Upper Tier 2 Capital, subject to limits prescribed for Tier 2 Capital. However, investors' rights and obligations shall remain unchanged.</p> <p>\$\$\$ PCPS / RNCPS / RCPS for inclusion in Upper Tier 2 Capital. The outstanding amount of these instruments along with other components of Tier 2 Capital shall not exceed 100 per cent of Tier 1 Capital at any point of time. The above limit shall be based on the amount of Tier 1 Capital after deduction of goodwill and other intangible assets, but before deduction of equity investment in subsidiaries, if any.</p> <p>\$\$\$\$ The amount of LTSB eligible to be reckoned as Tier 2 Capital shall be limited to 50 per cent of total Tier 1 Capital. The outstanding LTDs shall also be covered in the aforementioned ceiling of 50 per cent and reckoned for capital purposes. These instruments, together with other components of Tier 2 Capital shall not exceed 100 per cent of Tier 1 Capital. The aforementioned limit shall be based on the amount of Tier 1 Capital after deduction of goodwill and other intangible assets, but before the deduction of equity investments in subsidiaries, if any.</p> <p>\$\$\$\$\$ Outstanding LTDs (after applicable discounting).</p>			

(2) Risk weighted value of funded assets i.e., on balance sheet items

(₹ in crore)

	Book Value	Risk weight	Risk weighted value
1	2	3	4
Cash and bank balances			
Cash in hand (including foreign currency notes)			
Balance with banks in India			
Balance with the Reserve Bank			
Balances with banks			
Current account balances with other co-operative banks			
Current account (in India and outside India)			
Other accounts (in India and outside India)			
Money at call and short notice			
Investments			
Government and other approved securities*			
Other (net of depreciation provided)			
Advances**			
Loans and advances, bills purchased and discounted and other credit facilities			
Claim guaranteed by the Government of India			
Claims guaranteed by State Governments			
Claims on public sector undertakings (PSUs) of the Government of India			
Claims on PSUs of State Governments			
Others			
Notes: Netting may be done only for advances collateralised by cash margins in deposits and in respect of assets where provisions for depreciation or for bad and doubtful debts have been made. Assets such as equity investments in subsidiaries, intangible assets deducted from Tier 1 Capital shall be assigned zero risk weight.			
Premises (net of depreciation provided)			
Furniture and fixtures (net of depreciation provided)			

Other assets (including branch adjustments, non-banking assets, etc.)			
<b>Total</b>			
<p>* Provision, if any, made for depreciation in investments in Government and other approved securities may be indicated by way of a footnote.</p> <p>** Provisions held, either general or specific, for bad and doubtful debts and standard assets may be indicated by way of footnote.</p>			

### (3) Risk weighted value of non-funded and off-balance sheet items

(₹ in crore)

Nature of Item	Book Value	Conversion Factor	Credit Equivalent Value	Risk Weight	Risk weighted 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.



## Annex II

### Reporting format for the purpose of monitoring the capital ratio

**Name of UCB:**

**Position as on:**

#### A. Capital base

(Amount in ₹ Crores)		
Sr. No.	Details	Amount
A1.	Tier 1 Capital	
A2.	Tier 2 Capital	
A3.	Total Regulatory Capital	

#### B. RWA

B1	RWA on banking book				
	(a)	On-balance sheet assets			
	(b)	Contingent Credits			
	(c)	Forex contracts			
	(d)	Other off-balance sheet items			
	Total				
B2	RWAs on Trading Book		AFS	Other trading book exposures	Total
	(a)	Capital charge on account of Specific Risk			
	(i)	On interest rate related instruments			
	(ii)	On Equities			
	Sub-total				
	(b)	Capital charge on account of general market risk			
	(i)	On interest rate related instruments			
	(ii)	On Equities			
	(iii)	On Foreign Exchange and gold open positions			
	Sub-total				
	Total Capital Charge on Trading Book				
	Total RWAs on Trading Book				
	(total capital charge on trading book * (100 / 9))				
B3	Total RWAs (B1 + B2)				

C. Capital ratio

C1	Capital to Risk-weighted Assets Ratio (CRAR) ( $A3 / B3 \times 100$ )	
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D. Memo items

D1	Investment Fluctuation Reserve	
D2	Book value of securities held in HFT category	
D3	Book value of securities held in AFS category	
D4	Net unrealised gains in HFT category	
D5	Net unrealised gains in AFS category	

A UCB shall furnish data in the above format as on the last day of each calendar quarter to the Regional Office of the Reserve Bank