**ANNEX 9**

## Risk Weights for Calculation of Capital Charge for Credit Risk

### I. Domestic Operations

### A. Funded Risk Assets

| Sr. No. | Item of asset or liability | Risk Weight % |
|---|---|---|
| **I** | **Balances** | |
| 1. | Cash, balances with RBI | 0 |
| 2. | i. Balances in current account with other banks | 20 |
| | ii. Claims on Bank | 20 |
| | | |
| **II** | **Investments (applicable to securities held in HTM)** | |
| 1. | Investments in Government Securities. | 0 |
| 2. | Investments in other approved securities guaranteed by Central/ State Government.<br>Note*:*<br>If the repayment of principal / interest in respect of State Government Guaranteed securities included in item 2, 4 and 6 has remained in default, for a period of more than 90 days banks should assign 100 per cent risk weight. However the banks need to assign 100 per cent risk weight only on those State Government guaranteed securities issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government. | 0 |
| 3. | Investments in other securities where payment of interest and repayment of principal are guaranteed by Central Govt. (This will include investments in Indira/Kisan Vikas Patra (IVP/KVP) and investments in Bonds and Debentures where payment of interest and principal is guaranteed by Central Govt.) | 0 |
| 4. | Investments in other securities where payment of interest and repayment of principal are guaranteed by State Governments. | 0 |

| | | |
|---|---|---|
| 5. | Investments in other approved securities where payment of interest and repayment of principal are not guaranteed by Central/State Govt. | 20 |
| 6. | Investments in Government guaranteed securities of Government Undertakings which **do not** form part of the approved market borrowing programme. | 20 |
| 7. | Claims on commercial banks. | 20 |
| 8. | Investments in bonds issued by other banks | 20 |
| 9. | Investments in securities which are guaranteed by banks as to payment of interest and repayment of principal. | 20 |
| 10. | Investments in subordinated debt instruments and bonds issued by other banks or Public Financial Institutions for their Tier II capital. | 100 |
| 11. | Deposits placed with SIDBI/NABARD/NHB in lieu of shortfall in lending to priority sector. | 100 |
| 12. | Investment in Mortgage Backed Securities (MBS) of residential assets of Housing Finance Companies (HFCs) which are recognised and supervised by National Housing Bank (subject to satisfying terms & conditions furnished in Annex 10.2). | 50 |
| 13. | Investment in Mortgage Backed Securities (MBS) which are backed by housing loan qualifying for 50% risk weight. | 50 |
| 14. | Investment in securitised paper pertaining to an infrastructure facility. (subject to satisfying terms & conditions given in Annex 10.3). | 50 |

| | | |
|---|---|---|
| 15. | Investments in debentures/ bonds/ security receipts/ Pass Through Certificates issued by Securitisation Company/ SPVs/ Reconstruction Company and held by banks as investment | 100 |
| 16. | All other investments including investments in securities issued by PFIs. | 100 |
| | *Note:* Equity investments in subsidiaries, intangible assets and losses deducted from Tier I capital should be assigned zero weight | |
| 17. | Direct investment in equity shares, convertible bonds, debentures and units of equity oriented mutual funds including those exempted from Capital Market Exposure | 125 |
| 18. | Investment in Mortgaged Backed Securities and other securitised exposures to Commercial Real Estate | 150 |
| 19. | Investments in Venture Capital Funds | 150 |
| 20. | Investments in Securities issued by SPVs (in respect of securitisation of standard assets) underwritten and devolved on originator banks during the stipulated period of three months | 100 |
| 21. | Investments in Securities issued by SPVs in respect of securitisation of standard asset underwritten and devolved on bank as third party service provider during the stipulated period of three months | 100 |
| 22. | NPA Investment purchased from other banks | 100 |
| 23. | Investments in instruments issued by NBFC-ND-SI | 100 |
| **III** | **Loans & Advances** including bills purchased and discounted and other credit facilities | |
| 1. | Loans guaranteed by Govt. of India<br><br>Note:<br>The amount outstanding in the account styled as “Amount receivable from Government of India under Agricultural debt Waiver Scheme 2008” shall be treated as a claim on the Government of India and would attract zero risk weight for the purpose of capital adequacy norms. However, the amount outstanding in the accounts covered by the Debt Relief Scheme shall be treated as a claim on the borrowers and risk weighted as per the extant norms. | 0 |

| | | |
|---|---|---|
| 2. | Loans guaranteed by State Govts.<br>Note**:**<br>If the loans guaranteed by State Govts. have remained in default for a period of more than 90 days a risk weight of 100 percent should be assigned. | 0 |
| 3. | Loans granted to public sector undertakings of Govt. of India | 100 |
| 4. | Loans granted to public sector undertakings of State Govts. | 100 |
| 5.<br>(i) | For the purpose of credit exposure, bills purchased/discounted /negotiated under LC (where payment to the beneficiary is not under reserve) is treated as an exposure on the LC issuing bank and assigned risk weight as is normally applicable to inter-bank exposures. | 20 |
| (ii) | Bills negotiated under LCs 'under reserve', bills purchased/discounted/negotiated without LCs, will be reckoned as exposure on the borrower constituent. Accordingly, the exposure will attract a risk weight appropriate to the borrower.<br>(i) Govt.<br>(ii) Banks<br>(iii) Others | <br>0<br>20<br>100 |
| 6. | Others including PFIs | 100 |
| 7. | Leased assets | 100 |
| 8. | Advances covered by DICGC/ECGC | 50 |
| | ***Note:*** The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstandings in excess of the amount guaranteed, will carry 100% risk weight. | |
| 9. | Micro and Small Enterprises (MSE) Advances Guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) up to the guaranteed portion.<br>**Note:** Banks may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as appropriate to the counter-party. Two illustrative examples are given in Annex 10.1. | 0 |

| | | |
|---|---|---|
| 10. | Insurance cover under Business Credit Shield, the product of New India Assurance Company Ltd. (Subject to Conditions given in Annex 10.4)<br><br>***Note:*** The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstanding in excess of the amount guaranteed, will carry 100% risk weight. | 50 |
| 11. | Advances against term deposits, Life policies, NSCs, IVPs and KVPs where adequate margin is available. | 0 |
| 12. | Loans and Advances granted to staff of banks which are fully covered by superannuation benefits and mortgage of flat/house. | 20 |

13.

| **Category of Loan**** | **LTV Ratio[13] (%)** | |
|---|---|---|
| (a) Individual Housing Loans | | |
| (i) Up to Rs. 20 lakh | 90 | 50 |
| (ii) Above Rs. 20 lakh and up to Rs. 75 lakh | 80 | 50 |
| (iii) Above Rs.75 lakh | 75 | 75 |
| (b) Commercial Real Estate – Residential Housing (CRE-RH) | N A | 75 |
| (c) Commercial Real Estate (CRE) | N A | 100 |

Restructured housing loans should be risk weighted with an additional risk weight of 25 per cent to the risk weights prescribed above.

| | | |
|---|---|---|
| 14. | Housing loans guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) up to the guaranteed portion[14].<br><br>**Note:** Banks may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as appropriate to the counter-party. | 0 |
| 15. | Consumer credit including personal loans and credit cards | 125 |
| 16. | Educational Loans | 100 |
| 17. | Loans up to ₹ 1 lakh against gold and silver ornaments | 50 |
| 18. | Takeout Finance | |

[13]Please refer to the circular DBOD.BP.BC.No. 104/08.12.015/2012-13 dated June 21, 2013 on Housing Sector – New Sub-sector CRE-RH within CRE and Rationalisation of Provisioning, Risk weights and LTV Ratios.

[14] Please refer to circular DBOD.No.BP.BC. 90/21.04.048/2012-13 dated April 16, 2013 on Advances Guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) – Risk Weights and Provisioning.

| | | |
|---|---|---|
| | (i) Unconditional takeover (in the books of lending institution)<br>(a) Where full credit risk is assumed by the taking over institution<br>(b) Where only partial credit risk is assumed by taking over institution<br>(i) The amount to be taken over<br>(ii) The amount not to be taken over | 20<br><br><br>20<br>100 |
| | (ii) Conditional take-over (in the books of lending and Taking over institution) | 100 |
| 19. | Capital Market Exposures (CME) including those exempted from CME Norms | 125 |
| 20. | Fund based exposures to commercial real estate*<br><br>Fund Based Exposure to Commercial Real Estate- Residential Housing (CRE-RH)@ | 100<br><br>75 |
| 21. | Funded liquidity facility for securitisation of standard asset transactions | 100 |
| 22. | NPA purchased from other banks | 100 |
| 23. | Loans & Advances NBFC-ND-SI (other than Asset Finance Companies (AFCs)) | 100 |
| 24. | All unrated claims on corporate, long term as well as short term, regardless of the amount of the claim | 100 |
| **IV** | **Other Assets** | |
| 1. | Premises, furniture and fixtures | 100 |
| 2. | Income tax deducted at source (net of provision) | 0 |
| | Advance tax paid (net of provision) | 0 |
| | Interest due on Government securities | 0 |
| | Accrued interest on CRR balances and claims on RBI on account of Government transactions (net of claims of Government/RBI on banks on account of such transactions) | 0 |
| | All other assets # | 100 |

***#:***

(i) The exposures to CCPs on account of derivatives trading and securities financing transactions (e.g. CBLOs, Repos) outstanding against them, will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures;

(ii) The deposits / collaterals kept by banks with the CCPs will attract risk weights appropriate to the nature of the CCP. In the case of CCIL, the risk weight will be 20 per cent and for other CCPs, it will be according to the ratings assigned to these entities as per the New Capital Adequacy Framework.

**&:** As regards claims on AFCs, there is no change in the risk weights, which would continue to be governed by the credit rating of the AFC, except the claims that attract a risk weight of 150 per cent under the New Capital Adequacy Framework, which shall be reduced to a level of 100 per cent.

***:** It is possible for an exposure to get classified simultaneously into more than one category, as different classifications are driven by different considerations. In such cases, the exposure would be reckoned for regulatory / prudential exposure limit, if any, fixed by RBI or by the bank itself, for all the categories to which the exposure is assigned. For the purpose of capital adequacy, the largest of the risk weights applicable among all the categories would be applicable for the exposure.

Securitisation exposures not meeting the requirements prescribed in the securitisation guidelines dated May 7, 2012 will be risk weighted at the rates prescribed therein.

****:** The LTV ratio should not exceed the prescribed ceiling in all fresh cases of sanction. In case the LTV ratio is currently above the ceiling prescribed for any reasons, efforts should be made to bring it within limits.

**@:** Commercial Real Estate – Residential Housing (CRE-RH) would consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. However, integrated housing projects comprising of some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided that the commercial area in the residential housing projects does not exceed 10% of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10%, the project loans should be classified as CRE and not CRE-RH.

Banks' exposure to third dwelling unit onwards to an individual will also be treated as CRE exposures.

## I.B. Off-Balance Sheet items

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

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

| | | |
|---|---|---|
| | ***Note:*** As the counter-party exposure will determine the risk weight, it will be 100 percent in respect of all borrowers or zero percent if covered by Government guarantee. | |
| 11 | Non-Funded exposures to commercial real estate | 150 |
| 12 | Non-funded capital market exposures, including those exempted from CME norms | 125 |
| 13 | Commitment to provide liquidity facility for securitization of standard asset transactions | 100 |
| 14 | Second loss credit enhancement for securitization of standard asset transactions provided by third party | 100 |
| 15 | Non-funded exposure to NBFC-ND-SI | 100 |

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

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

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

### I.C. Risk Weights for Open Positions

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

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

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

**Step 1**

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

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

**Step 2**

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

| Counter party | Risk weight |
|---|---|
| Banks | 20 per cent |
| Central & State Govt. | 0 per cent |
| All others | 100 per cent |

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

**A. Funded Risk Assets**

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

| | | |
|---|---|---|
| | d) Claims on public sector undertakings of State Governments | 100 |
| | e) Others | 100 |
| viii) | All other banking and infrastructural assets | 100 |

**B. Non-funded Risk Assets**

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

**ANNEX 9.1**

## MSE Advances Guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) – Risk weights and Provisioning norms
**(paragraph I (A)(III)(9) of Annex 9)**

**Risk-Weight**

Example I

CGTMSE Cover: 75% of the amount outstanding or 75% of the unsecured amount or ₹18.75 lakh, whichever is less

| | |
|---|---|
| Realisable value of Security | : ₹1 .50 lakh |
| a) Balance outstanding | : ₹10.00 lakh |
| b) Realisable value of security | : ₹1.50 lakh |
| c) Unsecured amount (a) - (b) | : ₹8.50 lakh |
| d) Guaranteed portion (75% of (c) ) | : ₹6.38 lakh |
| e) Uncovered portion (8.50 lakh – 6.38 lakh) | : ₹2.12 lakh |

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

Example II

CGTMSE cover: 75% of the amount outstanding or 75% of the unsecured amount or ₹18.75 lakh whichever is less

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

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

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**ANNEX 9.2**

**Terms and conditions for the purpose of liberal Risk Weight for Capital Adequacy for investments in Mortgage Backed Securities (MBS) of residential assets of <u>Housing Finance Companies (HFC) (Vide item (I)(A)(II)(12)of Annex 9)</u>**

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

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

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

i. shall not own any share capital in the SPV or be the beneficiary of the trust used as a vehicle for the purchase and securitization of assets. Share capital for this purpose shall include all classes of common and preferred share capital;

ii. shall not name the SPV in such manner as to imply any connection with the bank;

iii. shall not have any directors, officers or employees on the board of the SPV unless the board is made up of at least three members and where there is a majority of independent directors. In addition, the official(s) representing the bank will not have veto powers;

iv. shall not directly or indirectly control the SPV; or

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

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

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

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

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

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

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

**ANNEX 9.3**

**Conditions for availing concessional Risk Weight on investment in securitised paper pertaining to an infrastructure facility *(Vide item* (I)(A)(II)(14)*of Annex 9)***

1. The infrastructure facility should satisfy the conditions stipulated in our circular DBOD. No. BP. BC. 92/21.04.048/ 2002- 2003 dated June 16, 2004.

2. The infrastructure facility should be generating income/ cash flows which would ensure servicing/ repayment of the securitised paper.

3. The securitised paper should be rated at least 'AAA' by the rating agencies and the rating should be current and valid. The rating relied upon will be deemed to be current and valid if :

The rating is not more than one month old on the date of opening of the issue, and the rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and the rating letter and the rating rationale is a part of the offer document.

In the case of secondary market acquisition, the 'AAA' rating of the issue should be in force and confirmed from the monthly bulletin published by the respective rating agency.

The securitised paper should be a performing asset on the books of the investing/ lending institution.

**ANNEX 9.4**

**Conditions for availing concessional risk weight for Advances covered by Insurance cover under Business Credit Shield the product of New India <u>Assurance Company Ltd.</u>** *(Vide item* (I)(A)(III)(10)*of Annex10)*

New India Assurance Company Limited (NIA) should comply with the provisions of the Insurance Act, 1938, the Regulations made thereunder - especially those relating to Reserves for unexpired risks and the Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 and any other conditions/regulations that may be prescribed by IRDA in future, if their insurance product - Business Credit Shield (BCS) - is to qualify for the above treatment.

2. To be eligible for the above regulatory treatment in respect of export credit covered by BCS policy of **NIA, banks should ensure that:**

The BCS policy is assigned in its favour, and

NIA abides by the provisions of the Insurance Act, 1938 and the regulations made there under, especially those relating to Reserves for unexpired risks and the Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000, and any other conditions/regulations that may be prescribed by IRDA in future.

3. Banks should maintain separate account(s) for the advances to exporters, which are covered by the insurance under the "Business Credit Shield" to enable easy administration/verification of risk weights/provisions.