

Annex 2

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

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

Sr N o	Ref. Para.	Existing Extract	Amended text in RBI regulation (track change mode)
		<p>adequacy shall include²:</p> <p>(i) Securities included under the Held for Trading category</p> <p>(ii) Securities included under the Available for Sale category</p> <p>(iii) Open gold position</p> <p>(iv) Open foreign exchange position</p> <p>(v) Trading positions in derivatives, and</p> <p>(vi) Derivatives entered into for hedging trading book exposures.</p> <p>Footnote 2: At present, LABs are not permitted to carry out activities mentioned in points (iii) to (vi). However, as and when these activities are allowed, the relevant instructions would become applicable to them.</p>	<p><u>instruments²: that are classified as “Held for Trading” as per Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 dated September 12, 2023. All other instruments^{2A} will be included in the banking book and attract corresponding capital charge for credit risk (or counterparty credit risk, where applicable).</u></p> <p>(i) — Securities included under the Held for Trading category</p> <p>(ii) — Securities included under the Available for Sale category</p> <p>(iii) — Open gold position</p> <p>(iv) — Open foreign exchange position</p> <p>(v) — Trading positions in derivatives, and</p> <p>(vi) — Derivatives entered into for hedging trading book exposures.</p> <p><i>Footnote 2: At present, LABs are not permitted to carry out activities <u>mentioned in points (iii) to (vi) involving foreign exchange or derivative positions</u>. However, as and when these activities are allowed, the relevant instructions would become applicable to them.</i></p> <p><u>Footnote 2A: Accordingly, instruments classified under HTM, AFS, FVTPL (non-HFT) and investments in own subsidiaries, joint ventures and associates will also be part of banking book and will not attract market risk capital charge.</u></p>

Sr No	Ref. Para.	Existing Extract			Amended text in RBI regulation (track change mode)		
		Sr. No.	Item	Risk Weight %	Sr. No.	Item	Risk Weight %
4	19	The capital charge for interest rate related instruments shall apply to the current market value of these items in bank's trading book. The current market value shall be determined as per the extant RBI guidelines on valuation of investments.			The capital charge for interest rate related instruments shall apply to the <u>current market fair</u> value of these items in bank's trading book. The <u>current market fair</u> value shall be determined as per the extant RBI guidelines on valuation of investments.		
5	23(a)	Capital charge for equities in the trading book shall be applied to all instruments that exhibit market behavior similar to equities but not to non-convertible preference shares (which are covered by the interest rate risk requirements). The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, such as units of mutual funds, and commitments to buy or sell equity. The capital charge for equities shall apply to the current market value of these items in the bank's trading book.			Capital charge for equities in the trading book shall be applied to all instruments that exhibit market behavior similar to equities but not to non-convertible preference shares (which are covered by the interest rate risk requirements). The instruments covered include equity shares, whether voting or non-voting, convertible securities that behave like equities, such as units of mutual funds, and commitments to buy or sell equity. The capital charge for equities shall apply to the <u>current market fair</u> value of these items in the bank's trading book.		
6	23(b)	Investments in shares and units of Venture Capital Funds (VCFs) shall be assigned 150% risk weight for measuring the credit risk during first three years when these are held under HTM category. When these are held under or transferred to AFS, the capital charge for specific risk component of the market risk shall be fixed at 13.5% to reflect the risk weight of 150%. The charge for general market risk component shall be at 9% as in the case of other equities.			Investments in shares and units of Venture Capital Funds (VCFs) shall be assigned 150% risk weight for measuring the credit risk <u>during first three years</u> when these are held under <u>HTM category banking book</u> . When these are held under or transferred to <u>AFStrading book</u> , the capital charge for specific risk component of the market risk shall be fixed at 13.5% to reflect the risk weight of 150%. The charge for general market risk component shall be at 9% as in the case of other equities.		
7	Annex 6 (A.						

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	Funded Risk Assets)	<table border="1"> <tr> <td data-bbox="472 316 539 363">I</td> <td data-bbox="539 316 1010 363">Balances</td> <td data-bbox="1010 316 1144 363"></td> <td data-bbox="1144 316 1182 363"></td> </tr> <tr> <td data-bbox="472 363 539 416"></td> <td data-bbox="539 363 1010 416">.....</td> <td data-bbox="1010 363 1144 416"></td> <td data-bbox="1144 363 1182 416"></td> </tr> <tr> <td data-bbox="472 475 539 523">II</td> <td data-bbox="539 475 1010 523">Investments (applicable to securities held in HTM)</td> <td data-bbox="1010 475 1144 523"></td> <td data-bbox="1144 475 1182 523"></td> </tr> <tr> <td data-bbox="472 523 539 587"></td> <td data-bbox="539 523 1010 587">.....</td> <td data-bbox="1010 523 1144 587"></td> <td data-bbox="1144 523 1182 587"></td> </tr> </table>				I	Balances						II	Investments (applicable to securities held in HTM)						<table border="1"> <tr> <td data-bbox="1279 316 1346 363">I</td> <td data-bbox="1346 316 1816 363">Balances</td> <td data-bbox="1816 316 1951 363"></td> <td data-bbox="1951 316 2058 363"></td> </tr> <tr> <td data-bbox="1279 363 1346 416"></td> <td data-bbox="1346 363 1816 416">.....</td> <td data-bbox="1816 363 1951 416"></td> <td data-bbox="1951 363 2058 416"></td> </tr> <tr> <td data-bbox="1279 475 1346 523">II</td> <td data-bbox="1346 475 1816 523">Investments (applicable to securities held in <u>HTM banking book</u>)</td> <td data-bbox="1816 475 1951 523"></td> <td data-bbox="1951 475 2058 523"></td> </tr> <tr> <td data-bbox="1279 523 1346 587"></td> <td data-bbox="1346 523 1816 587">.....</td> <td data-bbox="1816 523 1951 587"></td> <td data-bbox="1951 523 2058 587"></td> </tr> </table>				I	Balances						II	Investments (applicable to securities held in <u>HTM banking book</u>)					
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		Sl. No.	Details	Amount (in ₹ Crore)	Sl. No.	Details	Amount (in ₹ Crore)						
12 Examp el Para 1.1		1	Cash & Balances with RBI	200.00	1	Cash & Balances with RBI	200.00						
		2	Bank balances	200.00	2	Bank balances	200.00						
		3.	Investments	2000.00	3.	Investments	2000.00						
			3.1 Held for Trading (Market Value)	500.00		3.1 Held for Trading Trading Book (Market Value)	500 1500.00						
			3.2 Available for Sale (Market Value)	1000.00		3.2 Available for Sale (Market Value) Banking Book	1000 500.00						
			3.3 Held to Maturity	500.00		3.3 Held to Maturity	500.00						
		4	Advances (net)	2000.00	4	Advances (net)	2000.00						
		5	Other Assets	300.00	5	Other Assets	300.00						
	6	Total Assets	4700.00	6	Total Assets	4700.00							
10	Annex 12 Examp el Para 1.3	For simplicity sake the details of investments are assumed to be as under:					For simplicity sake the details of investments are assumed to be as under:						
		i) Government Securities						i) Government Securities					
		Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type
		01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS	01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS Trading Book
		01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS	01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS Trading

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		01/03/2012	31/03/2021	31/05/2021	100	12.00	AFS	1	1	1			Book
01/03/2013	31/03/2021	01/03/2023	100	12.00	AFS	01/03/2012	31/03/2021	31/05/2021	100	12.00	AFSTrading Book		
01/03/2016	31/03/2021	01/03/2028	100	11.50	AFS	01/03/2013	31/03/2021	01/03/2023	100	12.00	AFSTrading Book		
01/03/2017	31/03/2021	01/03/2027	100	11.00	AFS	01/03/2016	31/03/2021	01/03/2028	100	11.50	AFSTrading Book		
01/03/2018	31/03/2021	01/03/2023	100	10.50	HFT	01/03/2017	31/03/2021	01/03/2027	100	11.00	AFSTrading Book		
01/03/2019	31/03/2021	01/03/2024	100	10.00	HTM	01/03/2018	31/03/2021	01/03/2023	100	10.50	HFTTrading Book		
01/03/2020	31/03/2021	01/03/2020	100	8.00	HTM	01/03/2019	31/03/2021	01/03/2024	100	10.00	HTMBanking Book		
01/03/2021	31/03/2021	01/03/2024	100	6.50	HTM	01/03/2020	31/03/2021	01/03/2020	100	8.00	HTMBanking Book		
Total			1000			01/03/2021	31/03/2021	01/03/2024	100	6.50	HTMBanking Book		
ii) Bank Bonds						Total			1000				
Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type	ii) Bank Bonds							
01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS	Date of Issue	Date of reporting	Maturity Date	Amount ₹ in crore	Coupon (%)	Type		
01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS	01/03/2010	31/03/2021	01/03/2022	100	12.50	AFSTrading Book		
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				Trading Book	700	500	300	1500		Government Securities	Bank bonds
		HTM	300	0	200	500	HFT	100	100	300	500
		Total	1000	500	500	2000	AFS	600	400	0	1000
							Trading Book	700	500	300	1500
							HTM Banking Book	300	0	200	500
							Total	1000	500	500	2000
11	Annex 12 Example I Para 2.1	As per the guidelines, Held for Trading and Available for Sale securities would qualify to be categorized as Trading Book. Thus, trading book in the instant case would be ₹1500 crore as indicated above. While computing the credit risk, the securities held under trading book would be excluded and hence the risk-weighted assets for credit risks would be as under: 				As per the guidelines, Held for Trading and Available for Sale securities would qualify to be categorized as Trading Book. Thus, trading book in the instant case would be ₹1500 crore as indicated above. While computing the credit risk, the securities held under trading book would be excluded and hence the risk-weighted assets for credit risks would be as under: 					
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		Sr. No.	Details	₹ in Crore		Sr. No.	Details	₹ in Crore			
		1	Cash & Balances with RBI	200.00		1	Cash & Balances with RBI	200.00			
		2	Bank balances	200.00		2	Bank balances	200.00			
		3	Investments			3	Investments				

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		6	1	8				01/03/2016	31/03/2021	01/03/2028	100	11.50	AFSTrading Book
01/03/2017	31/03/2021	01/03/2027	100	11.00	AFS	01/03/2017	31/03/2021	01/03/2027	100	11.00	AFSTrading Book		
01/03/2018	31/03/2021	01/03/2023	100	10.50	HFT	01/03/2018	31/03/2021	01/03/2023	100	10.50	HFTTrading Book		
01/03/2019	31/03/2021	01/03/2024	100	10.00	HTM	01/03/2019	31/03/2021	01/03/2024	100	10.00	HTMBanking Book		
01/03/2020	31/03/2021	01/03/2030	100	8.00	HTM	01/03/2020	31/03/2021	01/03/2030	100	8.00	HTMBanking Book		
01/03/2021	31/03/2021	01/03/2041	100	6.50	HTM	01/03/2021	31/03/2021	01/03/2041	100	6.50	HTMBanking Book		
Total			1000			Total			1000				
ii) Bank Bonds						ii) Bank Bonds							
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01/03/2010	31/03/2021	01/03/2022	100	12.50	AFS	01/03/2010	31/03/2021	01/03/2022	100	12.50	AFSTrading Book		
01/05/2011	31/03/2021	01/05/2021	100	12.00	AFS	01/05/2011	31/03/2021	01/05/2021	100	12.00	AFSTrading Book		
01/03/2012	31/03/2021	31/05/2021	100	12.00	AFS	01/03/2012	31/03/2021	31/05/2021	100	12.00	AFSTrading Book		
01/03/2013	31/03/2021	01/03/2024	100	12.50	AFS	01/03/2013	31/03/2021	01/03/2024	100	12.50	AFSTrading Book		
01/03/2016	31/03/2021	01/03/2025	100	11.50	HFT	01/03/2016	31/03/2021	01/03/2025	100	11.50	HFTTrading		

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		Investments in (HTM category)	300	0%	0	Investments in (HTM category Banking Book)			
		Government Banks	0	20%	0	Government Banks	300	0%	0
		Corporate Bonds	200	100%	200	Corporate Bonds	0	20%	0
		Advances (net)	2000	100%	2000	Advances (net)	200	100%	200
		Other Assets	300	100%	300	Other Assets	2000	100%	2000
		Total	3200		2540	Total	300	100%	300
		Credit Risk for OTC Derivatives:				Credit Risk for OTC Derivatives:	3200		2540
		IRS	100 (Credit conversion factor - 1% + 1% per year)	100%	8.00	IRS			
		IRF	50 (Credit conversion factor for maturities less than one year – 0.5%)	100%	0.25	IRF	100 (Credit conversion factor - 1% + 1% per year)	100%	8.00
		Total	3350		2548.25	Total	50 (Credit conversion factor for maturities less than one year – 0.5%)	100%	0.25
						Total	3350		2548.25