

RESERVE BANK OF INDIA

CENTRAL OFFICE

URBAN BANKS DEPARTMENT
1ST FLOOR, GARMENT HOUSE

Please quote in reply

WORLI, MUMBAI - 400 018

RBI/ 2004/ 248

UBD. No. BPD. PCB. Cir. 52 / 09.116.00/2003-04

June 15, 2004

The Chief Executive Officers of all
Primary (Urban) Co-operative Banks

Dear Sir,

Risk Weight for Exposure to Public Financial Institutions (PFIs)

Please refer to Sr. No. 8 of II Investment of (A) Funded Risk Assets (Domestic Operations) of Annexure 1 enclosed to our Circular UBD. POT. PCB. Cir. No. 45/09.116.00/2000-01 dated April 25, 2001 wherein Urban Co-operative Banks were advised that their investments in bonds/debentures of certain PFIs would attract a uniform risk weight of 22.5 per cent.

2. In this connection, a reference is invited to para 118 of the Annual Policy Statement for the year 2004-05 (paragraph reproduced in the Annexure) announced by the Governor on May 18, 2004. The full text of the policy is available at RBI website (www.rbi.org.in).

3. Accordingly, it has been decided that with effect from April 1, 2005, exposures to all PFIs will attract a risk weight of 100 per cent for credit risk. They will also attract a risk weight of 2.5 per cent for market risk.

4. Please acknowledge receipt to our concerned Regional Office.

Yours faithfully,

Sd/-

(N. S. Vishwanathan)
Chief General Manager

Encl: 1

EXTRACT FROM ANNUAL POLICY 2004-05

Risk Weight for Exposure to Public Financial Institutions

118. At present, exposures of banks/FIs to specified public financial Institutions (PFIs) attract a risk weight of 20 per cent for capital adequacy purposes. The financial positions of PFIs are divergent. As such, preferential treatment to PFIs for capital adequacy purposes on a privileged basis is not justified. Accordingly, it is proposed that :

- With effect from April 1, 2005, exposures on all PFIs will attract a risk weight of 100 per cent.