Annex I

Prudential Norms – Risk Weights for computation of CRAR (Vide para no 5.4)	
I. Domestic Operations	
A. Funded Risk Assets.	
ASSET ITEMS	**Risk weight**
I. **BALANCES**	
i. Cash (including foreign currency notes) Balances with RBI	0
ii. Balances in current account with UCBs	20
iii. Balances in current account with other banks	20
II. INVESTMENTS	
i. Investment in Government Securities	2.5
ii. Investment in other Approved Securities guaranteed by Central Government /State Government	2.5
iii. Investment in Other Securities where payment of interest and repayment of principal are guaranteed by Central Govt. (include investment in Indira/Kisan Vikas Patras and investments in bonds & debentures where payment of interest and repayment of principal is guaranteed by Central Govt./State Government)	2.5
iv. Investment in other securities where payment of interest and repayment of principal are guaranteed by State Govt.	2.5
Note : Investment in securities where payment of interest or repayment of principal is guaranteed by State Government and which has become a non-performing investment, will attract 102.5 percentage risk weight (w.e.f. March 31, 2006)	
v. Investment in other Approved Securities where payment of interest and repayment of principal is not guaranteed by Central / State Govt.	22.5

v.	Investment in Govt. guaranteed securities of government undertakings which do not form part of the approved market borrowing Program	22.5
vi.	(a) Claims on commercial banks, District Central Co-operative Banks, and State Co-operative Banks such as fixed deposits, certificates of deposits, etc. (b) Claims on other Urban Co-operative banks such as term/fixed deposits	20
vii.	Investments in bonds issued by All India Public financial Institutions.	102.5
viii.	Investments in bonds issued by Public Financial Institutions for their Tier-II Capital	102.5
ix.	All Other Investments Note : Intangible assets and losses deducted from Tier I capital should be assigned zero weight	102.5
x.	The off balance sheet (net) position in 'WI' securities, scrip-wise.	2.5
III.	**LOANS AND ADVANCES.**	
i.	Loans and advances including bills purchased and discounted and other credit facilities guaranteed by GOI	0
ii.	Loans guaranteed by State Govt	0
iii.	A State Government guaranteed advance which has become a non performing advance (w.e.f 31.03.06)	100
iv.	Loans granted to PSUs of GOI	100
v.	<u>Real Estate Exposure</u> (a) Mortgaged residential housing loan to individuals: • upto Rs 30.00 lakh (LTV* ratio =or<75 %) • above Rs 30.00 (LTV ratio =or<75 %). • Irrespective of the loan amount (LTV ratio >75 %). (b) Commercial real estate (c)Co-op / group housing societies and Housing Board and for any other purpose.	 50 75 100 100 100
	** LTV ratio should be computed as a percentage of total outstanding in the account (viz. "principal +accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the realizable value of the residential property mortgaged to the bank in the denominator*	

vi. Retail Loans and Advances (a) consumer credit including personal loan	125
(b) loans up to Rs.1 lakh against gold and silver ornaments	50
(c) all other loans and advances including educational loan.	100
(d) Loans extended against primary/collateral security of shares/debentures	127.5
vii. Leased Assets a. Loans and advances for eligible activities to NBFCs engaged in hire purchase/ leasing activities now classified as Asset Finance Companies b. loans and advances for eligible activities to Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFC- ND -SI) engaged in hire purchase/ leasing activities	100 125
viii. Advances covered by DICGC / ECGC 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
ix. Advances for term deposits, Life policies, NSCs, IVPs and KVPs where adequate margin is available	0
x. Loans to staff of banks, which are fully covered by superannuation benefits and mortgage of flat / house	20
Notes : While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, banks may `net-off' against the total outstanding exposure of the borrower -	
(a) advances Collateralised by cash margins or deposits,	
(b) credit balances in current or other accounts of the borrower which are not earmarked for specific purposes and free from any lien,	
(c) in respect of any assets where provisions for depreciation or for bad debts have been made,	
(d) claims recd. from DICGC / ECGC and kept in a separate a/c pending adjustment in case these are not adjusted against the dues outstanding in the respective a/cs.	
IV. **Other Assets**	
1.Premises, furniture and fixtures	100
2. Other assets	
(i) Interest due on Government securities	0

(ii) Accrued interest on CRR balances maintained with RBI	0
(iii) Interest receivable on staff loans	20
(iv) Interest receivable from banks	20
(v)All other assets	100
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

B. Off-Balance Sheet Items

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

Sl.No.	**Instruments**	**Credit conversion factor (%)**
1	Direct credit substitutes e.g. general guarantees of indebtedness (including stand L/Cs serving as financial guarantees for loans and securities) and acceptances (including endorsements with character of acceptance)	100
2	Certain transaction - related contingent items (e.g. warranties and standby L/Cs related to particular transactions)	50
3	Short-term self-liquidating trade-related contingencies (such as documentary credits collateralised by the underlying shipments)	20
4	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank.	100
5	Forward asset purchase, forward deposit and partly paid shams and securities, which represent commitments with certain draw down	100
6	Note issuance facilities and revolving underwriting facilities	50
7	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of over one year.	50
8	Similar commitments with an original maturity upto one year, or which can be unconditionally cancelled at any time.	0
9	(i) Guarantees issued by banks against the counter guarantees of other banks	20

	(ii) Rediscounting of documentary bills accepted by banks. Bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank.	20
	Note : In these cases, banks should be fully satisfied that the risk exposure is, in fact, on the other bank. Bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above above, will be assigned the risk weight is normally applicable to inter-bank exposures, for capital adequacy purposes. In the case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly.	
10	Aggregate outstanding foreign exchange contracts of original maturity - Less than 14 calendar days more than 14 days but less than one year for each additional year or part thereof	 0 2 3
	Notes : While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, bank may `net-off' against the total outstanding exposure of the borrower credit balances in current or other accounts which are not earmarked for specific purposes and free from any lien. After applying the conversion factor as indicated above, the adjusted off-Balance Sheet value shall again be multiplied by the weight attributable to the relevant counter-party as specified.	

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

II. Additional Risk Weights in respect of Overseas Operations of Banks (Applicable to Authorised Dealers only)

1. Foreign Exchange and Interest Rate related Contracts

(i) Foreign exchange contracts include the following :
   (a) Cross currency interest rate swaps
   (b) Forward foreign exchange contracts
   (c) Currency futures

(d) Currency options purchased
(e) 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
Less than one year	2%
One year and less than two years	5% (i.e. 2% + 3%)
For each additional year	3%

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

2. Interest Rate Contracts

(iii) Interest rate contracts include the following :
(a) Single currency interest rate swaps
(b) Basic swaps
(c) Forward rate agreements
(d) Interest rate futures
(e) Interest rate options purchased
(f) Other contracts of a similar nature

(iv) 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 percentage given below :

Original Maturity	Conversion Factor
Less than one year	0.5%
One year and less than two years	1.0%
For each additional year	1.0%

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

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

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