Annex 6

Risk Weights for Calculation of Capital Charge for Credit Risk

A. Funded Risk Assets

Sr. No.	Item	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 banking book)**	
1.	Investments in Government Securities.	0
2.	Investments in other approved securities guaranteed by Central/ State Government Note*:* 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 shall assign 100 per cent risk weight. However, banks shall 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 6.2).	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 6.3).	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. *Note:* Equity investments in subsidiaries, intangible assets and losses deducted from Tier I capital shall be assigned zero weight.	100

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 bySPVs 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 Note: Individual schemes under NCGTC that are backed by explicit central government guarantee and applicable for LABs are included in this category.	0
2.	Loans guaranteed by State Govts. Note**:** 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 shall 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(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, shall be reckoned as exposure on the borrower constituent. Accordingly, the exposure shall attract a risk weight appropriate to the borrower.	

	(i) Govt.	0
	(ii) Banks	20
	(iii) Others	100
6.	Others including PFIs	100

7.	Leased assets	100
8.	Advances covered by DICGC/ECGC ***Note:*** 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.	50
9.	Micro and Small Enterprises (MSE) Advances Guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) up to the guaranteed portion. **Note:** Banks shall assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion shall attract a risk-weight as appropriate to the counter-party. Two illustrative examples are given in Annex 6.1.	0
10.	Insurance cover under Business Credit Shield, the product of New India Assurance Company Ltd. (Subject to Conditions prescribed in Annex 6.4) ***Note:*** 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.	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 (%)**	
	(a) Individual Housing Loans		
	(i) Up to ₹20 lakh	90	50
	(ii) Above ₹20 lakh and up to ₹75 lakh	80	50
	(iii) Above ₹75 lakh	75	75
	(b) Commercial Real Estate – Residential Housing (CRE-RH)	N A	75
	(c) Commercial Real Estate (CRE)	N A	100

14.	Housing loans guaranteed by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) up to the guaranteed portion. **Note:** Banks shall assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion shall attract a risk-weight as appropriate to the counter-party.	0
15.	Consumer credit including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery	125
16.	Credit card receivables	125
17.	Educational Loans	100
18.	Loans up to ₹1 lakh against gold and silver ornaments	50
19.	Takeout Finance	
	(i) Unconditional takeover (in the books of lending institution) (a) Where full credit risk is assumed by the taking over institution (b) Where only partial credit risk is assumed by taking over institution (i) The amount to be taken over (ii) The amount not to be taken over	20 20 100
	(ii) Conditional take-over (in the books of lending and Taking over institution)	100
20.	Capital Market Exposures (CME) including those exempted from CME Norms	125
21.	Fund based exposures to commercial real estate* Fund Based Exposure to Commercial Real Estate- Residential Housing (CRE-RH)@	100 75
22.	Funded liquidity facility for securitisation of standard asset transactions	100
23.	NPA purchased from other banks	100
24.	Loans & Advances to NBFC-ND-SI	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
3.	All other assets #	100

Notes

#: (i) The exposures to CCPs on account of derivatives trading and securities financing transactions (e.g. 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.

***:** 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 shall 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. **@:** Commercial Real Estate – Residential Housing (CRE-RH) shall consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. Such projects shall 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 shall be classified as CRE and not CRE-RH.

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

B. Off-Balance Sheet items

The credit risk exposure attached to Off-Balance Sheet items shall 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 shall then have to be again multiplied by the weights attributable to the relevant counter-party as specified in 'A' 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 shall determine the risk weight, it shall 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 nonbank counterparties shall 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.

C. While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, banks shall '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 which are not earmarked for specific purposes and free from any lien;

(c) Provisions for depreciation or for bad debts made in respect of any assets;

(d) claims received from DICGC/ ECGC and kept in a separate account pending adjustment; and

(e) subsidies received against advances in respect of Government sponsored schemes and kept in a separate account.

D. Risk Weights for Open Positions

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

E. Risk Weights for Forward Rate Agreement (FRA) /Interest Rate Swap (IRS) and Foreign Exchange Contracts

1. Foreign exchange contracts include - Cross currency swaps, Forward foreign exchange contracts, Currency futures and other contracts of a similar nature.
2. Foreign exchange contracts with an original maturity of 14 calendar days or less, irrespective of the counterparty, shall be assigned "zero" risk weight. However, in case effective bilateral netting contracts as specified in paragraph E-4 of this Annex are in place, this exemption to foreign exchange contracts with an original maturity of 14 calendar days or less would not be applicable.
3. For reckoning the minimum capital ratio, the computation of risk weighted assets on account of FRAs / IRS and Foreign Exchange Contracts shall be done as per the two steps procedure set out below:

   a) **Step 1:**

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

Original Maturity	Conversion Factor	
	Interest rate contracts	**Foreign exchange contracts**
Less than one year	0.5 per cent	2.0 per cent
One year and less than two years	1.0 per cent	5.0 per cent
For each additional year	1.0 per cent	3.0 per cent

When effective bilateral netting contracts as specified in paragraph E-4 of this Annex are in place, the conversion factors, as mentioned in the below table, shall be applicable[10]:

Original Maturity	Conversion Factor	
	Interest rate contracts	**Foreign exchange contracts**
Less than one year	0.35 per cent	1.5 per cent
One year and less than two years	0.75 per cent	3.75 per cent
For each additional year	0.75 per cent	2.25 per cent

b) 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

4. **Requirement for recognition of Bilateral Netting Contract:**

(a) Banks may net transactions subject to novation under which any obligation between a bank 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.

(b) Banks may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.

[10] For purposes of calculating the credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, the original credit conversion factors (i.e., without considering the impact of bilateral netting) should 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 should the reduced factors above be applied to net notional amounts.

(c) In both cases (a) and (b), a bank will need to satisfy that it has:

(i) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the bank would 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.

(ii) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be such a net amount under:

- 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;
- The law that governs the individual transactions; and
- The law that governs any contract or agreement necessary to effect the netting.

(iii) 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.

(d) Contracts containing walkaway clauses will 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.

Annex 6.1

MSE Advances Guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) – Risk weights

(Paragraph (A)(III)(9) of Annex 6)

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) : ₹11.25lakh

Risk-weight (b) and (e) - Linked to the counter party

Risk-weight on (d) - Zero

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Annex 6.2

Terms and conditions for the purpose of Liberal Risk Weight for Capital Adequacy for investments in Mortgage Backed Securities (MBS) of residential assets of Housing Finance Companies (HFC) (Vide item (A)(II)(12)of Annex 6)

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 shall 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 shall 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 shall 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 shall 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 shall 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 shall 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 shall 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 shall not be reckoned as an exposure on the HFC originating the securitized housing loan. However, it shall be treated as an exposure on the underlying assets of the SPV / Trust.

Annex 6.3

Conditions for availing concessional Risk Weight on investment in securitised paper pertaining to an infrastructure facility

(Vide item (A)(II)(14)of Annex 6)

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 shall 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 shall be deemed to be current and valid if:

   (a) 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.

   (b) 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.

   (c) The securitised paper shall be a performing asset on the books of the investing/ lending institution.

Annex 6.4

Conditions for availing concessional risk weight for Advances covered by Insurance cover under Business Credit Shield the product of New India Assurance Company Ltd. (Vide item (A)(III)(10)of Annex 6)

New India Assurance Company Limited (NIA) shall 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:**

(a) The BCS policy is assigned in its favour, and

(b) 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 shall 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.