

Draft Reserve Bank of India (Local Area Banks - Prudential Norms on Capital Adequacy) Directions, 2025

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Reserve Bank of India (Local Area Banks - Prudential Norms on Capital Adequacy) Directions, 2025

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In exercise of the powers conferred by section 35A of the Banking Regulation Act (BR Act), 1949 the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest and in the interest of banking policy to do so, hereby, issues the Directions hereinafter specified.

Chapter I

Preliminary

A Short title and commencement

1. These Directions shall be called the Reserve Bank of India (Local Area Banks - Prudential Norms on Capital Adequacy) Directions, 2025.
2. These Directions shall come into effect immediately upon issuance.

B Applicability

3. These Directions shall be applicable to Local Area Banks (hereinafter collectively referred to as 'banks' or 'LABs' and individually as a 'bank' or 'LAB').

C Definitions

4. In this chapter, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below.
 - (1) 'Banking book' shall mean any instrument not included under trading book, including those classified under HTM, AFS, FVTPL (non-HFT), and investments in own subsidiaries, joint ventures and associates.
 - (2) 'Basis risk' is the risk that the interest rate of different assets, liabilities and off-balance sheet items may change in different magnitude.
 - (3) 'Credit risk' is defined as the potential that a bank's borrower or counterparty may fail to meet its obligations in accordance with agreed terms. It is also the possibility of losses associated with a diminution in the credit quality of borrowers or counterparties.
 - (4) 'Deferred Tax Assets (DTA)' and 'Deferred tax liabilities (DTL)' shall have the same meaning as assigned under the extant Accounting Standards.
 - (5) 'Derivative' shall have the same meaning as assigned to it in section 45U(a) of the RBI Act, 1934.

- (6) 'Duration' (Macaulay duration) measures the price volatility of fixed income securities. It is often used in the comparison of the interest rate risk between securities with different coupons and different maturities. It is the weighted average of the present value of all the cash flows associated with a fixed income security.
- (7) resecurity. It is expressed in years. The duration of a fixed income security is always shorter than its term to maturity, except in the case of zero-coupon securities where they are the same.
- (8) 'Hedging' is taking action to eliminate or reduce exposure to risk
- (9) 'Horizontal disallowance' is a disallowance of offsets to required capital used in the BCBS (Basel Committee on Banking Supervision) Method [Amendment to the Capital Accord to incorporate market risks: BCBS January 1996] for assessing market risk for regulatory capital in order to calculate the capital required for interest rate risk of a trading portfolio. The BCBS Method allows offsets of long and short positions. However, interest rate risks of instruments at different horizontal points of the yield curve are not perfectly correlated. Hence, the BCBS Method requires that a portion of these offsets be disallowed.
- (10) 'Interest rate risk' is the risk that the financial value of assets or liabilities (or inflows / outflows) will be altered because of fluctuations in interest rates.
- (11) 'Long position' refers to a position where gains arise from a rise in the value of the underlying.
- (12) 'Market risk' is the risk of losses in on-and off-balance sheet positions arising from movements in market prices.
- (13) 'Modified Duration' or volatility of an interest-bearing security is its Macaulay Duration divided by one plus the coupon rate of the security. It represents a percentage change in the securities' price for a 100 basis points change in yield. It is generally accurate for only small changes in the yield.

$$MD = - dP / dY \times 1 / P$$

Where, MD = Modified Duration

P = Gross price (i.e., clean price plus accrued interest)

dP = Corresponding small change in price

dY = Small change in yield compounded with the frequency of the coupon payment.

- (14) 'Mortgage-backed security' is a bond-type security in which the collateral is provided by a pool of mortgages. Income from the underlying mortgages is used to meet interest and principal repayments.
 - (15) 'Open position' is the net difference between the amounts payable and amounts receivable in a particular instrument or commodity. It results from the existence of a net long or net short position in the particular instrument or commodity.
 - (16) 'Short position' refers to a position where gains arise from a decline in the value of the underlying. It also refers to the sale of a security in which the seller does not have a long position.
 - (17) 'Trading book' shall include all instruments that are classified as 'Held for Trading' as per Reserve Bank of India (Local Area Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025 (as amended from time to time).
 - (18) 'Vertical disallowance' means a reversal of the offsets of a general market risk charge of a long position by a short position in two or more securities in the same time band in the yield curve under the method followed for determining regulatory capital necessary to cushion market risk.
5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the applicable Acts, rules / regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

Chapter II

Regulatory capital

A Minimum regulatory capital

6. An LAB shall maintain a minimum Capital to Risk weighted Assets Ratio (CRAR) of 9 per cent on an ongoing basis. It shall compute CRAR in the following manner:

$$\text{CRAR} = \frac{\text{Eligible capital funds}}{\text{Total Risk-weighted assets (RWAs)}}$$

B Definition of capital funds

7. The capital funds for capital adequacy purpose shall consist of Tier 1 and Tier 2 capital.

C Tier 1 capital

8. Tier 1 capital shall consist of:
- (i) Paid-up capital (ordinary shares), statutory reserves, AFS reserve, and other disclosed free reserves, if any;

Note: Any negative balance in the AFS reserve shall be deducted from Tier 1 capital.

- (ii) Perpetual Non-Cumulative Preference Shares (PNCPS) eligible for inclusion as Tier 1 capital, subject to compliance with the minimum regulatory requirements specified in paragraph 9;
- (iii) Perpetual Debt Instruments (PDI) eligible for inclusion as Tier 1 capital subject to compliance with the minimum regulatory requirements specified in paragraph 10; and
- (iv) Capital reserves representing surplus arising out of sale proceeds of assets.
- (v) An LAB may include quarterly / half yearly profits for computation of Tier 1 capital only if the quarterly / half yearly results are audited by statutory auditors and not when the results are subjected to limited review.

C.1 Criteria for inclusion of PNCPS in Tier 1 capital

9. The PNCPS issued by an LAB shall meet the following terms and conditions to qualify for inclusion in Tier 1 capital for capital adequacy purposes.

(1) Limits

The outstanding amount of Tier 1 preference shares along with Tier 1 PDIs shall not exceed 40 per cent of total Tier 1 capital at any point of time. The above limit shall be based on the amount of Tier 1 capital after deduction of goodwill and other intangible assets but before the deduction of investments. Tier 1 preference shares issued in excess of the overall ceiling of 40 per cent shall be eligible for inclusion under upper Tier 2 capital, subject to limits prescribed for Tier 2 capital. However, investors' rights and obligations shall remain unchanged.

(2) Amount

The amount of PNCPS to be raised shall be decided by the Board of Directors of an LAB.

(3) Maturity

The PNCPS shall be perpetual.

(4) Options

- (i) PNCPS shall not be issued with a 'put option' or 'step up option'.
- (ii) An LAB may, however, issue the instruments with a call option at a particular date subject to following conditions:
 - (a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
 - (b) Call option shall be exercised only with the prior approval of the Department of Regulation of the Reserve Bank. While considering the proposals received from an LAB for exercising the call option the Reserve Bank shall, among other things, take into consideration the LAB's CRAR position both at the time of exercise of the call option and after exercise of the call option.

(5) Dividend

The rate of dividend payable to the investors shall be either a fixed rate or a floating rate referenced to a market determined rupee interest benchmark rate.

(6) Payment of dividend

- (i) An issuing LAB shall pay dividend subject to availability of distributable surplus out of current year's earnings, and if
 - (a) The LAB's CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank;
 - (b) The impact of such payment does not result in LAB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank;
 - (c) In the case of half yearly payment of dividends, the balance sheet as at the end of the previous year does not show any accumulated losses; and
 - (d) In the case of annual payment of dividends, the current year's balance sheet does not show any accumulated losses.
- (ii) The dividend shall not be cumulative. Dividend missed in a year shall not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. When dividend is paid at a rate lesser than the prescribed rate, the unpaid amount shall not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum.
- (iii) All instances of non-payment of dividend / payment of dividend at a lesser rate than prescribed in consequence of conditions as at (a) above shall be reported by the issuing LAB to the Chief General Managers-in-Charge of Department of Regulation and Department of Supervision (DoS) of the Reserve Bank.

(7) Seniority of claim

The claims of the investors in PNCPS shall be senior to the claims of investors in equity shares and subordinated to the claims of all other creditors and the depositors.

(8) Other conditions

- (i) PNCPS shall be fully paid-up, unsecured, and free of any restrictive clauses.
- (ii) Investment by foreign institutional investors (FIIs) and non-resident Indians (NRIs) shall be within an overall limit of 49 per cent and 24 per cent of the issue respectively, subject to the investment by each FII not exceeding 10 per cent of the issue and investment by each NRI not exceeding 5 per cent of the issue. Investment by FIIs in these instruments shall be outside the External Commercial Borrowings (ECB) limit for rupee denominated corporate debt as fixed by Government of India from time to time.
- (iii) An LAB shall comply with the terms and conditions, if any, stipulated by the Securities and Exchange Board of India (SEBI) / other regulatory authorities in regard to issue of the instruments.

(9) Compliance with reserve requirements

- (i) The funds collected by various branches of the LAB or other banks for the issue and held pending finalisation of allotment of the Tier 1 preference shares shall be taken into account for the purpose of calculating reserve requirements.
- (ii) The total amount raised by the LAB by issue of PNCPS shall however, not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, shall not attract CRR / SLR requirements.

(10) Reporting requirements

- (i) An LAB issuing PNCPS shall submit a report to the Chief General Manager-in-charge, Department of Regulation of the Reserve Bank, giving details of the capital raised, including the terms of issue together with a copy of the offer document soon after the issue is completed.
- (ii) The issue-wise details of amount raised as PNCPS qualifying for Tier 1 capital by the LAB from FIIs / NRIs shall be reported within 30 days of the issue to the Chief General Manager, Foreign Exchange Department of the Reserve Bank in the proforma given at Annex 1. The details of the secondary market sales / purchases by FIIs and the NRIs in these

instruments on the floor of the stock exchange shall be reported by the custodians and designated banks, respectively to the Reserve Bank through the soft copy of the LEC Returns, on a daily basis, as prescribed in Schedule 2 and 3 of the FEMA Notification No.20 dated 3rd May 2000, as amended from time to time.

(11) Investment in PNCPS issued by other bank / FI

- (i) An LAB's investment in PNCPS issued by other banks and financial institutions shall be reckoned along with the investment in other instruments eligible for capital status while computing compliance with the overall ceiling of 10 per cent of the investing LAB's total regulatory capital prescribed in paragraph 19 of this Chapter.
- (ii) LAB's investments in PNCPS issued by other banks / FIs shall attract risk weight for capital adequacy purposes as prescribed in paragraph 19(4) of this Chapter.
- (iii) An LAB's investments in the PNCPS of other banks shall be treated as exposure to capital market and be reckoned for the purpose of compliance with the prudential ceiling for capital market exposure as fixed by the Reserve Bank.

(12) Grant of advances against Tier 1 preference shares

An LAB shall not grant advances against the security of the PNCPS issued by them.

(13) Classification in the balance sheet

These instruments shall be classified as capital and shown under 'Schedule I- Capital' of the balance sheet.

C.2 Criteria for inclusion of PDI in Tier 1 capital

10. The PDI issued by an LAB shall meet the following terms and conditions to qualify for inclusion in Tier 1 capital for capital adequacy purposes.

Terms of issue of PDIs denominated in Indian rupees

- (1) Amount

The amount of PDI to be raised shall be decided by the Board of Directors of the LAB.

(2) Limits

The total amount raised by an LAB through PDI [including the existing Innovative Perpetual Debt Instruments (IPDI)] shall not exceed 15 per cent of total Tier 1 capital. The eligible amount shall be computed with reference to the amount of Tier 1 capital as on March 31 of the previous financial year, after deduction of goodwill, DTA and other intangible assets but before the deduction of investments. PDI in excess of the above limits shall be eligible for inclusion under Tier 2, subject to limits prescribed for Tier 2 capital. However, investors' rights and obligations shall remain unchanged.

(3) Maturity period

The PDI shall be perpetual.

(4) Rate of interest

The interest payable to the investors shall be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

(5) Options

PDI shall not be issued with a 'put option' or a 'step-up option'. However, an LAB may issue the instruments with a call option subject to strict compliance with each of the following conditions:

- (i) Call option on the instrument is permissible after the instrument has run for at least ten years; and
- (ii) Call option shall be exercised only with the prior approval of the Department of Regulation of the Reserve Bank. While considering the proposals received from an LAB for exercising the call option the Reserve Bank shall, among other things, take into consideration the LAB's CRAR position both at the time of exercise of the call option and after exercise of the call option.

(6) Lock-in clause

- (i) PDI shall be subjected to a lock-in clause in terms of which the issuing LAB shall not be liable to pay interest, if

- (a) the LAB's CRAR is below the minimum regulatory requirement prescribed by the Reserve Bank; OR
 - (b) the impact of such payment results in the LAB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank;
 - (ii) However, an LAB can pay interest with the prior approval of the Reserve Bank when the impact of such payment may result in net loss or increase the net loss, provided the CRAR remains above the regulatory norm.
 - (iii) The interest shall not be cumulative.
 - (iv) All instances of invocation of the lock-in clause shall be notified by the issuing banks to the Chief General Managers-in-Charge, Department of Regulation and Department of Supervision of the Reserve Bank.
- (7) Seniority of claim
- The claims of the investors in any outstanding IPDI and PDI shall be:
- (i) Superior to the claims of investors in equity shares and Tier 1 preference shares; and
 - (ii) Subordinated to the claims of all other creditors.
- (8) Discount
- The PDI shall not be subjected to a progressive discount for capital adequacy purposes.
- (9) Other conditions
- (i) PDI shall be fully paid-up, unsecured, and free of any restrictive clauses.
 - (ii) Investment by FIIs in PDI raised in Indian rupees shall be outside the ECB limit for rupee denominated corporate debt, as fixed by the Government of India from time to time, for investment by FIIs in corporate debt instruments. Investment in these instruments by FIIs and NRIs shall be within an overall limit of 49 per cent and 24 per cent of the issue, respectively, subject to the investment by each FII not exceeding 10 per cent of the issue and investment by each NRI not exceeding 5 per cent of the issue.

- (iii) An LAB shall comply with the terms and conditions, if any, stipulated by SEBI / other regulatory authorities in regard to issue of the instruments.

(10) Terms of issue of PDI denominated in foreign currency

An LAB may augment its capital funds through the issue of PDI in foreign currency without seeking the prior approval of the Reserve Bank, subject to compliance with the under-mentioned requirements:

- (i) PDI issued in foreign currency shall comply with all terms and conditions as applicable to the instruments issued in Indian rupees.
- (ii) Not more than 49 per cent of the eligible amount can be issued in foreign currency.
- (iii) PDI issued in foreign currency shall be outside the limits for foreign currency borrowings indicated below:
 - (a) The total amount of Upper Tier 2 Instruments issued in foreign currency shall not exceed 25 per cent of the unimpaired Tier 1 capital. This eligible amount shall be computed with reference to the amount of Tier 1 capital as on March 31 of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments, as per paragraph 10(9) of this Chapter.
 - (b) This shall be in addition to the existing limit for foreign currency borrowings by Authorised Dealers, stipulated by the Reserve Bank under Foreign Exchange Management Act, 1999.

(11) Compliance with reserve requirements

The total amount raised by an LAB through PDI shall not be reckoned as liability for calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, shall not attract CRR / SLR requirements.

(12) Reporting requirements

An LAB issuing PDI shall submit a report to the Chief General Manager-in-Charge, Department of Regulation of the Reserve Bank giving details of the debt raised, including the terms of issue, together with a copy of the offer document soon after the issue is completed.

(13) Investment in PDI issued by other banks / FIs

- (i) An LAB's investment in PDI issued by other banks and financial institutions shall be reckoned along with the investment in other instruments eligible for capital status while computing compliance with the overall ceiling of 10 percent prescribed in paragraph 19 of this Chapter.
- (ii) LAB's investments in PDI issued by other banks shall attract risk weight for capital adequacy purposes, as prescribed in paragraph 19(4) of this Chapter.

(14) Grant of advances against PDI

An LAB shall not grant advances against the security of the PDI issued by them.

(15) Classification in the balance sheet

An LAB shall indicate the amount raised by issue of PDI in the balance sheet under Schedule 4 - 'Borrowings'.

D Tier 2 capital

11. Tier 2 capital shall consist of:

- (i) Revaluation reserves

Revaluation reserves shall be subjected to a discount of 55 per cent while determining their value for inclusion in Tier 2 capital. Such reserves shall be reflected on the face of the balance sheet as revaluation reserves.

- (ii) General provisions and loss reserves

General provisions and loss reserves shall be included in Tier 2 capital provided they are not attributable to the actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses. Adequate care shall be taken to ensure that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering general provisions and loss reserves to be part of Tier 2 capital. General provisions and loss reserves shall be admitted up to a maximum of 1.25 percent of total RWAs. General provisions / loss reserves shall include:

- (a) 'Floating Provisions' held by an LAB, which is general in nature and not made against any identified assets.
- (b) Excess provisions which arise on sale of non-performing assets (NPAs).
- (c) General provisions on standard assets.
- (d) Incremental provisions in respect of unhedged foreign currency exposures as prescribed under Reserve Bank of India (Local Area Banks – Credit Risk Management) Directions, 2025.

(iii) Hybrid debt capital instruments

The following instruments shall be eligible for inclusion in upper Tier 2 capital:

- (a) Debt capital instruments subject to compliance with minimum regulatory requirements specified in paragraph 13.
- (b) Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS) subject to compliance with minimum regulatory requirements specified in paragraph 14.

(iv) Subordinated debt

Rupee-subordinated debt shall be eligible for inclusion in Tier 2 capital, subject to the terms and conditions specified in paragraph 15.

Swap Transactions

12. An LAB shall not enter into swap transactions involving conversion of fixed rate rupee liabilities in respect of Tier 1 / Tier 2 bonds into floating rate foreign currency liabilities.

D.1 Criteria for inclusion of debt capital instruments in Upper Tier 2 capital

13. The debt capital instruments that are issued as bonds / debentures by an LAB shall meet the following terms and conditions to qualify for inclusion as Upper Tier 2 capital for capital adequacy purposes.

(1) Currency of issue

An LAB shall issue Upper Tier 2 instruments in Indian rupees. An LAB may also issue these instruments in foreign currency without seeking the prior approval of the Reserve Bank, subject to compliance with the under-mentioned requirements:

- (i) The total amount of Upper Tier 2 instruments issued in foreign currency shall not exceed 25 per cent of the unimpaired Tier 1 Capital. This eligible amount shall be computed with reference to the amount of Tier 1 capital as on March 31 of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.
- (ii) The amount raised shall be in addition to the existing limit for foreign currency borrowings by Authorised Dealers stipulated by the Reserve Bank under the Foreign Exchange Management Act (FEMA), 1999.
- (iii) Investment by FIIs in Upper Tier 2 Instruments raised in Indian rupees shall be outside the limit for investment in corporate debt instruments. Investments by FIIs in these instruments shall be subject to a separate ceiling of USD 500 million.

(2) Amount

The amount of Upper Tier 2 Instruments to be raised shall be decided by the Board of Directors of the LAB.

(3) Limit

Upper Tier 2 Instruments along with other components of Tier 2 capital shall not exceed 100 per cent of Tier 1 capital. The above limit shall be based on the amount of Tier 1 capital after deduction of goodwill and other intangible assets but before the deduction of investments.

(4) Maturity period

The Upper Tier 2 instruments shall have a minimum maturity of 15 years.

(5) Rate of interest

The interest payable to the investors shall be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

(6) Options

Upper Tier 2 instruments shall not be issued with a 'put option' or a 'step-up option'. However, an LAB may issue the instruments with a 'call option' subject to strict compliance with each of the following conditions:

- (i) Call options on the instrument is permissible after the instrument has run for at least ten years;
- (ii) Call options shall be exercised only with the prior approval of the Department of Regulation of the Reserve Bank . While considering the proposals received from an LAB for exercising the call option the Reserve Bank shall, among other things, take into consideration the LAB's CRAR position both at the time of exercise of the call option and after exercise of the call option.

(7) Lock-in clause

- (i) Upper Tier 2 instruments shall be subjected to a lock-in clause in terms of which the issuing LAB shall not be liable to pay either interest or principal, even at maturity, if
 - (a) the LAB's CRAR is below the minimum regulatory requirement prescribed by the Reserve Bank, or
 - (b) the impact of such payment results in LAB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.
- (ii) However, an LAB can pay interest with the prior approval of the Reserve Bank when the impact of such payment may result in net loss or increase the net loss provided CRAR remains above the regulatory norm. For this purpose, 'net loss' shall mean either (a) the accumulated loss at the end of the previous financial year; or (b) the loss incurred during the current financial year.
- (iii) The interest amounts due and remaining unpaid can be allowed to be paid in the later years subject to the LAB complying with the above regulatory requirement. While paying such unpaid interest and principal, an LAB is

allowed to pay compound interest at a rate not exceeding the coupon rate of the relative Upper Tier 2 bonds, on the outstanding principal and interest.

- (iv) All instances of invocation of the lock-in clause shall be notified by the issuing LAB to the Chief General Managers-in-Charge of Department of Regulation and Department of Supervision of the Reserve Bank of India, Mumbai.

(8) Seniority of claim

The claims of the investors in Upper Tier 2 instruments shall be:

- (i) Superior to the claims of investors in instruments eligible for inclusion in Tier 1 capital; and
- (ii) Subordinate to the claims of all other creditors including those in Lower Tier 2 and the depositors. Amongst the investors of various instruments included in Upper Tier 2, the claims shall rank pari-passu with each other.

(9) Discount

The Upper Tier 2 instruments shall be subjected to a progressive discount for capital adequacy purposes as in the case of long-term subordinated debt over the last five years of their tenor. As they approach maturity these instruments shall be subjected to progressive discount as indicated in the table below for being eligible for inclusion in Tier 2 capital.

Remaining Maturity of Instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

(10) Redemption

Upper Tier 2 instruments shall not be redeemable at the initiative of the holder. All redemptions shall be made only with the prior approval of the Department of Regulation of the Reserve Bank.

(11) Other conditions

- (i) Upper Tier 2 instruments shall be fully paid-up, unsecured, and free of any restrictive clauses.
- (ii) Investment in Upper Tier 2 instruments by FIIs shall be within the limits as laid down in the ECB Policy for investment in debt instruments. In addition, NRIs shall also be eligible to invest in these instruments as per existing policy.
- (iii) An LAB shall comply with the terms and conditions, if any, stipulated by the SEBI / other regulatory authorities in regard to issue of the instruments.

(12) Compliance with reserve requirements

- (i) The funds collected by various branches of the LAB or other banks for the issue and held pending finalisation of allotment of the Upper Tier 2 capital instruments shall be taken into account for the purpose of calculating reserve requirements.
- (ii) The total amount raised by an LAB through Upper Tier 2 instruments shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, shall attract CRR / SLR requirements.

(13) Reporting requirements

An LAB issuing Upper Tier 2 instruments shall submit a report to the Chief General Manager-in-Charge, Department of Regulation of the Reserve Bank giving details of the debt raised, including the terms of issue specified at paragraphs above together with a copy of the offer document soon after the issue is completed.

(14) Investment in Upper Tier 2 instruments issued by other bank / FI

- (i) An LAB's investment in Upper Tier 2 instruments issued by other banks and financial institutions shall be reckoned along with the investment in other instruments eligible for capital status while computing compliance with the overall ceiling of 10 percent for cross holding of capital among banks / FIs prescribed in paragraph 19 of this Chapter.

- (ii) LAB's investments in Upper Tier 2 instruments issued by other bank / FI shall attract risk weight for capital adequacy purposes as prescribed in paragraph 19(4) of this Chapter.

(15) Grant of advances against Upper Tier 2 instruments

An LAB shall not grant advances against the security of the Upper Tier 2 instruments issued by them.

(16) Classification in the balance sheet

An LAB shall indicate the amount raised by issue of Upper Tier 2 instruments by way of explanatory notes / remarks in the balance sheet as well as under the head 'Hybrid debt capital instruments issued as bonds / debentures' under 'Schedule 4 - Borrowings'.

D.2 Criteria for inclusion of PCPS / RNCPS / RCPS in Upper Tier 2 capital

14. The PCPS / RNCPS / RCPS issued by an LAB shall meet the following terms and conditions to qualify for inclusion in Upper Tier 2 capital for capital adequacy purposes.

(1) Characteristics of the instruments

- (i) These instruments can be either perpetual (PCPS) or dated (RNCPS and RCPS) instruments with a fixed maturity of minimum 15 years.
- (ii) The perpetual instruments shall be cumulative. The dated instruments can be cumulative or non-cumulative

(2) Limits

The outstanding amount of these instruments along with other components of Tier 2 capital shall not exceed 100 per cent of Tier 1 capital at any point of time. The above limit shall be based on the amount of Tier 1 capital after deduction of goodwill and other intangible assets but before the deduction of investments.

(3) Amount

The amount to be raised shall be decided by the Board of Directors of an LAB.

(4) Options

- (i) These instruments shall not be issued with a 'put option' or 'step-up option'.

(ii) However, an LAB may issue the instruments with a call option at a particular date subject to strict compliance with each of the following conditions:

- (a) The call option on the instrument is permissible after the instrument has run for at least ten years; and
- (b) Call option shall be exercised only with the prior approval of the Department of Regulation of the Reserve Bank. While considering the proposals received from an LAB for exercising the call option the Reserve Bank shall, among other things, take into consideration the LAB's CRAR position both at the time of exercise of the call option and after exercise of the call option.

(5) Coupon

The coupon payable to the investors shall be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

(6) Payment of coupon

- (i) The coupon payable on these instruments shall be treated as interest and accordingly debited to profit and loss account. However, it shall be payable only if,
 - (a) The LAB's CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank.
 - (b) The impact of such payment does not result in LAB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.
 - (c) The LAB does not have a net loss. For this purpose, 'net loss' is defined as either (i) the accumulated loss at the end of the previous financial year / half year as the case may be; or (ii) the loss incurred during the current financial year.
 - (d) In the case of PCPS and RCPS the unpaid / partly unpaid coupon shall be treated as a liability. The interest amount due and remaining unpaid can be allowed to be paid in later years subject to the LAB complying with the above requirements.

- (e) In the case of RNCPS, deferred coupon shall not be paid in future years, even if adequate profit is available and the level of CRAR conforms to the regulatory minimum. The LAB can however pay a coupon at a rate lesser than the prescribed rate, if adequate profit is available and the level of CRAR conforms to the regulatory minimum.
 - (ii) All instances of non-payment of interest / payment of interest at a lesser rate than prescribed rate shall be notified by the issuing LAB to the Chief General Managers-in-Charge of Department of Regulation and Department of Supervision of the Reserve Bank..
- (7) Redemption / repayment of redeemable preference shares included in Upper Tier 2
 - (i) These instruments shall not be redeemable at the initiative of the holder.
 - (ii) Redemption of these instruments at maturity shall be made only with the prior approval of Department of Regulation of the Reserve Bank , subject inter alia to the following conditions:
 - (a) the LAB's CRAR is above the minimum regulatory requirement prescribed by the Reserve Bank.
 - (b) the impact of such payment does not result in LAB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.

(8) Seniority of claim

The claims of the investors in these instruments shall be senior to the claims of investors in instruments eligible for inclusion in Tier 1 capital and subordinate to the claims of all other creditors including those in Lower Tier 2 and the depositors. Amongst the investors of various instruments included in Upper Tier 2, the claims shall rank *pari-passu* with each other.

(9) Amortisation for the purpose of computing CRAR

The redeemable preference shares (both cumulative and non-cumulative) shall be subjected to a progressive discount for capital adequacy purposes over the last five years of their tenor, as they approach maturity, as indicated in the table below for being eligible for inclusion in Tier 2 capital.

Remaining maturity of instruments	Rate of discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

(10) Other conditions

- (i) These instruments shall be fully paid-up, unsecured, and free of any restrictive clauses.
- (ii) Investment by FIIs and NRIs shall be within an overall limit of 49 per cent and 24 per cent of the issue respectively, subject to the investment by each FII not exceeding 10 per cent of the issue and investment by each NRI not exceeding 5 per cent of the issue. Investment by FIIs in these instruments shall be outside the ECB limit for rupee denominated corporate debt as fixed by Government of India from time to time. However, investment by FIIs in these instruments shall be subject to separate ceiling.
- (iii) An LAB shall comply with the terms and conditions, if any, stipulated by SEBI / other regulatory authorities in regard to issue of the instruments.

(11) Compliance with reserve requirements

- (i) The funds collected by various branches of the LAB or other banks for the issue and held pending finalization of allotment of these instruments shall have to be taken into account for the purpose of calculating reserve requirements.
- (ii) The total amount raised by an LAB through the issue of these instruments shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, shall attract CRR / SLR requirements.

(12) Reporting requirements

An LAB issuing these instruments shall submit a report to the Chief General Manager-in-charge, Department of Regulation of the Reserve Bank giving

details of the debt raised, including the terms of issue together with a copy of the offer document soon after the issue is completed.

(13) Investment in these instruments issued by other banks / FIs

- (i) An LAB's investment in Upper Tier 2 instruments issued by other banks and financial institutions shall be reckoned along with the investment in other instruments eligible for capital status while computing compliance with the overall ceiling of 10 percent for cross holding of capital among banks / FIs prescribed in paragraph 19 of this Chapter.
- (ii) An LAB's investments in these instruments issued by other bank / FI shall attract risk weight for capital adequacy purposes as prescribed in paragraph 19(4) of this Chapter.

(14) Grant of advances against these instruments

An LAB shall not grant advances against the security of these instruments issued by them.

(15) Classification in the balance sheet

These instruments shall be classified as borrowings under 'Schedule 4- Borrowings' of the Balance sheet.

D.3 Criteria for Inclusion of subordinated debt in Lower Tier 2 capital

15. To be eligible for inclusion in Lower Tier 2 capital, terms of issue of the bonds as subordinated debt instruments shall be in conformity with the following:

(1) Amount

The amount of subordinated debt to be raised shall be decided by the Board of Directors of the LAB.

(2) Maturity period

- (i) Subordinated debt instruments with an initial maturity period of less than 5 years, or with a remaining maturity of one year shall not be included as part of Tier 2 capital. These instruments shall be subjected to progressive discount as they approach maturity at the rates shown below:

Remaining maturity of the instruments	Rate of discount
Less than One year	100%

More than One year and less than Two years	80%
More than Two years and less than Three years	60%
More than three years and less than Four Years	40%
More than Four years and less than Five years	20%

- (ii) The bonds shall have a minimum maturity of 5 years. However, if the bonds are issued in the last quarter of the year (between 1st January to 31st March), they shall have a minimum tenure of sixty-three months.

(3) Rate of interest

The coupon rate shall be decided by the Board of Directors of an LAB.

(4) Options

Subordinated debt instruments shall not be issued with a 'put option' or 'step-up option'. However, an LAB can issue the instruments with a call option subject to strict compliance with each of the following conditions:

- (i) Call option shall be exercised after the instrument has run for at least five years; and
- (ii) Call option shall be exercised only with the prior approval of the Department of Regulation of the Reserve Bank . While considering the proposals received from an LAB for exercising the call option the Reserve Bank shall, among other things, take into consideration the bank's CRAR position both at the time of exercise of the call option and after exercise of the call option.

(5) Other conditions

- (i) The instruments shall be fully paid-up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses and shall not be redeemable at the initiative of the holder or without the consent of the Reserve Bank.
- (ii) Necessary permission from Foreign Exchange Department, Central Office, of the Reserve Bank be obtained for issuing the instruments to NRIs / FIIs.
- (iii) An LAB shall comply with the terms and conditions, if any, set by the SEBI / other regulatory authorities in regard to issue of the instruments.

(6) Inclusion in Tier 2 capital

Subordinated debt instruments shall be limited to 50 per cent of Tier 1 capital of the LAB. These instruments, together with other components of Tier 2 capital, shall not exceed 100 per cent of Tier 1 capital.

(7) Grant of advances against bonds

An LAB shall not grant advances against the security of its own bonds.

(8) Compliance with reserve requirements

The total amount of subordinated debt raised by an LAB shall be reckoned as liability for the calculation of net demand and time liabilities for the purpose of reserve requirements and, as such, shall attract CRR / SLR requirements.

(9) Treatment of Investment in subordinated debt

Investments by an LAB in subordinated debt of other banks and FIs shall be reckoned along with the investment in other instruments eligible for capital status while computing compliance with the overall ceiling of 10 per cent prescribed in paragraph 19 of this Chapter. An LAB's investments in subordinated debt issued by other bank shall attract risk weight for capital adequacy purposes, as prescribed in paragraph 19(4) of this Chapter.

(10) Subordinated debt in foreign currency raised by Indian banks

An LAB shall approach the Reserve Bank on a case-to-case basis for issue of subordinated debt in foreign currency.

(11) Subordinated debt to retail investors

An LAB issuing subordinated debt to retail investors shall adhere to the following conditions:

- (i) The requirement for specific sign-off as quoted below from the investors for having understood the features and risks of the instrument shall be incorporated in the common application form of the proposed debt issue.

"By making this application, I / We acknowledge that I / We have understood the terms and conditions of the Issue of [insert the name of the instruments being issued] of [Name of the LAB] as disclosed in the Draft Shelf Prospectus, Shelf Prospectus and Tranche Document".

- (ii) For floating rate instruments, an LAB shall not use its fixed deposit rate as benchmark.
- (iii) All the publicity material, application form and other communication with the investor shall clearly state in bold letters (with font size 14) how a subordinated bond is different from fixed deposit particularly that it is not covered by deposit insurance.

(12) Reporting requirements

An LAB shall submit a report to the Reserve Bank giving details of the capital raised, such as, amount raised, maturity of the instrument, rate of interest together with a copy of the offer document soon after the issue is completed.

(13) Classification in the balance sheet

These instruments shall be classified under 'Schedule 4 – Borrowings' of the balance sheet.

E Deductions from computation of capital funds

Deductions from Tier 1 capital

16. The following deductions shall be made from Tier 1 capital:

- (i) Intangible assets and losses in the current period and those brought forward from previous periods.
- (ii) DTA
- (iii) The net unrealised gains arising on fair valuation of Level 3 financial instruments (including investments and derivatives) recognised in the profit and loss account or in the AFS-Reserve and transferred to Revenue / General Reserve and AFS-Reserve at the time of transition, i.e., April 1, 2024.

Deductions from Tier 1 and Tier 2 capital

17. The following deductions shall be made from Tier 1 and Tier 2 capital:

- (1) The investments of an LAB in the equity as well as non-equity capital instruments issued by a subsidiary, which are reckoned towards its regulatory capital as per norms prescribed by the respective regulator, shall be deducted at 50 per

cent each, from Tier 1 and Tier 2 capital of the parent bank, while assessing the capital adequacy of the bank on standalone basis.

- (2) Contribution by an LAB in the form of subordinated units of any AIF scheme shall be deducted proportionately from both Tier 1 and Tier 2 capital (wherever applicable).

Note - An LAB shall also refer to Reserve Bank of India (Local Area Banks – Miscellaneous) Directions, 2025 in this regard.

- (3) An LAB shall be guided by the Reserve Bank of India (Local Area Banks – Transfer and Distribution of Credit Risk) Directions, 2025, as amended from time to time, for the prudential treatment of unrealised profits arising because of transfer of loans and Security Receipts (SR) guaranteed by the Government of India.
- (4) In terms of Reserve Bank of India (Local Area Banks – Credit Facilities) Directions, 2025, if a bank is the Default Loss Guarantee (DLG) provider, it shall deduct full amount of the DLG, which is outstanding, from its capital

F Limit for Tier 2 elements

18. Tier 2 elements shall be limited to a maximum of 100 per cent of total Tier 1 elements for the purpose of compliance with the capital adequacy norms.

G Norms on cross holdings

19. An LAB shall follow following norms on cross holdings.
 - (1) An LAB's investments in all types of instruments listed at paragraph 19(2) below, which are issued by other banks / financial institutions (FIs) and are eligible for capital status for the investee bank / FI, shall be limited to 10 per cent of the investing LAB's total regulatory capital (Tier 1 plus Tier 2 capital).
 - (2) An LAB's investment in the following instruments shall be included in the prudential limit of 10 per cent referred at paragraph 19(1) above.
 - (i) Equity shares;
 - (ii) Preference shares eligible for capital status;
 - (iii) PDI eligible as Tier 1 capital;
 - (iv) Subordinated debt instruments;

- (v) Debt capital Instruments qualifying for Upper Tier 2 status; and
 - (vi) Any other instrument approved as in the nature of capital.
- (3) A bank / FI shall not acquire any fresh stake in an LAB's equity shares, if by such acquisition, the investing bank's / FI's holding exceeds 10 per cent of the investee LAB's equity capital.
- (4) Investments in the instruments issued by a bank / FI which are listed at paragraph 19(2) above, which are not deducted from capital of the investing LAB, shall attract 100 per cent risk weight for credit risk for capital adequacy purposes.
- (5) An indicative list of institutions which may be deemed to be FI for capital adequacy purposes is as under:
- (i) Banks,
 - (ii) Mutual funds,
 - (iii) Insurance companies,
 - (iv) Non-banking financial companies,
 - (v) Housing finance companies,
 - (vi) Merchant banking companies,
 - (vii) Primary dealers
- (6) The following investments shall be excluded from the purview of the ceiling of 10 per cent prudential norm prescribed in paragraph 19(1) above:
- (i) Investments in equity shares of other banks / FIs in India held under the provisions of a statute.
 - (ii) Strategic investments in equity shares of other banks / FIs incorporated outside India as promoters / significant shareholders (i.e., Foreign Subsidiaries / Joint Ventures / Associates).
 - (iii) Equity holdings outside India in other banks / FIs incorporated outside India.

H Capital for subsidiaries

20. A consolidated bank, defined as a group of entities which include a licensed bank, shall maintain a minimum CRAR as applicable to the parent bank on an ongoing

basis. The parent bank shall consider the following points while computing capital funds:

- (i) An LAB shall maintain a minimum CRAR of 9 per cent. A non-bank subsidiary shall maintain the capital adequacy ratio prescribed by its respective regulators. In case of any shortfall in the capital adequacy ratio of any of the subsidiaries, the parent shall maintain capital in addition to its own regulatory requirements to cover the shortfall.
- (ii) Risks inherent in deconsolidated entities in the group shall be assessed and any shortfall in the regulatory capital in the deconsolidated entities shall be deducted (in equal proportion from Tier 1 and Tier 2 capital) from the consolidated bank's capital in the proportion of its equity stake in the entity.

Chapter III

Calculation of risk weighted assets (RWAs)

A Capital charge for credit risk

21. An LAB shall manage the credit risks in its books on an ongoing basis. The applicable risk weights for calculation of RWAs for credit risk are as under.

(1) Risk weights for calculation of capital charge for credit risk for on balance sheet items

Sr. No.	Item	Risk Weight %
I	Balances	
1.	Cash and balances with the Reserve Bank	0
2.	i. Balances in current accounts with other bank	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 <i>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 a bank shall assign 100 per cent risk weight. However, the bank 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.</i>	0
3.	Investments in other securities where payment of interest and repayment of principal are guaranteed by Central Government (this shall 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 Government)	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 Government.	20
6.	Investments in the Government guaranteed securities of Government Undertakings which do not form part of the approved market borrowing programme.	20
7.	Claims on commercial bank	20
8.	Investments in bonds issued by other bank	20
9.	Investments in securities which are guaranteed by bank as to payment of interest and repayment of principal.	20
10.	Investments in subordinated debt instruments and bonds issued by other bank or Public Financial Institutions (PFI) for their Tier 2 capital.	100

Sr. No.	Item	Risk Weight %
11.	Deposits placed with SIDBI / NABARD / NHB/ MUDRA Ltd. 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 and conditions furnished in paragraph 21(9)).	50
13.	Investment in MBS which are backed by housing loan qualifying for 50 per cent risk weight.	50
14.	Investment in securitised paper pertaining to an infrastructure facility (subject to satisfying terms and conditions given in paragraph 21(10).	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 PFI. <i>Note</i> - Equity investments in subsidiaries, intangible assets and losses deducted from Tier 1 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 MBS and other securitised exposures to Commercial Real Estate	150
19.	Investments in Venture Capital Funds	150
20.	Investments in securities issued by SPV (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 bank	100
23.	Investments in instruments issued by NBFC wherever allowed	100
III	Loans and Advances including bills purchased and discounted and other credit facilities	
1.	Loans guaranteed by Government of India <i>Note</i> - 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 Government <i>Note</i> - If the loans guaranteed by State Government 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 Government of India	100
4.	Loans granted to public sector undertakings of State Government	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

Sr. No.	Item	Risk Weight %
(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.	
	Government	0
	Bank	20
	Others	100
6.	Others including public financial institutions (PFI)	100
7.	Leased assets	100
8.	Advances covered by DICGC / ECGC Note - The risk weight of 50 per cent 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 per cent 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 the paragraph 21(2) of this chapter.	0
10.	Advances against term deposits, Life policies, NSCs, IVPs and KVPs where adequate margin is available.	0
11.	Loans and Advances granted to staff of banks which are fully covered by superannuation benefits and mortgage of flat / house.	20
12.	Category of Loan	LTV Ratio (%)
	(a) Individual Housing Loans	
	(i) Up to ₹20 lakh	90
	(ii) Above ₹20 lakh and up to ₹75 lakh	80
	(iii) Above ₹75 lakh	75
	(b) Commercial Real Estate – Residential Housing (CRE-RH) [@]	75
	(c) Commercial Real Estate (CRE)*	100
13.	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 counterparty.	0
14.	Consumer credit including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery	125
15.	Credit card receivables	125
16.	Educational loans	100

Sr. No.	Item	Risk Weight %
17.	Loans up to ₹1 lakh against gold and silver ornaments	50
18.	Takeout finance	
	(i) Unconditional takeover (in the books of lending institution)	20
	(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	20
	(ii) The amount not to be taken over	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.	Funded liquidity facility for securitisation of standard asset transactions	100
21.	NPA purchased from other banks	100
22.	Loans and Advances to NBFC wherever allowed	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 the Reserve Bank on account of Government transactions (net of claims of the Government / Reserve Bank on banks on account of such transactions)	0
3.	All other assets [#]	100

Notes:

*An exposure may be 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 the Reserve Bank or by the LAB 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 shall be applicable for the exposure.

@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 per cent 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 per cent, the project loans shall be classified as CRE and not CRE-RH. An LAB's exposure to third dwelling unit onwards to an individual shall also be treated as CRE exposures.

The exposures to central counterparties (CCPs) on account of derivatives trading and securities financing transactions (e.g., repos) outstanding against them, shall 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. The deposits / collaterals kept by an LAB with the CCPs shall attract risk weights appropriate to the nature of the CCP. In the case of the Clearing Corporation of India Limited (CCIL), the risk weight shall be 20 per cent.

(2) Illustration on risk weights on MSE advances guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

Example 1

CGTMSE Cover: 75 per cent of the amount outstanding or 75 per cent 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 counterparty

Risk-weight on (d) - Zero

Example 2

CGTMSE cover: 75 per cent of the amount outstanding or 75 per cent of the unsecured amount or ₹18.75 lakh whichever is less. Realisable value of security is ₹10.00 lakh.

(a) Balance outstanding	: ₹40.00 lakh
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(b) Realisable value of security	: ₹10 lakh
(c) Unsecured amount (a) - (b)	: ₹30 lakh
(d) Guaranteed portion (max)	: ₹18.75 lakh
(e) Uncovered portion (30 lakh – 18.5 lakh)	: ₹11.25 lakh

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

Risk-weight on (d) - Zero

(3) Credit conversion factor for 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 (CCF)' as indicated in the table below. This shall then have to be again multiplied by the risk weights attributable to the relevant counterparty as specified in paragraph 21(1) above.

Sr. No.	Instruments	CCF
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 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 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 up to one year, or which can be unconditionally cancelled at any time.	0
9.	Aggregate outstanding foreign exchange contracts of original maturity -	
	(i) less than one year	2
	(ii) 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 per cent 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 securitisation of standard asset transactions	100
14	Second loss credit enhancement for securitisation of standard asset transactions provided by third party	100
15	Non-funded exposure to NBFC wherever allowed	100

Note -

- (i) In regard to off-balance sheet items, the following transactions with non-bank counterparties shall be treated as claims on banks and carry a risk-weight of 20 per cent.
 - (ii) Guarantees issued by an LAB against the counter guarantees of other banks.
 - (iii) Rediscounting of documentary bills accepted by banks. Bills discounted by an LAB which have been accepted by another bank shall be treated as a funded claim on a bank.
 - (iv) In all the above cases an LAB should be fully satisfied that the risk exposure is in fact on the other bank.
- (4) While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, an LAB shall 'net-off' against the total outstanding exposure of the borrower.
- (i) advances collateralised by cash margins or deposits;
 - (ii) credit balances in current or other accounts which are not earmarked for specific purposes and free from any lien;
 - (iii) Provisions for depreciation or for bad debts made in respect of any assets;
 - (iv) claims received from DICGC / ECGC and kept in a separate account pending adjustment; and

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

(5) 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

(6) Risk weights for forward rate agreement (FRA) / interest rate swap (IRS) and foreign exchange contracts

- (i) Foreign exchange contracts include - cross currency swaps, forward foreign exchange contracts, currency futures and other contracts of a similar nature.
- (ii) 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 21(8) are in place, this exemption to foreign exchange contracts with an original maturity of 14 calendar days or less shall not be applicable.
- (iii) For reckoning the minimum capital ratio, the computation of RWA 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 21(8) are in place, the conversion factors, as mentioned in the table below, shall be applicable:

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

Note - 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) shall 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.

(b) Step 2:

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

Counter party	Risk weight
Banks	20 per cent
Central and State Government	0 per cent
All others	100 per cent

Unhedged foreign currency exposures

- (7) Exposures to entities with unhedged foreign currency exposures shall attract incremental capital requirements (i.e., over and above the present capital requirements) as under

Potential Loss / EBID (%)	Incremental Capital Requirement
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Up to 75 per cent	0
More than 75 per cent	25 percentage point increase in the risk weight (For example: for an entity which otherwise attracts a risk weight of 50 per cent, the applicable risk weight shall become 75 per cent)

Note - An LAB shall refer to the Reserve Bank of India (Local Area Banks – Credit Risk Management) Directions, 2025 for guidelines related to unhedged foreign currency exposure.

(8) Requirement for recognition of bilateral netting contract

- (i) An LAB may net transactions subject to novation under which any obligation between an LAB 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.
- (ii) An LAB may also net transactions subject to any legally valid form of bilateral netting not covered in (1), including other forms of novation.
- (iii) In both cases (i) and (ii), an LAB shall need to satisfy that it has:
 - (a) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the LAB shall 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.
 - (b) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities shall find the LAB's exposure to be such a net amount under:
 - (i) 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;
 - (ii) The law that governs the individual transactions; and

- (iii) The law that governs any contract or agreement necessary to effect the netting.
 - (c) 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.
 - (iv) Contracts containing walkaway clauses shall 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.
- (9) Terms and conditions for the purpose of liberal risk weight for capital adequacy for investments in MBS of residential assets of HFC
 - (i) The right, title and interest of an HFC in securitised housing loans and receivables there under shall irrevocably be assigned in favour of a Special Purpose Vehicle (SPV) / trust.
 - (ii) Mortgaged securities underlying the securitised housing loans shall be held exclusively on behalf of and for the benefit of the investors by the SPV / trust.
 - (iii) 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:
 - (a) shall not own any share capital in the SPV or be the beneficiary of the trust used as a vehicle for the purchase and securitisation of assets. Share capital for this purpose shall include all classes of common and preferred share capital;
 - (b) shall not name the SPV in such manner as to imply any connection with the bank;

- (c) 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 shall not have veto powers;
 - (d) shall not directly or indirectly control the SPV; or
 - (e) shall not support any losses arising from the securitisation transaction or by investors involved in it or bear any of the recurring expenses of the transaction.
- (iv) The loans to be securitised 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.
 - (v) The loans to be securitised shall be accorded an investment grade credit rating by any of the credit rating agencies at the time of assignment to the SPV.
 - (vi) 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.
 - (vii) 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.
 - (viii) The SPV or Trustees appointed to manage the issue of MBS shall have to be governed by the provisions of Indian Trusts Act, 1882.
 - (ix) If the issue of MBS is in accordance with the terms and conditions stated in paragraph 21(9)(i) to 21(9)(viii) and includes irrevocable transfer of risk and reward of the housing loan assets to the SPV / trust, investment in such MBS by any bank shall not be reckoned as an exposure on the HFC originating the securitised housing loan. However, it shall be treated as an exposure on the underlying assets of the SPV / trust.
- (10) Conditions for availing concessional risk weight on investment in securitised paper pertaining to an infrastructure facility

- (i) The infrastructure facility shall satisfy the conditions stipulated in our circular Reserve Bank of India (Local Area Banks – Credit Facilities) Directions, 2025.
- (ii) The infrastructure facility shall be generating income / cash flows which shall ensure servicing / repayment of the securitised paper.
- (iii) The securitised paper shall be rated at least 'AAA' by the rating agencies and the rating shall 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 shall 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.

B Capital charge for market risk

Scope and coverage of capital charge for market risks

22. 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. Instruments under banking book shall attract corresponding capital charge for credit risk (or counterparty credit risk, where applicable).

Note - At present, an LAB is not permitted to carry out activities involving foreign exchange or derivative positions. However, as and when these activities are allowed, the relevant instructions shall become applicable to it.

23. An LAB shall manage the market risks in its books on an ongoing basis. An LAB shall also maintain strict risk management systems to monitor and control intra-day exposures to market risks.

Measurement of capital charge for interest rate risk in trading book other than derivatives

24. The capital charge for interest rate related instruments shall apply to the fair value of these items in the LAB's trading book. The fair value shall be determined as per the Reserve Bank of India (Local Area Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025. The minimum capital requirement is expressed in terms of following two separate capital charges.

- (i) Specific risk charge for each security, both for short and long positions
- (ii) General market risk charge towards interest rate risk in the portfolio where long and short positions in different securities or instruments can be offset.

In India short position is not allowed except in case of derivatives and Central Government securities. An LAB shall follow the framework specified hereunder for capital charge for both specific risk and general market risk for interest rate risk in the trading book other than derivatives.

Specific risk

25. The capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer. The specific risk charge is graduated for various exposures under three heads: (i) claims on Government, (ii) claims on banks, (iii) claims on others as under.

Sr. No.	Nature of investment	Maturity	Specific risk capital charge (as % of exposure)
	Claims on Government		
1.	Government Securities.	All	0.0
2.	Other approved securities guaranteed by Central / State Government.	All	0.0
3.	Other securities where payment of interest and repayment of principal are guaranteed by Central Govt. (This shall 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.)	All	0.0

Sr. No.	Nature of investment	Maturity	Specific risk capital charge (as % of exposure)
4.	Other securities where payment of interest and repayment of principal are guaranteed by State Governments.	All	0.0
5.	Other approved securities where payment of interest and repayment of principal are not guaranteed by Central / State Govt.	All	1.80
6.	Government guaranteed securities of Government Undertakings which do not form part of the approved market borrowing programme.	All	1.80
7.	State government guaranteed securities included under items 2, 4 and 6 above where the investment is non-performing. However, the banks need to maintain capital at 9.0% 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.	All	9.00
	Claims on Banks		
8.	Claims on banks, including investments in securities which are guaranteed by banks as to payment of interest and repayment of principal	For residual term to final maturity 6 months or less	0.30
		For residual term to final maturity between 6 and 24 months	1.125
		For residual term to final maturity exceeding 24 months	1.80
9.	Subordinated debt instruments and bonds issued by other banks for their Tier 2 capital.	All	9.00
	Claims on Others		
10.	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 and conditions given in paragraph 21(9))	All	4.50
11.	MBS which are backed by housing loan qualifying for 50% risk weight.	All	4.50
12.	Securitised paper pertaining to an infrastructure facility	All	4.50
13.	All other investments including investment in securities issued by SPVs set up for securitisation transactions.	All	9.00
14.	Direct investments in equity shares, convertible bonds, debentures and units of equity oriented mutual funds	All	11.25

Sr. No.	Nature of investment	Maturity	Specific risk capital charge (as % of exposure)
	including those exempted from Capital Market Exposure norms.		
15.	MBS and other securitised exposures to Commercial Real Estate	All	13.5
16.	Venture Capital Funds	All	13.5
17.	Instruments issued by NBFC wherever allowed	All	9.00
18.	Security Receipts issued by Securitisation Company / Asset Reconstruction Company	All	13.5

The category 'Claim on Government' shall include all forms of Government securities including dated Government securities, Treasury bills and other short-term investments and instruments where repayment of both principal and interest are fully guaranteed by the Government. The category 'Claims on others' shall include issuers of securities other than Government and banks.

General market risk

26. The capital charge for general market risk shall be calculated as under.

- (1) The capital charge for general market risk is designed to capture the risk of loss arising from changes in market interest rates. The capital charge shall be the sum of the following three components.
 - (i) the net short (short position is not allowed in India except in derivatives and Central Government Securities) or long position in the whole trading book;
 - (ii) a small proportion of the matched positions in each time-band (the 'vertical disallowance'); and
 - (iii) a larger proportion of the matched positions across different time-bands (the 'horizontal disallowance').
- (2) An LAB shall adopt the standardised duration method for computation of capital charge for market risk. The LAB shall measure the general market risk charge by calculating the price sensitivity (modified duration) of each position separately. Under this method, the mechanics shall be as follows:

- (i) first calculate the price sensitivity (modified duration) of each instrument;
- (ii) next apply the assumed change in yield to the modified duration of each instrument between 0.6 and 1.0 percentage points depending on the maturity of the instrument as specified in Table A;
- (iii) slot the resulting capital charge measures into a maturity ladder with the fifteen-time bands as specified in Table A;
- (iv) subject long and short positions in each time band to a 5 per cent vertical disallowance designed to capture basis risk; and
- (v) carry forward the net positions in each time-band for horizontal offsetting subject to the disallowances specified in Table B.

Duration method

Table A- (Time bands and assumed changes in yield)

Time bands	Assumed change in yield
Zone 1	
1 month or less	1.00
1 to 3 months	1.00
3 to 6 months	1.00
6 to 12 months	1.00
Zone 2	
1.0 to 1.9 years	0.90
1.9 to 2.8 years	0.80
2.8 to 3.6 years	0.75
Zone 3	
3.6 to 4.3 years	0.75
4.3 to 5.7 years	0.70
5.7 to 7.3 years	0.65
7.3 to 9.3 years	0.60
9.3 to 10.6 years	0.60
10.6 to 12 years	0.60
12 to 20 years	0.60
over 20 years	0.60

Table B - Horizontal disallowances

Zones	Time band	Within the zones	Between adjacent zones	Between zones 1 and 3	
Zone 1	1 month or less	40%	40%	100%	
	1 to 3 months				
	3 to 6 months				
	6 to 12 months				
Zone 2	1.0 to 1.9 years	30%			40%
	1.9 to 2.8 years				
	2.8 to 3.6 years				40%
Zone 3	3.6 to 4.3 years	30%			
	4.3 to 5.7 years				
	5.7 to 7.3 years				
	7.3 to 9.3 years				
	9.3 to 10.6 years				
	10.6 to 12 years				
	12 to 20 years				
	over 20 years				

Note - Capital charges shall be calculated for each currency separately and then summed with no offsetting between positions of opposite sign. In the case of those currencies in which business is insignificant (where the turnover in the respective currency is less than 5 per cent of overall foreign exchange turnover), separate calculations for each currency are not required. The LAB can, instead, slot within each appropriate time-band, the net long or short position for each currency. However, these individual net positions shall be summed within each time-band, irrespective of whether they are long or short positions, to produce a gross position figure. In the case of residual currencies, the gross positions in each time-band shall be subject to the assumed change in yield set out in Table A above with no further offsets.

C Capital charge for interest rate derivatives

27. The measurement of capital charge for market risk shall include all interest rate derivatives and off-balance sheet instruments in the trading book, which react to changes in interest rates (e.g., forward rate agreements, other forward

contracts, etc.) and derivatives entered into for hedging trading book exposures. The details of measurement of capital charge for interest rate derivatives are outlined in the following paragraphs.

Measurement system in respect of interest rate derivatives

(1) Calculation of positions

The derivatives shall be converted into positions in the relevant underlying and be subjected to specific and general market risk charges. In computation of the capital charge, the amounts reported shall be the market value of the principal amount of the underlying or of the notional underlying. For instruments where the apparent notional amount differs from the effective notional amount, an LAB shall use the effective notional amount.

- (i) Futures and forward contracts including FRA: These instruments shall be treated as a combination of a long and a short position in a notional government security. The maturity of a future or an FRA shall be the period until delivery or exercise of the contract, plus - where applicable - the life of the underlying instrument. For example, a long position in a June three-month interest rate future (taken in April) shall be reported as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months. Where a range of deliverable instruments may be delivered to fulfill the contract, a bank has flexibility to elect which deliverable security goes into the duration ladder but shall take account of any conversion factor defined by the exchange.
- (ii) Swaps: Swaps shall be treated as two notional positions in government securities with relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed shall be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap. For swaps that pay or receive a fixed or floating interest rate against some other reference price, e.g., a stock index, the interest rate component shall be slotted into the appropriate re-pricing maturity category,

with the equity component being included in the equity framework. Separate legs of cross-currency swaps shall be reported in the relevant maturity ladders for the currencies concerned.

(2) Calculation of capital charges for derivatives under the standardised methodology

(i) Allowable offsetting of matched positions

(a) An LAB shall exclude the following from the interest rate maturity framework altogether (for both specific and general market risk).

(i) Long and short positions (both actual and notional) in identical instruments with exactly the same issuer, coupon, currency and maturity.

(ii) A matched position in a future or forward and its corresponding underlying shall also be fully offset (the leg representing the time to expiry of the future shall however be reported) and thus excluded from the calculation.

(b) When the future or the forward comprises a range of deliverable instruments, offsetting of positions in the future or forward contract and its underlying is only permissible in cases where there is a readily identifiable underlying security which is most profitable for the trader with a short position to deliver. The price of this security, sometimes called the 'cheapest-to-deliver', and the price of the future or forward contract shall in such cases move in close alignment.

(c) No offsetting shall be allowed between positions in different currencies; the separate legs of cross-currency swaps or forward foreign exchange deals shall be treated as notional positions in the relevant instruments and included in the appropriate calculation for each currency.

(d) In addition, opposite positions in the same category of instruments can in certain circumstances be regarded as matched and allowed to offset fully. To qualify for this treatment the positions shall relate to

the same underlying instruments, be of the same nominal value and be denominated in the same currency. In addition:

- (i) for futures: offsetting positions in the notional or underlying instruments to which the futures contract relates shall be for identical products and mature within seven days of each other;
- (ii) for swaps and FRAs: the reference rate (for floating rate positions) shall be identical and the coupon closely matched (i.e., within 15 basis points); and
- (iii) for swaps, FRAs and forwards: the next interest fixing date or, for fixed coupon positions or forwards, the residual maturity shall correspond within the following limits:
 - (a) less than one month hence: same day;
 - (b) between one month and one year hence: within seven days;
 - (c) over one year hence: within thirty days.
- (e) An LAB with large swap books can use alternative formulae for these swaps to calculate the positions to be included in the duration ladder. The method shall be to calculate the sensitivity of the net present value implied by the change in yield used in the duration method and allocate these sensitivities into the time-bands specified in Table A above.

(ii) Specific risk

Interest rate and currency swaps, FRAs, forward foreign exchange contracts and interest rate futures shall not be subject to a specific risk charge. This exemption also applies to futures on an interest rate index. However, in the case of futures contracts where the underlying is a debt security, or an index representing a basket of debt securities, a specific risk charge shall apply according to the credit risk of the issuer.

(iii) General market risk

General market risk applies to positions in all derivative products in the same manner as for cash positions, subject only to an exemption for fully or very closely matched positions in identical instruments as defined in paragraphs above. The various categories of instruments shall be slotted into the maturity ladder and treated according to the rules identified earlier.

Table - Summary of treatment of interest rate derivatives

Instrument	Specific risk charge	General Market risk charge
Exchange-traded future - Government debt security - Corporate debt security - Index on interest rates (e.g., MIBOR)	No Yes No	Yes, as two positions Yes, as two positions Yes, as two positions
OTC forward - Government debt security - Corporate debt security - Index on interest rates (e.g., MIBOR)	No Yes No	Yes, as two positions Yes, as two positions Yes, as two positions
FRAs, Swaps	No	Yes, as two positions
Forward Foreign Exchange	No	Yes, as one position in each currency

Measurement of capital charge for equities in the trading book

28. The capital charge for equities in trading book shall be calculated as under.

- (1) Capital charge for equities in the trading book shall be applied to all instruments that exhibit market behaviour 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 fair value of these items in the LAB's trading book.
- (2) Capital charge for specific risk (akin to credit risk) shall be 11.25 per cent. Specific risk shall be computed on the LAB's gross equity positions (the sum of all long equity positions and of all short equity positions. Short equity position is, however, not allowed for a bank in India). The general market risk charge shall be 9 per cent on the gross equity positions.

- (3) Investments in shares and units of venture capital funds (VCFs) shall be assigned 150 per cent risk weight for measuring the credit risk when these are held under banking book. When these are held under or transferred to trading book, the capital charge for a specific risk component of the market risk shall be fixed at 13.5 per cent to reflect the risk weight of 150 per cent. The charge for general market risk component shall be at 9 per cent as in the case of other equities.

Measurement of capital charge for foreign exchange and gold open positions

29. Foreign exchange open positions and gold open positions shall be risk weighted at 100 per cent. Capital charge for foreign exchange and gold open positions (limits or actual whichever is higher) shall attract capital charge at 9 per cent.

Aggregation of capital charge for market risks

30. The capital charges for specific risk and general market risk shall be computed separately before aggregation. For computing the total capital charge for market risks, the calculations shall be plotted in the proforma as per the Table below.

Total capital charge for market risk

(₹ crore)	
Risk Category	Capital charge
I. Interest rate (a+b)	
a. General market risk	
i. Net position (parallel shift)	
ii. Horizontal disallowance (curvature)	
iii. Vertical disallowance (basis)	
b. Specific risk	
II. Equity (a+b)	
a. General market risk	
b. Specific risk	
III. Foreign exchange and gold	
IV. Total capital charge for market risks (I+II+III)	

Computation of capital available for market risk

31. Capital required for supporting credit risk shall be deducted from total capital funds to arrive at capital available for supporting market risk as illustrated below.

(₹ in crore)			
1	Capital funds		105
	Tier 1 capital	55	
	Tier 2 capital	50	
2	Total risk weighted assets		1140
	RWA for credit risk	1000	
	RWA for market risk	140	
3	Total CRAR		9.21
4	Minimum capital required to support credit risk (1000*9%)		90
	Tier 1 - 45 (@ 4.5% of 1000)	45	
	Tier 2 - 45 (@ 4.5% of 1000)	45	
5	Capital available to support market risk (105 - 90)		15
	Tier 1 - (55 - 45)	10	
	Tier 2 - (50 - 45)	5	

D Calculation of total risk weighted assets (RWAs) and capital ratio

32. The following steps shall be followed for calculation of total RWA and capital ratio:
- Compute the RWAs for credit risk in the banking book and for counterparty credit risk on all OTC derivatives.
 - Convert the capital charge for market risk to notional risk weighted assets by multiplying the capital charge arrived at in Table under paragraph 30 above, by $100 \div 9$ [the present requirement of CRAR is 9 per cent and hence notional risk weighted assets are arrived at by multiplying the capital charge by $(100 \div 9)$]
 - Add the RWAs for credit risk as at (i) above and notional risk-weighted assets of trading book as at (ii) above to arrive at total risk weighted assets for the bank.

- (iv) Compute capital ratio on the basis of regulatory capital maintained and RWAs.

33. Two examples for computing capital charge for market risk and credit risk are as under.

- (1) Example 1: Case where the trading book does not contain equities and interest rate related derivative instruments

Assumptions:

- (i) An LAB may have the following position:

Sl. No.	Details	Amount (in ₹ Crore)
1	Cash and Balances with the Reserve Bank	200.00
2	Bank balances	200.00
3	Investments	2000.00
	3.1 Trading book	1500.00
	3.2 Banking book	500.00
4	Advances (net)	2000.00
5	Other Assets	300.00
6	Total Assets	4700.00

- (ii) In terms of counterparty, the investments are assumed to be as under.

Government - ₹1000 crore

Banks - ₹500 crore

Others - ₹500 crore

For simplicity, the details of investments are assumed to be as under:

- (a) Government Securities:

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	Trading Book
01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
01/03/2013	31/03/2021	01/03/2033	100	12.00	Trading Book
01/03/2016	31/03/2021	01/03/2028	100	11.50	Trading Book
01/03/2017	31/03/2021	01/03/2027	100	11.00	Trading Book
01/03/2018	31/03/2021	01/03/2023	100	10.50	Trading Book

Date of Issue	Date of reporting	Maturity Date	Amount (₹ in crore)	Coupon (%)	Type
01/03/2019	31/03/2021	01/03/2024	100	10.00	Banking Book
01/03/2020	31/03/2021	01/03/2030	100	8.00	Banking Book
01/03/2021	31/03/2021	01/03/2041	100	6.50	Banking Book
Total			1000		

(b) Bank bonds:

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	Trading Book
01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
01/03/2013	31/03/2021	01/03/2024	100	12.50	Trading Book
01/03/2016	31/03/2021	01/03/2025	100	11.50	Trading Book
Total			500		

(c) Other securities

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	Trading Book
01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
01/03/2013	31/03/2021	01/03/2024	100	12.50	Banking Book
01/03/2016	31/03/2021	01/03/2035	100	11.50	Banking Book
Total			500		

(d) Overall position

	Break-up of total investments (₹ in crore)			
	Government Securities	Bank bonds	Other securities	Total
Trading Book	700	500	300	1500
Banking Book	300	0	200	500
Total	1000	500	500	2000

(iii) Computation of RWA

(a) RWA for credit Risk

While computing the RWA for credit risk, the securities held under trading book shall be excluded and hence the RWA for credit risks shall be as under.

Sr. No.	Details of Assets	Market Value*	Risk Weight (%)	RWA
1	Cash and balances with the Reserve Bank	200	0	0
2	Bank balances	200	20	40
3	Investments:			

Sr. No.	Details of Assets	Market Value*	Risk Weight (%)	RWA
	Government	300	0	0
	Banks	0	20	0
	Others	200	100	200
4	Advances (net)	2000	100	2000
5	Other Assets	300	100	300
6	Total Assets	3200		2540

*Assumed as market value for illustration.

(b) RWA for market risk (Trading Book) [Please refer to table in paragraph 33(1)(ii)(d) of this example]

Specific risk

(i) Government securities: ₹700 crore - NIL

(ii) Bank bonds:

(Amount in ₹ crore)

Details	Capital charge	Amount	Capital charge
For residual term to final maturity 6 months or less	0.30%	200	0.60
For residual term to final maturity between 6 and 24 months	1.125%	100	1.125
For residual term to final maturity exceeding 24 months	1.80%	200	3.60
Total		500	5.325

(iii) Other securities: ₹300 crore @ 9% = ₹27 crore

(iv) Total charge for specific risk (i)+(ii)+(iii) = ₹0 crore+ ₹5.325 crore + ₹27 crore
= ₹32.325 crore

Therefore, capital charge for specific risk in trading book is ₹32.33 crore.

General market risk

(iv) Modified Duration is used to arrive at the price sensitivity of an interest rate related instrument. For all the securities listed below, date of reporting is taken as 31 / 3 / 2021.

(Amount in ₹ crore)

Counter Party	Maturity Date	Amount (market value)	Coupon (%)	Capital Charge For general market risk
Government	01/03/2022	100	12.50	0.84
Government	01/05/2021	100	12.00	0.08
Government	31/05/2021	100	12.00	0.16
Government	01/03/2033	100	12.50	3.63
Government	01/03/2028	100	11.50	2.79
Government	01/03/2027	100	11.00	2.75
Government	01/03/2023	100	10.50	1.35
Banks	01/03/2022	100	12.50	0.84
Banks	01/05/2021	100	12.00	0.08
Banks	31/05/2021	100	12.00	0.16
Banks	01/03/2024	100	12.50	1.77
Banks	01/03/2025	100	11.50	2.29
Others	01/03/2022	100	12.50	0.84
Others	01/05/2021	100	12.00	0.08
Others	31/05/2021	100	12.00	0.16
Total		1500		17.82

(v) Total charge for market risk

The total charge for the trading book of interest rate related instruments shall be sum of the capital charges for specific risk and general market risk. Therefore, capital charge for market risks = ₹32.33 crore + ₹17.82 crore, i.e., ₹50.15 crore. The capital charge shall be converted into equivalent RWA by multiplying it with $(100 \div 9)$ [as for an LAB, the minimum CRAR is 9 per cent]. Thus, RWAs for market risk shall be $50.15 \times (100 \div 9) = ₹557.23$ crore.

(vi) Computing the capital ratio

(Amount in ₹ crore)

1	Total Capital	400
2	RWA for Credit Risk	2540.00
3	RWA for Market Risk	557.23
4	Total RWA (2+3)	3097.23
5	CRAR $[(1 \div 4) \times 100]$	12.91%

- (2) Example 2: Indicating computation of capital charge for credit and market risks - with equities and interest rate related derivative instruments. Foreign exchange and gold open positions also have been assumed.

Assumptions

- (i) An LAB may have the following position:

Sr. No.	Details	₹ in Crore
1	Cash and balances with the Reserve Bank	200.00
2	Bank balances	200.00
3	Investments	
	3.1 Interest Rate related Securities	
	Trading Book	1500.00
	Banking Book	500.00
	3.2 Equities – Trading Book	300.00
4	Advances (net)	2000.00
5	Other Assets	300.00
6	Total Assets	5000.00

- (ii) Foreign exchange open position limit is assumed as ₹60 crore and gold open position is assumed at ₹40 crore. It is also assumed that the LAB is having the following positions in interest rate related derivatives:

- (a) Interest Rate Swaps (IRS), ₹100 crore – bank received floating rate interest and pays fixed, next interest fixing after 6 months, residual life of swap 8 years, and
- (b) Long position in interest rate future (IRF), ₹50 crore, delivery after 6 months, life of underlying government security 3.5 years.

- (iii) In terms of counterparty the investments are assumed to be as under:

a) Interest rate related securities	
Government	₹1000 crore
Banks	₹500 crore
Corporate Bonds	₹500 crore
b) Equities	
Others	₹300 crore

- (iv) For interest rate swaps and interest rate futures the counterparties are assumed to be corporates.

(v) For simplicity, following assumptions are made regarding investments in interest rate related securities:

(a) Government securities

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	Trading Book
01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
01/03/2013	31/03/2021	01/03/2033	100	12.50	Trading Book
01/03/2016	31/03/2021	01/03/2028	100	11.50	Trading Book
01/03/2017	31/03/2021	01/03/2027	100	11.00	Trading Book
01/03/2018	31/03/2021	01/03/2023	100	10.50	Trading Book
01/03/2019	31/03/2021	01/03/2024	100	10.00	Banking Book
01/03/2020	31/03/2021	01/03/2030	100	8.00	Banking Book
01/03/2021	31/03/2021	01/03/2041	100	6.50	Banking Book
Total			1000		

(b) Bank bonds

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	Trading Book
01/05/2011	31/03/2021	01/05/2021	100	12.00	Trading Book
01/03/2012	31/03/2021	31/05/2021	100	12.00	Trading Book
01/03/2013	31/03/2021	01/03/2024	100	12.50	Trading Book
01/03/2016	31/03/2021	01/03/2025	100	11.50	Trading Book
Total			500		

(c) Other securities

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	Trading Book
01/05/2021	31/03/2021	01/05/2021	100	12.00	Trading Book
01/03/2022	31/03/2021	31/05/2021	100	12.00	Trading Book
01/03/2013	31/03/2021	01/03/2024	100	12.50	Banking Book
01/03/2016	31/03/2021	01/03/2035	100	11.50	Banking Book
Total			500		

(d) Overall position

	Break-up of total investments (₹ in crore)					
	Interest rate related instruments				Equity	Grand Total
	Government Securities	Bank bonds	Other securities	Total		
Trading Book	700	500	300	1500	300	1800
Banking Book	300	0	200	500	0	500
Grand Total	1000	500	500	2000	300	2300

(vi) Computation of RWA

(a) RWAs for credit risk

The derivative products held by an LAB are assumed to be part of trading book. Open position on foreign exchange and gold also shall be considered for market risk. While computing the capital charge for credit risk, the securities held under trading book shall be excluded and hence the credit risk-based risk-weights shall be as under:

(Amount in ₹ crore)			
Details of assets	Book value	Risk weight	RWA
Cash and balance with the Reserve Bank	200	0%	0
Bank balances	200	20%	40
Investments in	300	0%	0
(Banking Book)	0	20%	0
Government	200	100%	200
Banks			
Corporate Bonds			
Advances (net)	2000	100%	2000
Other Assets	300	100%	300
Total	3200		2540
Credit Risk for OTC Derivatives:			
IRS	100 (Credit conversion factor - 1% + 1% per year)	100%	8.00
IRF	50 (Credit conversion factor for maturities less than one year – 0.5%)	100%	0.25

Details of assets	Book value	Risk weight	RWA
Total	3350		2548.25

(b) RWA for market risk [Please refer to table in paragraph 33(2)(v)(d) of this example]

(i) Specific risk

Investments in interest rate related instruments:

(a) Government securities - ₹700 crore - NIL

(b) Bank bonds

(Amount in ₹ crore)

Details	Capital charge	Amount	Capital Charge
For residual term to final maturity 6 months or less	0.30%	200	0.600
For residual term to final maturity between 6 and 24 months	1.125%	100	1.125
For residual term to final maturity exceeding 24 months	1.80%	200	3.600
Total		500	5.325

(c) Others ₹300 crore @ 9% = ₹27 crore

(d) Total: (a) + (b) + (c) = ₹0 crore+ ₹5.325 crore+ ₹27 crore = ₹32.325 crore

(e) Equities – capital charge of 9% = ₹27 crore

(f) Total specific charge (d+e) = ₹32.325 crore + ₹27 crore = ₹59.33

Therefore, capital charge for specific risk in the trading book is ₹59.33 crore (₹32.33 crore + ₹27 crore).

(ii) General market risk

(a) Investments in interest rate related instruments:

Modified Duration is used to arrive at the price sensitivity of an interest rate related instrument. For all the securities listed below, date of reporting is taken as 31 / 3 / 2021.

(Amount in ₹ crore)

Counter Party	Maturity Date	Amount market value	Coupon (%)	Capital Charge for general market risk
Government	01/03/2022	100	12.50	0.84
Government	01/05/2021	100	12.00	0.08
Government	31/05/2021	100	12.00	0.16
Government	01/03/2033	100	12.50	3.63
Government	01/03/2028	100	11.50	2.79
Government	01/03/2027	100	11.00	2.75
Government	01/03/2023	100	10.50	1.35
Banks	01/03/2022	100	12.50	0.84
Banks	01/05/2021	100	12.00	0.08
Banks	31/05/2021	100	12.00	0.16
Banks	01/03/2024	100	12.50	1.77
Banks	01/03/2025	100	11.50	2.29
Others	01/03/2022	100	12.50	0.84
Others	01/05/2021	100	12.00	0.08
	Total	1500		17.82

(b) Positions in interest rate related derivatives

(i) Interest rate swap

Counter Party	Maturity Date	Notional Amount (i.e., market value)	Modified duration or price sensitivity	Assumed change in yield (ACI)	Capital charge*
GOI	30 / 09 / 2021	100	0.47	1.00	0.47
GOI	31 / 03 / 2029	100	5.14	0.60	(-) 3.08
					(-) 2.61

(ii) Interest rate future

Counter Party	Maturity Date	Notional Amount (i.e., market value)	Modified duration or price sensitivity	Assumed change in yield (ACI)	Capital charge*
GOI	30/09/2021	50	0.45	1.00	(-) 0.225
GOI	31/03/2025	50	2.84	0.75	1.070
					0.840

(c) Disallowances

The price sensitivities calculated as above have been slotted into a duration-based ladder with fifteen time-bands as shown in table at the end of this paragraph. Long and short positions within a time band have been subjected to vertical disallowance of 5 per cent. In the instant case, vertical disallowance is applicable under 3-6 month

time band and 7.3- 9.3 year time band. Then, net positions in each time band have been computed for horizontal offsetting subject to the disallowances mentioned in the table. In the instant case, horizontal disallowance is applicable only in respect of Zone 3. Horizontal disallowances in respect of adjacent zones are not applicable in the instant case.

(i) Calculation of vertical disallowance

While calculating capital charge for general market risk on interest rate related instruments, an LAB shall recognise the basis risk (different types of instruments whose price responds differently for movement in general rates) and gap risk (different maturities within time bands). This is addressed by a small capital charge (5 per cent) on matched (off-setting) positions in each time band ('vertical disallowance')

An off-setting position, for vertical disallowance, shall be either the sum of long positions and or the short positions within a time band, whichever is lower. In the table at the end of this paragraph, except for the time band 3-6 months in Zone 1 and the time band of 7.3-9.3 years, where there are off-setting positions of (-)0.22 and 2.79, there is no offsetting position in any other time band. The sum of long positions in the 3-6 months' time band is +0.47 and the sum of short positions in this time band is (-)0.22. This offsetting position of 0.22 is subjected to a capital charge of 5 per cent i.e., 0.01. The sum of long positions in the 7.3-9.3 years' time band is +2.79 and the sum of short positions in this time band is (-)3.08. This off-setting position of 2.79 is subjected to a capital charge of 5 per cent i.e., 0.1395. It may be mentioned here that if an LAB does not have both long and short positions in the same time band, there is no need for any vertical disallowance. An LAB is not allowed to take any short position in its books, except in derivatives. Therefore, an LAB shall generally not be subjected to vertical disallowance unless it has a short position in derivatives.

(ii) Calculation of horizontal disallowance

While calculating capital charge for general market risk on interest rate related instruments, an LAB shall subject its positions to a second round of off-setting across time bands with a view to give recognition to the fact that interest rate movements are not perfectly correlated across maturity bands (yield curve risk

and spread risk) i.e., matched long and short positions in different time bands may not perfectly off-set. This is achieved by a 'horizontal disallowance'.

An off-setting position, for horizontal disallowance, shall be either the sum of long positions and or the short positions within a Zone, whichever is lower. In the above example, except in Zone 3 (7.3 to 9.3 years) where there is an off-setting (matched) position of (-)0.29, there is no off-setting position in any other Zone. The sum of long positions in this Zone is 9.74 and the sum of short positions in this Zone is (-) 0.29. This off-setting position of 0.29 is subject to horizontal disallowance as under:

Within the same Zone (Zone 3) 30% of 0.29	= 0.09
Between adjacent Zones (Zone 2 and 3)	= NIL
Between Zones 1 and Zone 3	= NIL

(d) If an LAB does not have both long and short positions in different time zones, there is no need for any horizontal disallowance.

(e) Total capital charge for interest rate related instruments is shown below:

For overall net position	16.06
For vertical disallowance	0.15
For horizontal disallowance in Zone 3	0.09
For horizontal disallowance in adjacent zones	nil
For horizontal disallowance between Zone 1 and 3	Nil
Total capital charge for interest rate related instruments	16.30

(f) The total capital charge in this example for general market risk for interest rate related instruments shall be computed as under:

Sl. No.	Capital charge	Amount (In ₹)
1	For the vertical disallowance (under 3-6 month time band)	1,12,500
2	For the vertical disallowance (under 7.3-9.3 year time band)	13,95,000
3	For the horizontal disallowance (under Zone 3)	9,00,000
4	For the horizontal disallowances between adjacent zones	0
5	For the overall net open position (17.82 – 2.61 + 0.84)	16,06,00,000
6	Total capital charge for general market risk on interest rate related instruments (1 + 2 + 3 + 4 + 5)	16,30,07,500

(g) Equities: Capital charge for general market risk for equities shall be 9 per cent. Thus, general market risk capital charge on equities shall be ₹27 crore.

(h) Forex / gold open position: Capital charge on forex / gold open position shall be computed at 9 per cent. Thus, the same shall be ₹9 crore.

(i) Capital charge for market risks in this example shall be computed as under:

(Amount in ₹ crore)

Details	Capital charge for Specific Risk	Capital charge for General Market Risk	Total
Interest instruments rate related	32.33	16.30	48.63
Equities	27.00	27.00	54.00
Forex / Gold	-	9.00	9.00
Total	59.33	52.30	111.63

(vii) Computing capital ratio

The capital charge for market risks shall be converted into equivalent RWAs by multiplying it by $(100 \div 9)$, i.e., $₹111.63 \times (100 \div 9) = ₹1240.33$ crore [as an LAB requires minimum CRAR of 9 per cent]. Therefore, RWA for market risk shall be ₹1240.33 crore. CRAR for the whole book may be computed as under:

(Amount in ₹ crore)

1	Total capital	400.00
2	RWAs for credit risk	2548.25
3	RWAs for market risk	1240.33
4	Total RWAs (2+3)	3788.58
5	CRAR $[(1 \div 4) \times 100]$	10.56 %

- (3) Example for computing the capital charge including the vertical and horizontal disallowances on interest rate related instruments

	Zone 1				Zone 2			Zone 3								
Time-band	0-1 month	1-3 month	3-6 month	6m - 1y	1–1.9y	1.9–2.8y	2.8–3.6y	3.6–4.3y	4.3–5.7y	5.7–7.3y	7.3–9.3y	9.3–10.6y	10.6–12y	12–20y	Over 20y	Capital Charge
Position		0.72		2.51		1.35	1.77	2.29		2.75	2.79		3.63			17.82
Derivatives (long)			0.47					1.07								1.54
Derivatives (short)			(-)0.22								(-)3.08					(-)3.30
Net Position		0.72	0.25	2.51		1.35	1.77	3.36		2.75	(-)0.29		3.63			16.06
Vertical Disallowance (5%)			0.01**								0.14@					0.15
Horizontal Disallowance 1 (under Zone)											0.09#					0.09
Horizontal Disallowance 2																
Horizontal Disallowance 3																

** $0.22 \times 5\% = 0.01$

@ $2.79 \times 5\% = 0.14$

$0.29 \times 30\% = 0.09$

Chapter IV

Repeal and Other provisions

A Repeal and Saving

34. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Prudential Norms on Capital Adequacy as applicable to Local Area Banks stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
35. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B Application of other laws not barred

36. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

C Interpretations

37. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the Reserve Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the Reserve Bank shall be final and binding.

Annex 1

Reporting format for details of investments by FIIs and NRIs in Perpetual Non-Cumulative Preference Shares qualifying as Tier 1 Capital

- (1) Name of the bank:
- (2) Total issue size / amount raised (in ₹):
- (3) Date of issue:

	FIIs			NRIs	
Number of FIIs	Amount raised		Number of NRIs	Amount raised	
	(in ₹)	As a percentage of the total issue size		(in ₹)	As a percentage of the total issue size

- (4) It is certified that:
- (i) the aggregate investment by all FIIs does not exceed 49 per cent of the issue size and investment by no individual FII exceeds 10 per cent of the issue size.
- (ii) It is certified that the aggregate investment by all NRIs does not exceed 24 per cent of the issue size and investment by no individual NRI exceeds 5 per cent of the issue size.

Authorised Signatory

Date

Seal of the bank