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

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Reserve Bank of India (Regional Rural 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 (Regional Rural 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 Regional Rural Banks (hereinafter collectively referred to as 'banks' or ‘RRBs’ and individually as a 'bank' or ‘RRB’).

C Definitions

4. In this chapter, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below.

(1) ‘Credit risk’ shall mean 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 diminution in the credit quality of borrowers or counterparties.

(2) ‘Deferred tax assets (DTA)’ and ‘Deferred tax liabilities (DTL)’ shall have the same meaning as assigned under the applicable Accounting Standards.

(3) ‘Derivative’ shall have the same meaning as assigned to it in section 45U(a) of the RBI Act, 1934.

(4) ‘General provisions and loss reserves’ include such provisions of general nature appearing in the books of the bank which are not attributed to any identified potential loss or a diminution in value of an asset or a known liability.

(5) ‘Other approved securities’ shall have the same meaning as defined under Reserve Bank of India (Regional Rural Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Directions, 2025 as amended from time to time.

(6) ‘Public financial institution’ shall have the same meaning as defined under sub-section 2(72) of the Companies Act, 2013.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934 or the Regional Rural Banks Act, 1976 and 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 Composition of regulatory capital

A.1 Minimum regulatory capital

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

$$\text{CRAR} = \frac{\text{Eligible capital funds}}{\text{Total Risk Weighted Assets (RWAs)}}$$

Where, total RWAs shall be calculated as specified under paragraph 15 below.

A.2 Definition of capital funds

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

B Tier 1 capital

8. The elements of Tier 1 capital are:

   (i) Paid up share capital

   (ii) Share premium, if any, resulting from the issue of shares

   (iii) Share capital deposit

   (iv) Statutory and other free reserves

   Note - In terms of Reserve Bank of India (Regional Rural Banks – Financial Statements: Presentation and Disclosures) Directions, 2025 an RRB shall make provisions for DTL on the Special Reserve created under section 36(1)(viii) of Income Tax Act, 1961. Such reserves are part of free reserves and may be included in Tier 1 Capital.

   (v) Capital reserve representing surplus arising out of sale proceeds of assets

   (vi) Revaluation reserves, arising out of change in the carrying amount of an RRB's property consequent upon its revaluation, may be reckoned as Tier 1 capital at a discount of 55 per cent, subject to meeting the following conditions:

(a) the RRB is able to sell the property readily at its own will and there is no legal impediment in selling the property;

(b) the revaluation reserves are shown under Schedule 2: Reserves & Surplus in the balance sheet of the RRB;

(c) revaluations are realistic, in accordance with applicable Accounting Standards;

(d) valuations are obtained, from two independent valuers, at least once in every three years;

(e) where the value of the property has been substantially impaired by any event, these are to be immediately revalued and appropriately factored into capital adequacy computations;

(f) the external auditors of the RRB have not expressed a qualified opinion on the revaluation of the property;

(g) the instructions on valuation of properties and other specific requirements as mentioned in the Reserve Bank of India (Regional Rural Banks - Credit Risk Management) Directions, 2025 are strictly adhered to.

Note: revaluation reserves which do not qualify as Tier 1 capital shall also not qualify as Tier 2 capital. The RRB may choose to reckon revaluation reserves in Tier 1 capital or Tier 2 capital at its discretion, subject to fulfilment of all the conditions specified above.

(vii) Balance in profit and loss account at the end of the previous financial year.

(viii) Perpetual debt instruments (PDIs), which comply with the regulatory requirements as specified in paragraph 9 shall be eligible for inclusion in Tier 1 capital, subject to the limits prescribed in paragraph 9(3) below.

Terms and conditions applicable to Perpetual debt instruments (PDI) to qualify for inclusion as Tier 1 capital

9. A PDI that may be issued as bonds or debentures by an RRB shall meet the following terms and conditions to qualify for inclusion as Tier 1 capital for capital adequacy purposes:

(1) Amount

An RRB shall issue PDI in Indian currency only. The amount of PDI to be raised shall be decided by the Board of Directors of the RRB.

(2) Paid-in status

The instruments shall be issued by the RRB [i.e., not by any special purpose vehicle (SPV) etc. set up by the RRB for this purpose] and fully paid in.

(3) Limits

Within minimum Tier 1 of 7 percent, the PDIs shall be limited to 1.5 per cent of the total RWAs. Any additional amount raised through PDIs over and above the 1.5 per cent of the RWAs shall also be reckoned as Tier 1 capital provided the RRB complies with the minimum Tier 1 capital of 7 percent of RWAs before reckoning such additional amounts.

(4) Maturity period

The instruments shall be perpetual i.e., there is no maturity date and there are no step-ups or other incentives to redeem.

(5) Rate of interest

(i) 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.

(ii) The instrument cannot have a credit sensitive coupon feature, i.e., a coupon that is reset periodically based in whole or in part on the RRB's credit standing. For this purpose, any reference rate including a broad index which is sensitive to changes to the RRB's own creditworthiness and / or to changes in the credit worthiness of the wider banking sector shall be treated as a credit sensitive reference rate.

(6) Options

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

(i) Call option shall be exercised only after the instrument has run for minimum five years; and

(ii) Call option shall be exercised only with the prior approval of the Reserve Bank (Department of Regulation). While considering the proposals received from an RRB for exercising the call option, the Reserve Bank shall, among other things, take into consideration the RRB’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) PDIs shall be subjected to a lock-in clause in terms of which the issuing RRB shall not be liable to pay interest, if

(a) The RRB's CRAR is below the minimum regulatory requirement prescribed by the Reserve Bank. Or

(b) The impact of such payment results in RRB's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Reserve Bank.

(ii) However, an RRB may 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. 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 shall not be cumulative.

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

(8) Seniority of claim

The claims of the investors in PDIs shall be:

(i) Senior to the claims of investors in equity shares; and

(ii) Subordinated to the claims of all other creditors.

(9) Discount

The PDIs shall not be subjected to a progressive discount for capital adequacy purposes.

(10) Other conditions

(i) PDI shall be fully paid-up, unsecured, and free of any restrictive clauses.

(ii) An RRB 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.

(11) Compliance with reserve requirements

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

(12) Reporting requirements

An RRB issuing PDIs shall submit a report to Chief General Manager, Department of Supervision, NABARD, Head Office, Mumbai and Chief General Manager, Department of Regulation, Reserve Bank of India (email: capdor@rbi.org.in) 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 PDIs

An RRB shall not invest in PDI issued by another bank including an RRB. Further, an RRB shall not issue PDI to retail investors / FPI / NRIs.

(14) Grant of advances against PDI

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

(15) Classification in the balance sheet

An RRB shall indicate the amount raised by issue of PDI in the balance sheet under ‘Schedule 4 – Borrowings’.

Limits in Tier 1 capital

10. The limits applicable for Tier 1 capital for RRBs shall be as under.

(1) The total Tier 1 capital shall not be less than 7 per cent of RWAs after the regulatory adjustment / deduction as per paragraph 11 below.

(2) Of the minimum Tier 1 capital of 7 percent, the PDIs shall be limited to 1.5 per cent of the total RWAs.

(3) Any additional amount raised through PDIs over and above the 1.5 per cent of the RWAs shall also be reckoned as Tier 1 capital.

Provided that an RRB complies with the minimum Tier 1 capital of 7 percent of RWAs before reckoning such additional amounts.

C Regulatory adjustments / deductions from capital

11. The following items shall be fully deducted from Tier 1 capital:

(i) Goodwill and other intangible assets.

(ii) Losses in current year and those brought forward from previous years.

(iii) Defined benefit pension fund liabilities, as included on the balance sheet, shall be fully recognised in the calculation of Tier 1 capital (i.e., Tier 1 capital cannot be increased through derecognising these liabilities). For each defined benefit pension fund that is an asset on the balance sheet, the asset shall be deducted in the calculation of Tier 1.

(iv) The following items, if identified in the course of supervisory inspection, or otherwise, shall also be deducted from Tier 1 capital:

(a) Deficit in provisions for Non-Performing Assets (NPAs) (i.e., shortfall, if any, in NPA provisions made by the RRB in comparison to the applicable regulatory requirements)

(b) Income wrongly recognised on NPAs

(v) Provision required for liability devolved on the RRB, and such similar amounts. However, an RRB, implementing RRB (Employee) Pension Scheme with effect from November 1, 1993 and amortising expenditure on account of revision in pension over the period not exceeding five years (beginning from financial year ending March 31, 2025), shall not reduce pension related unamortised expenditure from Tier 1 capital.

(vi) Treatment of deferred tax assets (DTA)

(a) DTAs associated with accumulated losses and other such assets shall be deducted in full from Tier 1 capital.

(b) DTAs which relate to timing differences (other than those related to accumulated losses) may, instead of full deduction from Tier 1 capital, be recognised in the Tier 1 capital up to 10 per cent of an RRB's Tier 1 capital (after the application of all regulatory adjustments).

(c) The amount of DTAs which are to be deducted from Tier 1 capital may be netted with associated deferred tax liabilities (DTLs).

Provided that both the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority;

Provided further that the DTLs permitted to be netted against DTAs shall exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension assets; and

Provided further that the DTLs shall be allocated on a pro rata basis between DTAs subject to deduction from Tier 1 capital as at 11(vi)(a) and 11(vi)(b) above.

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

(viii) *Note* - An RRB shall also refer to Reserve Bank of India (Regional Rural Banks – Undertaking of Financial Services) Directions, 2025 in this regard. An RRB shall be guided by the Reserve Bank of India (Regional Rural 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.

(ix) In terms of Reserve Bank of India (Regional Rural 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.

D Tier 2 capital

12. The elements of Tier 2 capital are as under.

(1) General provisions and loss reserves

General provisions and loss reserves shall be admitted as Tier 2 capital up to a maximum of 1.25 per cent of the total RWAs.

Provided that an RRB has taken adequate care to ensure that sufficient provisions have been made to meet all known losses and foreseeable potential losses before considering any amount of general provision as part of Tier 2 capital.

(2) Investment fluctuation reserve (IFR)

An RRB may include the entire amount of balance in IFR in Tier 2 capital.

Limits on Tier 2 Capital

13. The total Tier 2 capital shall be limited to a maximum of 100 percent of total Tier 1 capital for the purpose of compliance with the capital adequacy framework.

Chapter III
Computation of Risk Weighted Asset (RWA)

14. Value of all on balance sheet items and credit equivalent of all off balance sheet items [calculated by multiplying the face value of an item with credit conversion factors (CCF)] shall be multiplied with respective risk weights, representing degree of credit risk, to produce risk adjusted value of on balance sheet and off-balance sheet items. The aggregate RWAs shall be taken into account for computing CRAR.

15. The risk weights allotted to each category of balance sheet items and CCF for off-balance sheet items are as under.

(1) On balance sheet items

Items of assets			Risk weights **(in percentage)**
I	**Balances**		
	1	Cash and balances with the Reserve Bank	0
	2	Balances in current account with other banks	20
	3	Claims on banks other than investments in their capital instruments [held outside Held for Trading (HFT) and Available for Sale (AFS) category]	20
II	**Investments**		
	1	Investments in Government Securities	2.5
	2	Investments in other approved securities guaranteed by Central Government / State Government	2.5
	3	Investments in other securities where payment of interest and repayment of principal are guaranteed by Central Government (this will include investment in Indira / Kisan Vikas Patra (IVP / KVP) and investments in bonds and debentures where payment of interest and repayment of principal is guaranteed by Central Government)	2.5
	4	Investments in other securities where payment of interest and repayment of principal are guaranteed by State Governments. *Note -* Investment in securities where payment of interest or repayment of principal is guaranteed by State Government and which has become a non-performing investment, shall attract risk weight of 102.5 percent.	2.5
	5	Investment in other approved securities where payment of interest and repayment of principal is not guaranteed by Central / State Government	22.5
	6	Investments in Government guaranteed securities of government undertakings which do not form part of the approved market borrowing program	22.5

Items of assets				Risk weights (in percentage)
	7	Claims on banks other than investments in their capital instruments (held in HFT or AFS category)		22.5
	8	Investments in securities which are guaranteed by banks as to payment of interest and repayment of principal		22.5
	9	Investments in bonds issued by Public Financial Institutions (PFIs) for their Tier 2 Capital		102.5
	10	All other investments including investments in securities by PFIs		102.5
	11	Direct investment in equity shares, convertible bonds, debentures, capital instruments of banks and units of equity oriented mutual funds including those exempted from Capital Market Exposure (CME)		127.5
III	**Loans and advances including bills purchased and discounted and other credit facilities**			
	1	Loans and advances guaranteed by Government of India *Note* - The risk weight applicable to claims on central government exposures shall also apply to the claims on the Reserve Bank, Deposit Insurance and Credit Guarantee Corporation (DICGC, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd. (NCGTC) which are backed by explicit Central Government Guarantee. The risk weight of zero percent as mentioned above shall be applicable in respect of exposures guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH and NCGTC satisfying the conditions mentioned in paragraph 15(5).		0
	2	Loans guaranteed by State Governments		20
	3	State Government guaranteed loan which has become a NPAs		100
	4	Loans granted to public sector undertakings of Government of India		100
	5	Loans granted to public sector undertakings of State Governments		100
	6	Others including PFIs		100
	7	For the purpose of credit exposure, bills purchased / discounted / negotiated under LC (where payment to the beneficiary is not under reserve) shall be treated as an exposure on the LC issuing bank and assigned risk weight as is normally applicable to inter-bank exposures.		20
	8	Bills negotiated under LCs under reserve, bills purchased / discounted / negotiated without LCs, shall be reckoned as exposure on the borrower constituent. Accordingly, the exposure shall attract a risk weight appropriate to the borrower.		
		(i)	Government	0
		(ii)	Banks	20
		(iii)	Others	100
	9	Housing loan to individuals		
		Category of loan	LTV ratio (in %)	

Items of assets				Risk weights (in percentage)
		(a) Up to ₹ 20 Lakh	90	50
		(b) Above ₹ 20 lakh and up to ₹ 75 lakh	80	50
		(c) Above ₹ 75 lakh	75	75
		(d) Commercial Real Estate		100
		(e) Commercial Real Estate - Residential Housing		75
	10	Consumer credit, including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery		125
	11	Microfinance loans		100
	12	Vehicle loans		100
	13	Loans up to ₹ 1 lakh against gold and silver ornaments		50
	14	Loans above ₹ 1 lakh against gold and silver ornaments *Note* - Entire loan amount shall be risk weighted at 100 per cent		100
	15	Education loans		100
	16	Loans extended against primary / collateral security of shares / debentures		125
	17	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 risk weight of 100 per cent.		50
	18	Advances for term deposits, life policies, NSCs, IVPs and KVPs where adequate margin is available		0
	19	Loans and advances granted by an RRB to its staff		20
	20	Takeout finance		
		(i) Unconditional takeover (in the books of lending institution)		
		(a)	Where full credit risk is assumed by the taking over institution	20
		(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 takeover (in the books of lending and taking over institution)		100
		Notes: While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, banks may 'net-off' against the total outstanding exposure of the borrower –		
		(a) advances collateralised by cash margins or deposits,		
		(b) credit balances in current or other accounts of the borrower which are not earmarked for specific purposes and free from any lien,		

Items of assets			Risk weights (in percentage)
		(c) in respect of any assets where provisions for depreciation or for bad debts have been made,	
		(d) claims received from DICGC / ECGC and kept in a separate account pending adjustment in case these are not adjusted against the dues outstanding in the respective a / cs,	
		(e) Subsidies received against various schemes and kept in a separate account.	
IV	**Other Assets**		
	1	Premises, furniture and fixtures	100
	2	Interest due on Government securities	0
	3	Accrued interest on CRR balances maintained with the Reserve Bank (net of claims of the Government / Reserve Bank on banks on account of such transactions)	0
	4	Income tax deducted at source (net of provision)	0
	5	Advance tax paid (net of provision)	0
	6	Interest receivable on staff loans	20
	7	Interest receivable from banks	20
	8	Interest subvention receivable from Government of India	0
	9	All other assets	100
V	**Market risk on open position**		
	1	Market risk on foreign exchange open position (Applicable to Authorised Dealers only)	100
	2	Market risk on open gold position	100

Note - Intangible assets and losses deducted from Tier 1 capital shall be assigned zero risk weight.

(2) CCF for off-balance sheet items

Sr. No.	Instruments	CCF (in percentage)
1	Direct credit substitutes e.g., general guarantees of indebtedness (including standby LCs 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 LCs related to particular transactions)	50

<table>
<tr><th>Sr. No.</th><th colspan="2">Instruments</th><th>CCF
(in percentage)</th></tr>
<tr><td>3</td><td colspan="2">Short-term self-liquidating trade-related contingencies (such as documentary credits collateralised by the underlying shipments)</td><td>20</td></tr>
<tr><td>4</td><td colspan="2">Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank</td><td>100</td></tr>
<tr><td>5</td><td colspan="2">Forward asset purchase, forward deposit and partly paid shares and securities, which represent commitments with certain draw down</td><td>100</td></tr>
<tr><td>6</td><td colspan="2">Note issuance facilities and revolving underwriting facilities</td><td>50</td></tr>
<tr><td>7</td><td colspan="2">Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of over one year</td><td>50</td></tr>
<tr><td>8</td><td colspan="2">Similar commitments with an original maturity up to one year, or which can be unconditionally cancelled at any time.

Note - In respect of borrowers having aggregate fund based working capital limit of ₹ 150 crore and above from the banking system, the undrawn portion of cash credit / overdraft limits sanctioned, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20 percent.</td><td>0</td></tr>
<tr><td rowspan="3">9</td><td>(i)</td><td>Guarantees issued by an RRB against the counter guarantees of other banks</td><td>20</td></tr>
<tr><td>(ii)</td><td>Rediscounting of documentary bills accepted by an RRB. Bills discounted by an RRB which have been accepted by another bank will be treated as a funded claim on a bank.</td><td>20</td></tr>
<tr><td colspan="2">Note - In these cases, an RRB shall be fully satisfied that the risk exposure is, in fact, on the other bank.</td><td></td></tr>
<tr><td rowspan="3">10</td><td colspan="2">Aggregate outstanding foreign exchange contracts of original maturity* –</td><td></td></tr>
<tr><td colspan="2">(a) Less than 14 calendar days</td><td>0</td></tr>
<tr><td colspan="2">(b) More than 14 calendar days but less than one year</td><td>2</td></tr>
</table>

Sr. No.	Instruments	CCF (in percentage)
	(c) For each additional year or part thereof	3
	* In case the RRB has adopted the bilateral netting guidelines as per paragraph 15(4), CCF for foreign exchange contracts shall be as provided in the second table in paragraph 15(3)(i)(b) and CCF of 'zero' per cent for foreign exchange contracts which have original maturity of 14 calendar days or less shall not be applicable.	

(3) Additional risk weights (Applicable to Authorised Dealers only)

(i) **Foreign exchange contracts**

(a) Foreign exchange contracts include the following:

(i) Cross currency swaps

(ii) Forward foreign exchange contracts

(iii) Currency futures

(iv) Currency options purchased

(v) Other contracts of a similar nature

(b) As in the case of other off-balance sheet items, a two-stage calculation prescribed below shall be applied:

(i) **Step 1 -** The notional principal amount of each instrument shall be multiplied by the conversion factor given below:

Original maturity	Conversion Factor
Less than one year	2%
One year and less than two years	5% (i.e., 2% + 3%)
For each additional year	3%

When effective bilateral netting contracts as specified in paragraph 15(4) are in place, the conversion factors, as mentioned in the below table, shall be applicable*:

Original maturity	Conversion Factor
Less than one year	1.5%

One year and less than two years	3.75% (i.e., 1.5% + 2.25%)
For each additional year	2.25%

(ii) **Step 2 -** The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counterparty as given in paragraph 15(1).

**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.

(ii) **Interest rate contracts**

(a) Interest rate contracts include the following:

(i) Single currency interest rate swaps

(ii) Basis swaps

(iii) Forward rate agreements

(iv) Interest rate futures

(v) Interest rate options purchased

(vi) Other contracts of a similar nature

(b) As in the case of other off-balance Sheet items, a two-stage calculation prescribed below shall be applied:

(i) **Step 1 -** The notional principal amount of each instrument shall be multiplied by the percentages given below:

Original maturity	**Conversion Factor**
Less than one year	0.5%
One year and less than two years	1%
For each additional year	1%

When effective bilateral netting contracts as specified in paragraph 15(4) are in place, the conversion factors, as mentioned in the below table, shall be applicable:

Original maturity	Conversion Factor
Less than one year	0.35%
One year and less than two years	0.75%
For each additional year	0.75%

(ii) **Step 2 -** The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counterparty as given in paragraph 15(1).

(4) Requirement for recognition of bilateral netting contract

(i) An RRB may net transactions subject to novation under which any obligation between the RRB 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 RRB may also net transactions subject to any legally valid form of bilateral netting not covered in paragraph 15(4)(i) above, including other forms of novation.

(iii) In both cases 15(4)(i) and 15(4)(ii) above, an RRB 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 RRB 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 RRB'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.

(iv) 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.

(5) Conditions to be satisfied in respect of exposures guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH and NCGTC for applicability of the risk weight of zero percent

(i) Prudential aspects**:** The guarantees provided under the respective schemes shall comply with the requirements for credit risk mitigation in terms of paragraphs 154 to 181 of Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025 , as amended from time to time. Among other requirements, such guarantees shall be direct, explicit, irrevocable and unconditional.

(ii) Restrictions on permissible claims**:** Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by Member Lending Institutions (MLI), payout cap, etc., the zero percent risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations.

(iii) In case of a portfolio-level guarantee, effective from April 1, 2023, the extent of exposure subjected to first loss absorption by the MLI, if any, shall be subjected to full capital deduction and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations, on a pro rata basis. The maximum capital charge shall be capped at a notional level arrived at by treating the entire exposure as unguaranteed.

(iv) Subject to the aforementioned prescriptions, any scheme launched after September 7, 2022, under any of the aforementioned trust funds, in order to be eligible for zero percent risk weight, shall provide for settlement of the eligible guaranteed claims within thirty days from the date of lodgement, and the lodgement shall be permitted within sixty days from the date of default.

(v) The above regulatory stipulation shall be applicable to the bank to the extent it is recognised as eligible MLIs under the respective schemes.

(vi) Some illustrative examples of risk weights applicable on credit facilities guaranteed under specific existing schemes are as under.

Scheme name	**Guarantee cover**	**Risk weight (RW)**
1. Credit Guarantee Fund Scheme for Factoring (CGFSF)	The first loss of 10% of the amount in default to be borne by Factors. The remaining 90% (i.e., second loss) of the amount in default will be borne by NCGTC and Factors in the ratio of 2:1 respectively	• First loss of 10% amount in default – Full capital deduction • 60% amount in default borne by NCGTC- 0% RW. • Balance 30% amount in default Counterparty / Regulatory Retail Portfolio (RRP) RW as applicable. ***Note*** **-** The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.
2. Credit Guarantee	75% of the amount in default.	• Entire amount in default - Counterparty / Regulatory

Scheme name	Guarantee cover	Risk weight (RW)
Fund Scheme for Skill Development (CGFSD)	100% of the guaranteed claims shall be paid by the Trust after all avenues for recovery have been exhausted and there is no scope for recovering the default amount.	Retail Portfolio (RRP) RW as applicable.
3. Credit Guarantee Fund for Micro Units (CGFMU)	Micro Loans The first loss to the extent of 3% of amount in default. Out of the balance, guarantee will be to a maximum extent of 75% of the amount in default in the crystallized portfolio	• First loss of 3% amount in default – Full capital deduction • 72.75% of the amount in default - 0% RW, subject to maximum of $(\{15\% * \text{CP}\} - \text{C}) * \left[\frac{\text{SLA}}{\text{CP}}\right]$ Where- o CP = Crystallized Portfolio (sanctioned amount) o C = Claims received in previous years, if any, in the crystallized portfolio o SLA = Sanctioned limit of each account in the crystallized portfolio o 15 per cent represents the payout cap • Balance amount in default - Counterparty / RRP RW as applicable. ***Note* -** The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.

Scheme name	Guarantee cover	Risk weight (RW)
4.CGTMSE guarantee coverage for Micro-Enterprises	up to ₹5 lakh 85% of the amount in default subject to a maximum of ₹4.25 lakh Above ₹5 lakh and up to ₹50 lakh 75% of the amount in default subject to a maximum of ₹37.50 lakh Above ₹50 lakh & up to ₹200 lakh 75% of the amount in default subject to a maximum of ₹150 lakh	• Guaranteed amount in default – 0% RW* • Balance amount in default - Counterparty / RRP RW as applicable.
*In terms of the payout cap stipulations of CGTMSE, claims of the member lending institutions will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. However, since the balance claims will be settled in subsequent year / s as the position is remedied, the entire extent of guaranteed portion may be assigned zero percent risk weight.		

Note -

(a) Guarantee coverage, first loss percentage and payout cap ratio may be factored in as given below and as amended from time to time in the respective schemes.

(b) The above regulatory stipulation shall be applicable to a bank to the extent it is recognised as eligible MLIs under the respective schemes.

Chapter IV
Reporting

16. An RRB shall furnish an annual return to the respective Regional Office of National Bank for Agriculture and Rural Development (NABARD), indicating capital funds and risk assets ratio, in the format given in Annex 1. The return shall be signed by two officials who are authorised to sign the statutory returns submitted to the Reserve Bank. The statement shall be furnished as soon as the annual accounts are finalised.

Chapter V
Repeal and Other Provisions

A Repeal and Saving

17. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Prudential Norms on Capital Adequacy as applicable to Regional Rural 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.

18. 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

19. 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

20. 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

Statement of capital funds and RWA

(1) Capital funds, RWA and CRAR

		(Amount in ₹ crore)
I	Capital funds	
A	Tier 1 capital elements	
	(a) Paid-up capital	
	Less: Intangible assets and losses	
	Total	
	(b) Reserves and surplus	
	1. Statutory reserves	
	2. Capital reserve (see note below)	
	3. Share premium	
	4. Revaluation reserves	
	5. Other free reserves	
	6. Balance in Profit and Loss Account *	
	(c) Perpetual Debt Instruments (PDI)	
	Total Tier 1 capital	
	Notes: Capital reserves representing surplus on sale of assets and held in a separate account will be included.	
	General / floating provisions and specific provisions made for loan losses and other asset losses or diminution in the value of any assets will not be reckoned as capital funds. * Any balance (net) in profit and loss account i.e., balance after appropriation towards dividend payable, education fund, other funds whose utilisation is defined and asset loss, if any etc. If balance in profit and loss account is negative, the same shall be reduced.	
B	Tier 2 capital elements	
	(i) General provisions and loss reserves #	
	(ii) Investment Fluctuation Reserves	
	(iii) Revaluation reserves [refer to paragraph 8(vi) of these Directions]	
	Total Tier 2 capital	
C	Total Capital Funds (A + B)	
II	Risk Weighted Assets	
(a)	Adjusted value of funded risk assets i.e., on-balance Sheet items (to tally with Part 'B')	
(b)	Adjusted value of non-funded and off-Balance Sheet items (to tally with Part 'C')	
(c)	Total risk-weighted assets (a + b)	

		(Amount in ₹ crore)
III	Percentage of capital funds to risk-weighted assets [I(c) / II(c)]	
# Includes General Provision on standard assets		

(2) Risk weighted on-balance sheet items

(Amount in ₹ crore)

Sr. No.		Book value	Risk weight	Risk adjusted value
I	Cash and bank balance			
(a)	Cash in hand (including foreign currency notes)			
(b)	Balances with banks in India			
	(i) Balances with the Reserve Bank			
	(ii) Balances with banks			
	a. Current account (in India and outside India)			
	b. Other accounts (in India and outside India)			
	c. Current account balances with other RRB			
II	Money at call and short notice			
III	Investments			
	(a) Government and other approved securities *			
	(b) Others (net of depreciation provided)			
IV	Advances** Loans and advances, bills purchased and discounted and other credit facilities			
	(a) Claims guaranteed by Government of India			
	(b) Clams guaranteed by State Governments			
	(c) Claims on public sector undertakings of Government of India			
	(d) Claims on public sector undertakings of State Governments			
	(e) Others			
	Notes: 1. Netting may be done only for advances collateralised by cash margins or deposits and in respect of assets where provisions for depreciation for bad and doubtful debts have been made. 2. Intangible assets for which losses have been deducted from Tier 1 capital shall be assigned zero risk weight.			
V	Premises (net of depreciation provided)			
VI	Furniture and fixtures (net of depreciation provided)			

Sr. No.		Book value	Risk weight	Risk adjusted value
VII	Other assets (including branch adjustments, non-banking assets, etc.)			
	Total			
* Provision, if any, made for depreciation in investments in Government and other approved securities may be included by way of a footnote. * Provisions held, either general or specific, for bad and doubtful debts may be indicated by way of footnote.				

(3) Risk weighted non-funded exposures / off-balance sheet items

Each off-balance sheet item shall be submitted in the format indicated below:

(Amount in ₹ crore)

Nature of item	Book value	Conversion Factor	Equivalent value	Risk weight	Risk adjusted value