**Part A: Guidelines for Minimum Capital Requirements**

**Introduction**

Basel III reforms are changes that aim to improve banks' ability to handle tough financial times, reducing the risk of economic problems spreading from the banking sector to the real economy. In 2009, the leaders of G20 countries agreed to make the regulatory system for banks and financial firms stronger, raise capital standards, stop risky compensation practices, improve the derivatives market, and make sure large global companies are accountable for the risks they take. The Basel Committee on Banking Supervision (BCBS) released the Basel III capital regulations in 2010.

Basel III reforms strengthen the rules for individual banks to make them more resilient during tough times. They also focus on reducing risks across the banking sector and over time. These regulations raise the quality and amount of capital that banks must have to handle losses, introduce a backstop for measuring risk, and set higher standards for how banks are supervised and must report their financial information. The regulations also include buffers to protect against excessive credit growth.

The Reserve Bank issued guidelines based on the Basel III reforms for banks operating in India on May 2, 2012. These guidelines were gradually implemented in India starting from April 1, 2013, and they will be fully implemented by March 31, 2018.

The Reserve Bank has discontinued the use of Basel II regulations and now only follows Basel

The Regulation of Basel III reforms are changes made by the Basel Committee on Banking Supervision (BCBS) to improve the banking sector's ability to handle tough financial times. These reforms aim to reduce the risk of economic problems spreading from the banking sector to the real economy. The G20 leaders agreed in 2009 to make the regulatory system for banks and financial firms stronger, and the Basel III capital regulations were released in 2010.

The reforms focus on two areas: strengthening the rules for individual banks and reducing risks across the banking sector. The rules for individual banks are called micro-prudential regulations and are designed to make banks more resilient during tough times. The reforms also focus on reducing risks across the banking sector, which are called macro-prudential regulations. These regulations aim to reduce the pro cyclical amplification of risks over time.

Basel III introduces several changes to the regulatory and supervisory standards that banks must follow. These include raising the quality and amount of capital that banks must hold to handle losses on both a going concern and a gone concern basis, introducing a leverage ratio as a backstop to the risk-based capital measure, and setting higher standards for how banks are supervised and must report their financial information.

The Basel III regulations also include buffers to protect against excessive credit growth. These buffers include the capital conservation buffer and the counter cyclical buffer. The capital conservation buffer requires banks to hold additional capital during good times so that they can use it to absorb losses during bad times. The counter cyclical buffer requires banks to hold additional capital during times of excessive credit growth to ensure that they have enough capital to handle losses during a downturn.

The Reserve Bank of India issued guidelines based on the Basel III reforms in May 2012. These guidelines were gradually implemented in India starting from April 1, 2013, and will be fully implemented by March 31, 2018. Finally, The Reserve Bank of India has discontinued the use of Basel II regulations and now only follows Basel III.

**Approach to Implementation and Effective Date (Refer 2 to 2.5)**

The Basel III regulations are made up of three parts: minimum capital requirements, supervisory review of capital adequacy, and market discipline of the Basel II capital adequacy framework. Under Pillar 1 of the Basel III framework, banks can choose from three options to calculate capital requirements for credit risk and three options for operational risk. The options become more sensitive to risk and allow banks to select an approach appropriate for their operations.

In 2007, the Reserve Bank of India (RBI) decided that all commercial banks (excluding Local Area Banks and Regional Rural Banks) should adopt Standardized Approach for credit risk and Basic Indicator Approach for operational risk by March 2009. Banks should continue to apply the Standardized Duration Approach for computing capital requirement for market risks.

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| --- | --- | --- | --- |
| **S.**  **No.** | **Approach** | **The earliest date of making application by banks to the RBI** | **Likely date of approval by the RBI** |
| a. | Internal Models Approach (IMA) for Market Risk | April 1, 2010 | March 31, 2011 |
| b. | The Standardized Approach (TSA) for Operational Risk | April 1, 2010 | September 30, 2010 |
| c. | Advanced Measurement Approach (AMA) for Operational Risk | April 1, 2012 | March 31, 2014 |
| d. | Internal Ratings-Based (IRB) Approaches for Credit Risk (Foundation- as well as Advanced  IRB) | April 1, 2012 | March 31, 2014 |

In July 2009, a time schedule was established for the implementation of advanced approaches for regulatory capital measurement. Banks were advised to assess their preparedness for migration to advanced approaches and obtain approval from their boards before applying for implementation. Banks have the option of adopting the advanced approaches for one or more risk categories as per their preparedness, and it is not necessary to adopt advanced approaches for all risk categories simultaneously. Banks should obtain prior approval of the RBI for adopting any of the advanced approaches.

The Basel III capital regulations were implemented in India on April 1, 2013. Banks must comply with the regulatory limits and minima as prescribed under Basel III capital regulations on an ongoing basis. Transitional arrangements have been provided for meeting the minimum Basel III capital ratios and full regulatory adjustments to the components of capital. Basel III capital regulations will be fully implemented on March 31, 2018. Certain specific prescriptions of Basel II capital adequacy framework will continue to apply until March 31, 2017.

**Scope of Application of Capital Adequacy Framework: (Refer 3 to 3.4)**

The requirements for a bank to maintain adequate capital levels in order to manage its financial risks. These capital requirements are designed to ensure that banks have enough money available to cover any losses that may occur due to their lending and investment activities.

There are two different levels at which a bank must comply with these requirements: group level and solo level. The group level considers the bank's overall capital strength and risk profile, taking into account the assets and liabilities of all of its subsidiaries, joint ventures, and associates, except for those engaged in insurance and non-financial activities. The solo level, on the other hand, looks only at the bank's own capital strength and risk profile, without considering the subsidiaries.

In the field of finance, a subsidiary is an enterprise controlled by another enterprise, known as the parent. In the context of capital adequacy, it is important to fully consolidate financial subsidiaries (excluding insurance and non-financial subsidiaries) with the parent bank. This is done to accurately assess the overall capital strength and risk of the parent bank, by combining the assets and liabilities of its subsidiaries with its own. The significance of fully consolidating financial subsidiaries with parent banks for calculating capital adequacy.

However, insurance and non-financial subsidiaries are not consolidated for capital adequacy purposes. Instead, their equity and other regulatory capital investments are deducted from the consolidated regulatory capital of the group. In addition, any investments in the capital instruments of subsidiaries that are consolidated in the financial statements of the group must also be deducted from the corresponding capital instruments issued by the bank.

Overall, the guidelines are designed to ensure that banks maintain adequate levels of capital to manage their financial risks and protect themselves against losses.

**Composition of Regulatory Capital (Refer 4to5 )**

**General**

The regulations and requirements for banks operating in India to maintain a certain level of capital in relation to their risk profile. This is referred to as the Capital to Risk-weighted Assets Ratio (CRAR).

Banks are required to maintain a minimum Pillar 1 CRAR of 9% on an ongoing basis, which is calculated based on the bank's risk profile and internal capital adequacy assessments. The Reserve Bank of India (RBI) will take into account various factors when determining the appropriate level of capital required for each bank, including the bank's risk management systems and their ability to identify, measure, monitor and manage various risks such as interest rate risk, liquidity risk, concentration risk, and residual risk.

EPt= {NPt – 0.25\*D\*t}

Where;

EPt = Eligible profit up to the quarter ‘t’ of the current financial year; t varies from 1 to 4

NPt = Net profit up to the quarter ‘t’

D= average annual dividend paid during last three years

The Pillar 2 framework allows the RBI to prescribe a higher level of minimum capital ratio for each bank based on their respective risk profiles and risk management systems. Additionally, banks are expected to operate at a level well above the minimum requirement set by the RBI.

Understanding the components of regulatory capital is essential for banks to comply with capital adequacy , including Tier 1 and Tier 2 capital. Tier 1 capital is further broken down into Common Equity Tier 1 (CET1) and Additional Tier 1 capital. Banks are required to maintain a minimum CET1 capital of 5.5% of risk-weighted assets (RWAs) on an ongoing basis, in addition to a capital conservation buffer of 2.5% of RWAs.sssssss

|  |  |  |
| --- | --- | --- |
| Common Equity Tier 1 capital ratio | = | Common Equity Tier 1 Capital . Credit Risk RWA\* + Market Risk RWA + Operational Risk RWA |
| Tier 1 capital ratio | = | Eligible Tier 1 Capital4 . Credit Risk RWA\* + Market Risk RWA + Operational Risk RWA |

|  |  |  |
| --- | --- | --- |
| Total Capital (CRAR#) | = | Eligible Total Capital5 .  Credit Risk RWA + Market Risk RWA + Operational Risk RWA |

* RWA = Risk weighted Assets;

# Capital to Risk Weighted Asset Ratio

Banks must also maintain a minimum total capital of 9% of RWAs, which includes Tier 1 and Tier 2 capital. The maximum amount of Additional Tier 1 capital that can be included in Tier 1 capital is 1.5% of RWAs, and the maximum amount of Tier 2 capital that can be included in total capital is 2% of RWAs.

Any excess Additional Tier 1 and Tier 2 capital can be recognized for reporting Tier 1 capital and CRAR in the same proportion as applicable towards minimum capital requirements. However, if a bank does not have the minimum CET1 capital and capital conservation buffer required, excess capital cannot be reckoned towards computing and reporting Tier 1 capital and total capital.

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| --- | --- | --- |
|  | **Regulatory Capital** | **As % to RWAs** |
| (i) | Minimum Common Equity Tier 1 Ratio | 5.5 |
| (ii) | Capital Conservation Buffer (comprised of Common Equity) | 2.5 |
| (iii) | Minimum Common Equity Tier 1 Ratio plus Capital Conservation Buffer [(i)+(ii)] | 8.0 |
| (iv) | Additional Tier 1 Capital | 1.5 |
| (v) | Minimum Tier 1 Capital Ratio [(i) +(iv)] | 7.0 |
| (vi) | Tier 2 Capital | 2.0 |
| (vii) | Minimum Total Capital Ratio (MTC) [(v)+(vi)] | 9.0 |
| (viii) | Minimum Total Capital Ratio plus Capital Conservation Buffer [(vii)+(ii)] | 11.5 |

The various components of Common Equity Tier 1 capital, which includes common shares, stock surplus, statutory reserves, capital reserves, other disclosed free reserves, and profits. Banks can reckon their profits on a quarterly basis for CRAR calculation, provided incremental provisions for non-performing assets have not deviated more than 25% from the average of the four quarters.

Overall, The importance of maintaining an adequate level of capital to mitigate risks and ensure the stability of the banking system in India.

The capital requirements for banks under the Basel III framework. Specifically, it is discussing the elements of Additional Tier 1 Capital and Tier 2 Capital for Indian banks and foreign banks operating in India.

Additional Tier 1 capital is made up of several elements including Perpetual Non-Cumulative Preference Shares (PNCPS), stock surplus resulting from the issue of instruments included in Additional Tier 1 capital, and debt capital instruments that comply with regulatory requirements. When calculating capital adequacy at the consolidated level, Additional Tier 1 instruments issued by consolidated subsidiaries of the bank and held by third parties may also be included.

However, there are also regulatory adjustments and deductions applied in the calculation of Additional Tier 1 capital, and there are criteria for classification as Additional Tier 1 Capital for regulatory purposes. Banks should not issue Additional Tier 1 capital instruments to retail investors.

For Tier 2 Capital, there are also several elements including general provisions and loss reserves, debt capital instruments issued by banks, preference share capital instruments, stock surplus resulting from the issue of instruments included in Tier 2 capital, and revaluation reserves at a discount. As with Additional Tier 1 capital, there are also regulatory adjustments and deductions applied in the calculation of Tier 2 capital.

The regulatory adjustments and deductions that are made to a bank's regulatory capital under the Basel III framework. Basel III is a set of international banking regulations designed to promote financial stability and prevent financial crises by requiring banks to maintain sufficient levels of capital to absorb losses.

The calculation of minority interest and other capital issued out of consolidated subsidiaries held by third parties, which must be furnished. This refers to the process of calculating the amount of capital that is held by entities outside of the bank but is still considered part of the bank's consolidated capital.

The regulatory adjustments and deductions that are applied to a bank's regulatory capital at both solo and consolidated levels. The deductions include:

**Goodwill and all other intangible assets**: This refers to the amount of money paid for intangible assets such as patents, trademarks, and customer relationships that cannot be physically touched. These assets must be deducted from the bank's Common Equity Tier 1 capital, which is a key measure of a bank's financial strength.

**Deferred Tax Assets (DTAs):** These are assets that can be used to reduce future tax payments. DTAs associated with accumulated losses and net of DTL must be deducted from Common Equity Tier 1 capital.

**Cash Flow Hedge Reserve**: This refers to the amount of money set aside to protect against changes in the value of future cash flows. The cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet should be derecognized in the calculation of Common Equity Tier 1.

**Shortfall of the Stock of Provisions to Expected Losses:** This refers to the amount of money that is set aside for expected losses but falls short of the actual losses incurred. The full amount of the shortfall must be deducted from the bank's Common Equity Tier 1 capital.

**Gain-on-Sale Related to Securitisation Transactions:** Banks are required to derecognize in the calculation of Common Equity Tier 1 capital any increase in equity capital resulting from a securitization transaction. This means that any gains from such transactions must be deducted from the bank's regulatory capital.

Cumulative Gains and Losses due to Changes in Own Credit Risk on Fair Valued Financial Liabilities All unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the bank's own credit risk must be derecognized in the calculation of Common Equity Tier 1 capital.

These deductions must be made both at the solo level (for the bank itself) and at the consolidated level (for the bank and all of its subsidiaries).

Overall, The purpose of these deductions is to ensure that a bank's regulatory capital accurately reflects its true financial strength and ability to absorb losses. By requiring banks to maintain sufficient levels of capital, Basel III aims to promote financial stability and prevent another financial crisis like the one that occurred in 2008.

The treatment of a bank's investments in capital instruments of financial entities within limits. These investments are subject to stringent regulations, including a corresponding deduction approach and risk-weighting according to banking and trading book rules.Thenreciprocal cross-holdings in the capital of banking, financial, and insurance entities, which might result in inflating the capital position of banks. These holdings will be fully deducted.

An indicative list of financial institutions other than banks and insurance companies for capital adequacy purposes, such as Asset Management Companies of Mutual Funds, Venture Capital Funds, Private Equity Funds, Non-Banking Finance Companies, Housing Finance Companies, Primary Dealers, Merchant Banking Companies, and entities engaged in activities which are ancillary to the business of banking under the B.R. Act, 1949.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Investments in the Capital Instruments of Banking, Financial and Insurance Entities that are outside the scope of regulatory consolidation (i.e. excluding insurance and non-financial subsidiaries)** | | | | | | | | | | | | | | | |
|  | | | | | | | | | | | | | | | |
| In the entities where the bank does not own more than 10% of the common  share capital of individual entity | | | In the entities where the bank owns more than 10% of the common share capital of individual  entity | | | | | | | | | | |
|  | | |  | | | | | | | | | | |
| Aggregate of investments in capital instruments of all such entities and compare with 10% of bank’s own Common Equity | | | **EQUITY**  Compare aggregated equity investments with 10% of bank’s Common Equity | | | | |  | |  | | **NON-COMMON EQUITY**  All such investment will be deducted following corresponding  deduction approach | |
|  | | |  | | | | |  | |  | |  | |
| Investments less than 10% will be risk weighted according to  banking book  and trading book rules |  | Investments more than 10% will be deducted following corresponding deduction approach | |  | Investments less than 10% will be risk weighted at 250% |  | More than 10% will be deducted from Common Equity | |  | |  | |  | |

This limits and regulations for banks' investments in the capital instruments of other banking, financial, and insurance entities. The regulations state that a bank's investment in such capital instruments should not exceed 10% of its capital funds. If a bank acquires a fresh stake in a bank's equity shares, the investing bank's holding should not exceed 5% of the investee bank's equity capital. Under the provisions of Section 19(2) of the Banking Regulation Act, 1949, a banking company cannot hold shares in any company exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less.

The treatment of a bank's investments in capital instruments of financial entities within limits. These investments are subject to stringent regulations, including a corresponding deduction approach and risk-weighting according to banking and trading book rules. The reciprocal cross-holdings in the capital of banking, financial, and insurance entities, which might result in inflating the capital position of banks. These holdings will be fully deducted.

An indicative list of financial institutions other than banks and insurance companies for capital adequacy purposes, such as Asset Management Companies of Mutual Funds, Venture Capital Funds, Private Equity Funds, Non-Banking Finance Companies, Housing Finance Companies, Primary Dealers, Merchant Banking Companies, and entities engaged in activities which are ancillary to the business of banking under the B.R. Act, 1949.

The Regulations and guidelines for determining the capital adequacy of banks and financial institutions in India, as per the Basel III framework.

The Requirements for deductions from a bank's capital for investments that are not common shares. This means that if a bank invests in something other than common shares, such as bonds or other types of securities, the amount of the investment that can count towards the bank's capital will be reduced. The deduction should be applied to the same tier of capital for which the capital would qualify if it was issued by the bank itself.

The Requirements for deductions from a bank's capital for investments in common shares. If a bank invests in common shares that exceed 10% of the bank's common equity, the excess amount must be deducted from the bank's Common Equity Tier 1 capital. Any amount up to 10% of the bank's common equity invested in such entities can still count towards the bank's capital, but it will be risk-weighted at 250%.

The indirect investments in financial entities through mutual funds, index funds, venture capital funds, private equity funds, and investment companies. Depending on the availability of information on the amount of investments made by these funds in financial entities' capital instruments, different rules will apply to calculate the bank's indirect investment.

The Investors such as Employee Pension Funds, who may subscribe to regulatory capital issues of commercial banks. If these funds enjoy a counter guarantee by the bank for returns, their investments will not be considered as regulatory capital for the purpose of capital adequacy.

The transitional arrangements related to the implementation of Basel III regulations, which are designed to strengthen the global banking system's resilience and stability. The transition period will begin on April 1, 2013, and will end on March 31, 2018. During this period, banks will gradually phase in the new capital ratios and deductions from Common Equity. The regulatory adjustments will be fully deducted from Common Equity Tier 1 by March 31, 2017.

overall, guidance provided to banks and financial institutions in India, emphasizing the need for maintaining adequate capital to absorb losses and ensure financial stability.

**Transitional Arrangements-Scheduled Commercial Banks (excludingLABs and RRBs)**

(% of RWAs)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Minimum capital**  **ratios** | April 1,  2013 | March 31,  2014 | March 31,  2015 | March 31,  2016 | March 31,  2017 | March 31,  2018 |
| Minimum Common Equity Tier 1 (CET1) | 4.5 | 5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Capital conservation buffer (CCB) | - | - | 0.625 | 1.25 | 1.875 | 2.5 |
| Minimum CET1+ CCB | 4.5 | 5 | 6.125 | 6.75 | 7.375 | 8 |
| Minimum Tier 1 capital | 6 | 6.5 | 7 | 7 | 7 | 7 |
| Minimum Total Capital\* | 9 | 9 | 9 | 9 | 9 | 9 |
| Minimum Total Capital  +CCB | 9 | 9 | 9.625 | 10.25 | 10.875 | 11.5 |
|  | | | | | | |
| Phase-in of all deductions from CET1  (in %) # | 20 | 40 | 60 | 80 | 100 | 100 |

**Capital Charge for Credit Risk (Refer 5to 5.8.4)**

**General**

The Reserve Bank of India's framework for assigning risk weights to various types of claims that banks may have, as part of the calculation of their capital adequacy ratios.

**Claims on Foreign Sovereigns – Risk Weights**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S&P\* Fitch ratings** | **AAA to AA** | **A** | **BBB** | **BB to B** | **Below B** | **Unrated** |
| **Moody’s ratings** | **Aaa to Aa** | **A** | **Baa** | **Ba to B** | **Below B** | **Unrated** |
| **Risk weight (%)** | 0 | 20 | 50 | 100 | 150 | 100 |

The Standardized Approach: This is a method for calculating the risk-weighted assets of a bank, which is one component of the capital adequacy ratio. Under this approach, the risk weight assigned to a particular claim (such as a loan or investment) will depend largely on the external credit rating assigned to it by eligible credit rating agencies.

**Claims on Foreign PSEs – Risk Weights**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S&P Fitch ratings** | **AAA**  **to AA** | **A** | **BBB to BB** | **Below BB** | **Unrated** |
| **Moody’s ratings** | **Aaa to Aa** | **A** | **Baa to Ba** | **Below Ba** | **Unrated** |
| **RW (%)** | 20 | 50 | 100 | 150 | 100 |

Eligible external credit rating agencies: The Reserve Bank of India has identified a list of external credit rating agencies that meet its eligibility criteria for providing ratings that can be used for capital adequacy purposes. Banks can rely on the ratings assigned by these agencies to assign risk weights to their claims.

**Claims on Foreign Banks – Risk Weights**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S &P Fitch ratings** | **AAA to AA** | **A** | **BBB** | **BB to B** | **Below B** | **Unrated** |
| **Moody’s ratings** | **Aaa to Aa** | **A** | **Baa** | **Ba to B** | **Below B** | **Unrated** |
| **Risk weight (%)** | 20 | 50 | 50 | 100 | 150 | 50 |

Claims on Domestic Sovereigns: Claims on the central government and state governments will attract zero risk weight, as will claims that are guaranteed by the central government. However, claims guaranteed by state governments will attract a 20% risk weight. The risk weight for claims on the central government will also apply to claims on the Reserve Bank of India, DI CGC, Credit

**Part A – Long term Claims on Corporates – Risk Weights**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Domestic rating agencies** | **AAA** | **AA** | **A** | **BBB** | **BB & below** | **Unrated** |
| Risk weight (%) | 20 | 30 | 50 | 100 | 150 | 100 |

Claims on Foreign Sovereigns: The risk weight for claims on foreign sovereigns will depend on the credit rating assigned to them by international rating agencies. However, claims denominated in the domestic currency of the foreign sovereign and met out of resources in the same currency raised in the jurisdiction of that sovereign will attract a risk weight of zero percent.

Claims on Public Sector Entities (PSEs): Claims on domestic PSEs will be risk-weighted similarly to claims on corporates. Claims on foreign PSEs will be risk-weighted based on the credit rating assigned by international rating agencies.

**Part B - Short Term Claims on Corporates - Risk Weights**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CARE** | **CRISIL** | **India Ratings and Research Private Limited**  **(India Ratings)** | **ICRA** | **Brickwork** | **SME Rating Agency of India Ltd.**  **(SMERA)** | **(%)** |
| CARE A1+ | CRISIL A1+ | IND A1+ | ICRA A1+ | Brickwork A1+ | SMERA A1+ | 20 |
| CARE A1 | CRISIL A1 | IND A1 | ICRA A1 | Brickwork A1 | SMERA A1 | 30 |
| CARE A2 | CRISIL A2 | IND A2 | ICRA A2 | Brickwork A2 | SMERA A2 | 50 |
| CARE A3 | CRISIL A3 | IND A3 | ICRA A3 | Brickwork A3 | SMERA A3 | 100 |
| CARE A4  & D | CRISIL A4  & D | IND A4  & D | ICRA A4  & D | Brickwork A4 & D | SMERA A4  & D | 150 |
| Unrated | Unrated | Unrated | Unrated | Unrated | Unrated | 100 |

Claims on Banks (Exposure to capital instruments): Banks' investments in the capital instruments of other banks will attract appropriate risk weights based on certain conditions. Investments in capital instruments of banks where the investing bank holds not more than 10% of the issued common shares of the invested banks will not be deducted, but will attract appropriate risk weights. However, equity investments in other banks where the investing bank holds more than 10% of the issued common shares of the invested banks will attract a risk weight of 1250%. Claims on banks incorporated in India and the branches of foreign banks in India will be risk-weighted.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Risk Weights (%) | | | | | |
| All Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and Co-  Operative Banks) | | | All Non-Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and Co-  Operative Banks ) | | |
| Level of  Common Equity Tier  1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank  (where applicable) | Investments referred to in paragraph  5.6.1 (i) | Investments referred to in paragraph  5.6.1 (ii) | All other claims | Investments referred to in paragraph  5.6.1 (i) | Investments referred to in paragraph  5.6.1 (ii) | All Other Claim s |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Applicable Minimum CET1 + Applicable CCB and above | 125 % or the risk weight as per the rating of the instrument or counterparty  , whichever  is higher | 250 | 20 | 125% or the risk weight as per the rating of the instrument or counterparty  , whichever  is higher | 300 | 100 |
| Applicable Minimum CET1 + CCB = 75%  and <100% of  applicable CCB35 | 150 | 300 | 50 | 250 | 350 | 150 |
| Applicable Minimum CET1 + CCB = 50%  and <75% of  applicable CCB | 250 | 350 | 100 | 350 | 450 | 250 |
| Applicable Minimum CET1 + CCB = 0%  and <50% of  applicable CCB | 350 | 450 | 150 | 625 | Full deduction\* | 350 |
| Minimum CET1 less than applicable  minimum | 625 | Full deduction\* | 625 | Full deduction\* | Full deduction\* | 625 |

Overall, detailed framework for assigning risk weights to various types of claims that banks may have, based on factors such as credit ratings and the type of entity being claimed against. The purpose of this framework is to ensure that banks have sufficient capital to absorb potential losses on their various exposures.

**(Refer 5.9 to 5.13.8)**

In the field of regulatory capital requirements, there is a specific portfolio known as the regulatory retail portfolio that consists of claims assigned a risk weight of 75%. The criteria and requirements for claims to be included in this portfolio, highlighting which claims are eligible and which are excluded.

The criteria for claims to be included in the regulatory retail portfolio include:

Orientation Criterion: The exposure must be to an individual person or persons, or to a small business with an average annual turnover of less than Rs. 50 crore. The exposure can be in the form of fund-based or non-fund-based credit facilities.

Product Criterion: The exposure must take the form of revolving credits and lines of credit (including overdrafts), term loans and leases (such as installment loans, student loans, and small business facilities and commitments).

Granularity Criterion: The portfolio must be diversified so that no aggregate exposure to one counterpart exceeds 0.2% of the overall regulatory retail portfolio. The maximum aggregated retail exposure to one counterpart should not exceed the absolute threshold limit of Rs. 5 crore.

Low value of individual exposures: The maximum aggregated retail exposure to one counterpart should not exceed the absolute threshold limit of Rs. 5 crore.

**Claims Secured by Residential Property – Risk Weights41**

|  |  |  |
| --- | --- | --- |
| Category of Loan | LTV Ratio42 (%) | Risk Weight (%) |
| (a) Individual Housing Loans |  |  |
| (i) Up to Rs. 20 lakh | 90 | 50 |
| (ii) Above Rs. 20 lakh and up to Rs. 75 lakh | 80 | 50 |
| (iii) Above Rs.75 lakh | 75 | 75 |
| (b) Commercial Real Estate – Residential Housing (CRE-RH) | N A | 75 |
| (c) Commercial Real Estate (CRE) | N A | 100 |

Claims that are excluded from the regulatory retail portfolio include:

Exposures by way of investments in securities (such as bonds and equities), whether listed or not

Mortgage loans that qualify for treatment as claims secured by residential or commercial real estate

Loans and advances to a bank's own staff that are fully covered by superannuation benefits and or mortgages of flat house

Consumer credit, including personal loans and credit card receivables

Capital market exposures

Venture capital fundS

The treatment of claims secured by residential property is discussed, highlighting how such claims are treated differently based on certain criteria. It further explains that lending to individuals for acquiring residential property that is secured by mortgages is assigned a risk weight according to the LTV ratio, while other claims secured by residential property attract the higher of the risk weight applicable to the counterparty or the purpose for which the bank has extended finance. Additionally, mentions an additional risk weight of 25% given to restructured housing loans.

The calculation of risks associated with investments made in capital and equity instruments issued by Non-Banking Financial Companies (NBFCs). The risk weight for capital instruments would be 125% or as per external ratings, whichever is higher. Similarly, equity instruments would have a risk weight of 250%. Additionally, then the risk weight of claims made on Non-deposit Taking Systemically Important NBFCs, except AFCs, NBFC-IFCs, and NBFC-IDF, which will have a uniform risk weight of 100%.

Finally, the Reserve Bank of India will evaluate the risk weight assigned to the retail portfolio at periodic intervals with reference to the default experience for these exposures, and may consider whether the credit quality of regulatory retail claims held by individual banks should warrant a standard risk weight higher than 75%.

**[Refer 5.13.6 to 5.15.3.2)**

Equity investments in non-financial entities (except subsidiaries) exceeding 10% of issued common share capital or in unconsolidated affiliates will receive a risk weight of 1111%. Equity investments equal to or below 10% of such entities will be assigned a 125% risk weight or higher as warranted by rating or lack of it.

Investments in capital instruments issued by financial entities (excluding banks and NBFCs) that are not deducted and are required to be risk weighted will receive a risk weight of 125% or as per external ratings, whichever is higher. Equity instruments issued by such entities will receive a risk weight of 250%.

Investments by banks in non-equity capital eligible instruments of other banks should be risk weighted.

Loans and advances to a bank's own staff fully covered by superannuation benefits or a mortgage of a flat house will attract a 20% risk weight. Other loans and advances to staff will be eligible for inclusion under the regulatory retail portfolio and will attract a 75% risk weight. All other assets will receive a uniform risk weight of 100%.

**Credit Conversion Factors – Non-market related Off-Balance Sheet Items**

|  |  |  |
| --- | --- | --- |
| **Sr.**  **No.** | **Instruments** | **Credit Conversion Factor (%)** |
| 1. | Direct credit substitutes e.g. general guarantees of indebtedness (including standby L/Cs serving as financial guarantees for loans and securities, credit enhancements, liquidity facilities for securitisation transactions), and acceptances (including endorsements with the character of acceptance). (i.e., the risk of loss depends on the credit worthiness of the counterparty or  the party against whom a potential claim is acquired) | 100 |
| 2. | Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties, indemnities and standby letters of credit related to particular transaction). | 50 |
| 3. | Short-term self-liquidating trade letters of credit arising from the movement  of goods (e.g. documentary credits collateralised by the underlying shipment) for both issuing bank and confirming bank. | 20 |
| 4. | Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank.  (These items are to be risk weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been  entered into.) | 100 |
| 5. | Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain drawdown.  (These items are to be risk weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been  entered into.) | 100 |
| 6 | Lending of banks’ securities or posting of securities as collateral by banks, including instances where these arise out of repo style transactions (i.e., repurchase reverse repurchase and securities lending securities  borrowing transactions) | 100 |
| 7. | Note issuance facilities and revolving non-revolving underwriting facilities. | 50 |
| 8 | Commitments with certain drawdown | 100 |
| 9. | Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of  a) up to one year  b) over one year  Similar commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic  cancellation due to deterioration in a borrower’s credit worthiness47 | 20  50  0 |
| 10. | Take-out Finance in the books of taking-over institution |  |

|  |  |  |
| --- | --- | --- |
| **Sr.**  **No.** | **Instruments** | **Credit Conversion Factor (%)** |
|  | (i) Unconditional take-out finance | 100 |
| (ii) Conditional take-out finance | 50 |

Deposits kept by banks with CCPs will receive a risk weight appropriate to the nature of the CCPs. For instance, Clearing Corporation of India Limited (CCIL) will receive a risk weight of 20% and other CCPs will receive a risk weight based on the assigned ratings.

The total risk-weighted off-balance sheet credit exposure is calculated as the sum of the risk-weighted amount of market and non-market-related off-balance sheet items. The credit equivalent amount of a non-market-related off-balance sheet item, such as direct credit substitutes, trade and performance-related contingent items, and commitments with certain drawdown, will be determined by multiplying the contracted amount by the relevant credit conversion factor (CCF).

If the non-market-related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of the undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Irrevocable commitments to provide off-balance sheet facilities will be assigned the lower of the two applicable credit conversion factors.

Guarantees issued by banks against the counter-guarantees of other banks and re-discounting of documentary bills discounted by other banks and bills discounted by banks accepted by another bank will be treated as a funded claim on a bank.

Banks must ensure that the risk exposure is on the other bank before assigning a risk weight applicable to banks. Irrevocable payment commitments by banks to various stock exchanges on behalf of mutual funds and FIIs are financial guarantees with a CCF of 100. However, capital will have to be maintained only on the exposure that is reckoned as CME, i.e., 50% of the amount, because the rest of the exposure is deemed to have been covered by cash securities that are admissible risk litigants as per the capital adequacy framework.

**{9th march}**

{**Refer 5.15.3.3 to 5.15.3.7}**

Counterparty Credit Risk (CCR) refers to the risk that the other party in a transaction may default before the transaction's final settlement, resulting in an economic loss if the transaction or portfolio has a positive economic value at the time of default. CCR differs from a firm's exposure to credit risk through a loan, as it creates a bilateral risk of loss. Securities Financing Transactions (SFTs) are transactions that depend on market valuations and are often subject to margin agreements. A Hedging Set is a group of risk positions from transactions within a single netting set for which only their balance is relevant for determining the exposure amount or EAD under the CCR standardized method. The Current Exposure is the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the counterparty's default, assuming no recovery on the value of those transactions in bankruptcy. Credit Valuation Adjustment is an adjustment to the mid-market valuation of the portfolio of trades with a counterparty to reflect the market value of the credit risk due to any failure to perform on contractual agreements with a counterparty. Treatment of exposure to Central Counterparties is assigning zero exposure value for counterparty credit risk for derivatives trading and securities financing transactions to Central Counterparties, as it is presumed that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures. When entering into bilateral OTC derivative transactions, banks are required to hold capital to protect against the risk that the counterparty defaults and for credit valuation adjustment (CVA) risk. The exposure amount for the purpose of computing the default risk capital charge for counterparty credit risk will be calculated using the Current Exposure Method (CEM).

{**Refer 5.15.4 to 5.16.5}**

Banks can face credit risks from unsettled securities and foreign exchange transactions from the date of the trade. It does not matter when the transaction was booked or accounted for. Banks should develop and improve systems to track and monitor credit risk exposure from unsettled transactions. This will help them to take timely action.

Banks must watch closely for securities and foreign exchange transactions that have failed. They should start monitoring them from the day they fail. This will help banks to take action on time. Failed transactions may cause a risk of delayed settlement or delivery.

Transactions settled through delivery-versus-payment systems expose banks to the risk of loss. This is because of the difference between the transaction value at the agreed settlement price and the value at the current market price. Failed transactions, where cash is paid without receiving the corresponding receivable or the deliverables are delivered without receiving the corresponding cash payment, expose banks to a risk of loss on the full amount of cash paid or deliverables delivered. Therefore, a capital charge is required for failed transactions. This applies to all failed transactions, including those through recognised clearing houses.

|  |  |
| --- | --- |
| **Number of working days after the agreed settlement date** | **Corresponding risk multiplier (in per cent)** |
| From 5 to 15 | 9 |
| From 16 to 30 | 50 |
| From 31 to 45 | 75 |
| 46 or more | 100 |

For DvP Transactions – If the payments have not yet taken place five business days after the settlement date, banks must calculate a capital charge by multiplying the positive current exposure of the transaction by the appropriate factor.

For non-DvP transactions (free deliveries) after the first contractual payment delivery leg, the bank that has made the payment will treat its exposure as a loan if the second leg has not been received by the end of the business day. If the dates when two payment legs are made are the same according to the time zones where each payment is made, it is deemed that they are settled on the same day.

Securitisation Exposures

Securitisation transactions that meet the minimum requirements as per the circular DBOD.No.BP.BC.60/21.04.048/2005-06 dated February 1, 2006, and circular DBOD.No.BP.BC.103/ 21.04.177/2011-12 dated May 07, 2012, qualify for the following prudential treatment of securitisation exposures for capital adequacy purposes. Banks' exposures to a securitisation transaction, referred to as securitisation exposures, can include, but are not restricted to, investments in asset-backed securities, retention of a subordinated tranche, and extension of a liquidity facility or credit enhancement.

**Securitisation Exposures – Risk Weight Mapping to Long-Term Ratings**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Domestic rating agencies** | **AAA** | **AA** | **A** | **BBB** | **BB** | **B and below or unrated** |
| **Risk weight for banks other**  **than originators (%)** | 20 | 30 | 50 | 100 | 350 | 1111 |
| **Risk weight for originator (%)** | 20 | 30 | 50 | 100 | 1111 | |

Banks must hold regulatory capital against all their securitisation exposures, including those arising from the provision of credit risk mitigants to a securitisation transaction. Repurchased securitisation exposures must be treated as retained securitisation exposures.

An originator in a securitisation transaction that does not meet the minimum requirements must hold capital against all the exposures associated with the securitisation transaction as if they had not been securitised. Additionally, the originator must deduct any gain on the sale of such a transaction from Tier I capital. This capital is in addition to the capital required to maintain on other existing exposures to the securitisation transaction.

**Commercial Real Estate Securitisation Exposures – Risk Weight mapping to long-term ratings**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Domestic Rating Agencies** | **AAA** | **AA** | **A** | **BBB** | **BB** | **B and below or unrated** |
| **Risk weight for banks other than originators (%)** | 100 | 100 | 100 | 150 | 400 | 1111 |
| **Risk weight for**  **originator (%)** | 100 | 100 | 100 | 150 | 1111 | |

{**Refer 5.16.5 to 5.17.2}**

Banks are not allowed to invest in unrated securities issued by an SPV as part of a securitisation transaction. However, banks can assume securitisation exposures that may become unrated or be deemed unrated for capital adequacy purposes. There should be a transfer of significant credit risk to third parties to recognise risk transfer. Banks should not exceed a limit of 20% of total securitised instruments issued for investments in equity subordinate senior tranches of securities issued by the SPV, credit enhancements, and liquidity support. If a bank exceeds the limit, the excess amount would be risk-weighted at 1111%.

If an originating bank fails to meet the guidelines on securitisation transactions, it will have to maintain capital for the securitised assets sold as if these were not securitised sold. The investing banks will assign a risk weight of 1111% to the exposures relating to securitisation. The higher risk weight of 1111% is applicable from October 01, 2012.

**Re-securitisation Exposures – Risk Weight Mapping to Long-Term Ratings**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Domestic rating agencies** | **AAA** | **AA** | **A** | **BBB** | **BB** | **B and below or unrated** |
| Risk weight for banks other  than originators (%) | 40 | 60 | 100 | 200 | 650 | 1111 |
| Risk weight for originator (%) | 40 | 60 | 100 | 200 | 1111 | |

For off-balance sheet securitisation exposures, banks shall calculate the risk-weighted amount of a rated exposure by multiplying the credit equivalent amount of the exposure by the applicable risk weight. The credit equivalent amount should be arrived at by multiplying the principal amount of the exposure with a 100% CCF, unless otherwise specified. If the off-balance sheet exposure is not rated, it must be deducted from capital, except for an unrated eligible liquidity facility for which the treatment has been specified.

**Commercial Real Estate Re-Securitisation Exposures – Risk Weight Mapping to Long-Term Ratings**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Domestic rating agencies** | **AAA** | **AA** | **A** | **BBB** | **BB and below or unrated** |
| Risk weight for banks other than originators (%) | 200 | 200 | 200 | 400 | 1111 |
| Risk weight for originator (%) | 200 | 200 | 200 | 400 | 1111 |

If a bank obtains a credit risk mitigant on a securitisation exposure, such as guarantees and eligible collateral, it must calculate a capital requirement on the covered exposure as if it were an investor in that securitisation. Capital requirements for the guaranteed protected portion will be calculated according to CRM methodology for the standardized approach.

When there is a maturity mismatch the following adjustment will be applied.

Pa = P x (t - 0.25) ÷ (T - 0.25)

Where:

Pa = value of the credit protection adjusted for maturity mismatch P = credit protection

t = min (T, residual maturity of the credit protection arrangement) expressed in years

T = min (5, residual maturity of the underlying exposure) expressed in years

*Example:* Suppose the underlying asset is a corporate bond of Face Value of Rs.100 where the residual maturity is of 5 years and the residual maturity of the CDS is 4 years. The amount of credit protection is computed as under: 100 \* {(4 - 0.25) ÷ (5 - 0.25)} = 100\*(3.75÷ 4.75) = 78.95

Once the residual maturity of the CDS contract reaches three months, protection ceases to be recognised.

Eligible liquidity facilities are considered 'eligible' if they meet all minimum requirements prescribed in the guidelines issued on February 1, 2006. Rated liquidity facilities will be risk-weighted or deducted according to the appropriate risk weight determined by the chosen External Credit Assessment Institutions (ECAIs). Unrated eligible liquidity facilities will be exempted from deductions and will be given the highest risk weight assigned to any of the underlying individual exposures covered by the facility.

Banks in India are not allowed to assume exposures relating to re-securitisation Synthetic Securitisations, Securitisations with Revolving Structures (with or without early amortization features). However, some Indian banks have invested in CDOs and other similar securitization exposures through their overseas branches.

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**External Credit Assessments (Refer 6 to 6.5.6}**

**{10thMarch }**

The Reserve Bank of India (RBI) has identified the eligible credit rating agencies whose ratings may be used by banks for assigning risk weights for credit risk. Banks must use these ratings consistently for each type of claim, for both risk weighting and risk management purposes. Banks should not cherry-pick the assessments provided by different credit rating agencies and should not use one agency's rating for one corporate bond while using another agency's rating for another exposure to the same counterparty. Banks must disclose the names of the credit rating agencies they use, the risk weights associated with the particular rating grades, as determined by the RBI through the mapping process for each eligible credit rating agency, as well as the aggregated risk-weighted assets.

The eligible credit rating agencies include six domestic credit rating agencies: Brickwork Ratings India Pvt. Limited (Brickwork), Credit Analysis and Research Limited, CRISIL Limited, ICRA Limited, India Ratings and Research Private Limited (India Ratings), and SME Rating Agency of India Ltd. (SMERA). Three international credit rating agencies are also eligible: Fitch, Moody's, and Standard & Poor's.

For assets in the bank's portfolio that have a contractual maturity less than or equal to one year, short-term ratings accorded by the chosen credit rating agencies would be relevant. For other assets with a contractual maturity of more than one year, long-term ratings accorded by the chosen credit rating agencies would be relevant. Cash credit exposures, even though sanctioned for a period of one year or less, should be reckoned as long-term exposures, and accordingly, the long-term ratings accorded by the chosen credit rating agencies will be relevant.

**Risk Weight Mapping of Long Term Ratings of the chosen Domestic Rating Agencies**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CARE** | **CRISIL** | **India Ratings and Research Private Limited**  **(India Ratings)** | **ICRA** | **Brickwork** | **SME Rating Agency of India Ltd. (SMERA)** | **Standardised approach risk weights**  **(in per cent)** |
| CARE AAA | CRISIL AAA | IND AAA | ICRA AAA | Brickwork AAA | SMERA AAA | 20 |
| CARE AA | CRISIL AA | IND AA | ICRA AA | Brickwork AA | SMERA AA | 30 |
| CARE A | CRISIL A | IND A | ICRA A | Brickwork A | SMERA A | 50 |
| CARE BBB | CRISIL BBB | IND BBB | ICRA BBB | Brickwork BBB | SMERA BBB | 100 |
| CARE BB, CARE B,  CARE C & CARE D | CRISIL BB, CRISIL B,  CRISIL C & CRISIL D | IND BB, IND B, IND C & IND D | ICRA BB, ICRA B,  ICRA C & ICRA D | Brickwork BB, Brickwork B,  Brickwork C & Brickwork D | SMERA BB, SMERA B,  SMERA C & SMERA D | 150 |
| Unrated | Unrated | Unrated | Unrated | Unrated | Unrated | 100 |

To be eligible for risk weighting purposes, the external credit assessment must take into account and reflect the entire amount of credit risk exposure the bank has with regard to all payments owed to it. The rating should be in force and confirmed from the monthly bulletin of the concerned rating agency. The rating agency should have reviewed the rating at least once during the previous 15 months. An eligible credit assessment must be publicly available and included in the external credit rating agency's transition matrix. Ratings that are made available only to the parties to a transaction do not satisfy this requirement.

The RBI recommends a mapping process to assign the ratings issued by eligible credit rating agencies to the risk weights available under the standardized risk weighting framework. The mapping process is required to result in a risk weight assignment consistent with that of the level of credit risk. A mapping of the credit ratings awarded by the chosen domestic credit rating agencies has been furnished, which should be used by banks in assigning risk weights to the various exposures.

**Risk Weight Mapping of Short Term Ratings of Domestic Rating Agencies**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CARE** | **CRISIL** | **India Ratings and Research Private Limited (India**  **Ratings)** | **ICRA** | **Brickwork** | **SME**  **Rating Agency of India Ltd. (SMERA)** | **Standardised approach risk weights**  **(in per cent)** |
| CARE A1+ | CRISIL A1+ | IND A1+ | ICRA A1+ | Brickwork A1+ | SMERA A1+ | 20 |
| CARE A1 | CRISIL A1 | IND A1 | ICRA A1 | Brickwork A1 | SMERA A1 | 30 |
| CARE A2 | CRISIL A2 | IND A2 | ICRA A2 | Brickwork A2 | SMERA A2 | 50 |
| CARE A3 | CRISIL A3 | IND A3 | ICRA A3 | Brickwork A3 | SMERA A3 | 100 |
| CARE A4  & D | CRISIL A4  & D | IND A4 & D | ICRA A4  & D | Brickwork A4 & D | SMERA A4  & D | 150 |
| Unrated | Unrated | Unrated | Unrated | Unrated | Unrated | 100 |

On the basis of the data made available by the rating agencies, the ratings issued by the chosen domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the standardized approach under the revised framework. If an issuer has a long-term exposure with an external long-term rating that warrants a risk weight of 150 per cent, all unrated claims on the same counter-party, whether short-term or long-term, should also receive a 150 per cent risk weight, unless the bank uses recognized credit risk mitigation techniques for such claims.

The RBI has identified eligible credit rating agencies whose ratings may be used by banks for assigning risk weights for credit risk. Banks must use these ratings consistently for each type of claim, for both risk weighting and risk management purposes, and must disclose the names of the credit rating agencies they use, the risk weights associated with the particular rating grades, as determined by the RBI through the mapping process for each eligible credit rating agency, as well as the aggregated risk-weighted assets. The RBI recommends a mapping process to assign the ratings issued by eligible credit rating agencies to the risk weights available under the standardized risk weighting framework

**{Refer 6.6 to 6.8.2}**

A credit rating would only be considered solicited if the issuer of the instrument has requested the credit rating agency to provide a rating and has accepted the rating given by the agency. Banks should generally only use solicited ratings from chosen credit rating agencies. Ratings issued on an unsolicited basis by credit rating agencies should not be used for risk weight calculation according to the Standardized Approach.

Use of Multiple Rating Assessments

Banks should follow the guidelines below when dealing with exposures that have multiple ratings from chosen credit rating agencies selected by the bank for risk weight calculation:

If only one rating is available from a chosen credit rating agency for a particular claim, that rating should be used to determine the risk weight of the claim.

If there are two ratings from chosen credit rating agencies that correspond to different risk weights, the higher risk weight should be applied.

If there are three or more ratings from chosen credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights should be referred to, and the higher of those two risk weights should be applied, i.e., the second-lowest risk weight.

Applicability of ‘Issue Rating’ to issuer other claims

If a bank invests in a specific issue that has an issue-specific rating from a chosen credit rating agency, the risk weight of the claim will be based on this assessment. If the bank's claim is not an investment in a specific assessed issue, the following general principles will apply:

If the borrower has a specific assessment for an issued debt, but the bank's claim is not an investment in this particular debt, the rating applicable to the specific debt may be applied to the bank's unassessed claim only if this claim ranks pari passu or senior to the specific rated debt in all respects, and the maturity of the unassessed claim is not later than the maturity of the rated claim, except where the rated claim is a short-term obligation. If not, the rating applicable to the specific debt cannot be used, and the unassessed claim will receive the risk weight for unrated claims.

If the borrower has an issuer assessment, this assessment typically applies only to senior unsecured claims on that issuer. Consequently, only senior claims on that issuer will benefit from a high-quality issuer assessment. Other unassessed claims of a highly assessed issuer will be treated as unrated. If either the issuer or a single issue has a low-quality assessment (mapping into a risk weight equal to or higher than that which applies to unrated claims), an unassessed claim on the same counterparty that ranks pari-passu or is subordinated to either the senior unsecured issuer assessment or the exposure assessment will be assigned the same risk weight as is applicable to the low-quality assessment.

If a bank intends to extend an issuer or an issue-specific rating assigned by a chosen credit rating agency to any other exposure, which the bank has on the same counterparty and which meets the above criterion, it should be extended to the entire amount of credit risk exposure the bank has with regard to that exposure, i.e., both principal and interest.

To avoid double-counting of credit enhancement factors, no recognition of credit risk mitigation techniques should be taken into account if the credit enhancement is already reflected in the issue-specific rating accorded by a chosen credit rating agency relied upon by the bank.

When unrated exposures are risk-weighted based on the rating of an equivalent exposure to that borrower, foreign currency ratings should only be used for exposures in foreign currency.

The claims on NABARD/SIDBI/NHB on account of deposits placed in lieu of shortfall in achievement of priority sector lending targets sub-targets shall be risk-weighted as applicable for unrated claims. 100%.

{**Refer 7 to 7.3.6}**

**Credit Risk Mitigation**

Banks use various methods to reduce credit risks such as collateralizing exposures in part or in full with cash or securities, deposits from the same counterparty, guarantee of a third party, etc. The updated approach to credit risk mitigation permits a broader range of credit risk mitigants to be identified for regulatory capital purposes than under the 1988 Framework, provided that these methods fulfill the requirements for legal certainty. This credit risk mitigation approach pertains to banking book exposures, as well as to the calculation of counterparty risk charges for OTC derivatives and rope-style transactions booked in the trading book.

The following are the general principles that apply to the use of credit risk mitigation techniques:

No transaction that employs credit risk mitigation techniques should be subject to higher capital requirements than an identical transaction that does not use such techniques.

The effects of CRM will not be double-counted, meaning that no additional supervisory recognition of CRM for regulatory capital purposes will be granted on claims for which an issue-specific rating is used that already reflects that CRM.

Principal-only ratings are not allowed within the CRM framework.

While the use of CRM techniques reduces or transfers credit risk, it simultaneously increases other risks, such as residual risks, which include legal, operational, liquidity, and market risks. Therefore, it is essential that banks use strong procedures and processes to control these risks, including strategy, valuation, policies and procedures, systems, control of roll-off risks, and management of concentration risk resulting from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile. If these risks are not adequately controlled, the Reserve Bank may impose additional capital charges or other supervisory actions.

Legal Certainty:

To receive capital relief for any use of CRM techniques, banks must meet the following minimum standards for legal documentation. All documentation used in collateralized transactions and guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. Banks must have conducted sufficient legal review, which should be well-documented, to verify this requirement. Such verification should have a well-founded legal basis for reaching the conclusion about the binding nature and enforceability of the documents. Banks should also undertake such further review as necessary to ensure continuing enforceability.

Credit Risk Mitigation Techniques - Collateralized Transactions:

A collateralized transaction is one in which:

Banks have a credit exposure, and that credit exposure is hedged in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty. Here, "counterparty" is used to denote a party to whom a bank has an on- or off-balance sheet credit exposure.

Banks have a specific lien on the collateral, and the requirements of legal certainty are met.

Calculation of capital requirement

For a collateralised transaction, the exposure amount after risk mitigation is calculated as follows:

**E\* = max {0, [E x (1 + He) - C x (1 - Hc - Hfx)]}**

where:

E\* = the exposure value after risk mitigation

E = current value of the exposure for which the collateral qualifies as a risk mitigant

He = haircut appropriate to the exposure

C = the current value of the collateral received Hc = haircut appropriate to the collateral

Hfx = haircut appropriate for currency mismatch between the collateral and exposure

Overall Framework and Minimum Conditions:

The framework allows banks to adopt either the simple approach, which is similar to the 1988 Accord and substitutes the risk weighting of the collateral for the risk weighting of the counterparty for the collateralized portion of the exposure (generally subject to a 20 percent floor), or the comprehensive approach, which allows fuller offset of collateral against exposures by effectively reducing the exposure amount by the value ascribed to the collateral. Banks in India shall adopt the Comprehensive Approach, which allows fuller offset of collateral against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. Under this approach, banks that take eligible financial collateral (e.g., cash or securities, more specifically defined below) are allowed to reduce their credit exposure to a counterparty when calculating their capital requirements to take account of the risk-mitigating effect of the collateral. Credit risk mitigation is allowed only on an account-by-account basis, even within the regulatory retail portfolio. However, before capital relief is granted, the standards set out below must be met:

{**Refer 7.3.7to 7.5.4}**

Haircuts refer to the reduction made by banks to the value of securities or other assets used as collateral for loans. Banks can calculate haircuts using two methods: standard supervisory haircuts, based on parameters established by the Basel Committee, or own-estimate haircuts, using the banks' internal estimates of market price volatility. In India, banks can only use standard supervisory haircuts for both exposure and collateral.

For debt securities issued by foreign central governments and corporates, haircuts may be based on ratings of international rating agencies. Sovereigns such as the Reserve Bank of India, DICGC, CGTMSE, and CRGFTLIH are eligible for zero percent risk weight. Eligible collateral, such as National Savings Certificates, Kisan Vikas Patras, surrender value of insurance policies, and banks' own deposits, may have a zero haircut.

When exposure and collateral are denominated in different currencies, the standard supervisory haircut for currency risk is eight percent, based on a 10-business day holding period and daily mark-to-market. For some transactions, different holding periods are appropriate, depending on the nature and frequency of the revaluation and remargining provisions. The framework for collateral haircuts distinguishes between repo-style transactions, other capital-market-driven transactions, and secured lending transactions. Different holding periods require an adjustment for the minimum holding period.

**Standard Supervisory Haircuts for Sovereign and other securities which constitute Exposure and Collateral**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sl. No.** | | **Issue Rating for Debt securities** | **Residual Maturity (in years)** | **Haircut**  **(in percentage)** |
| **A** | **Securities issued / guaranteed by the Government of India and issued by the State Governments (Sovereign securities)** | | | |
| I | Rating not applicable – as Government securities are not currently rated in India | ≤ 1 year | 0.5 |
| > 1 year and ≤ 5 years | 2 |
| > 5 years | 4 |
|  | **Domestic debt securities other than those indicated at Item No. A above including the securities guaranteed by Indian State Governments** | | | |
| Ii | AAA to AA A1 | ≤ 1 year | 1 |
| > 1 year and ≤ 5 years | 4 |
| > 5 years | 8 |
|  | Iii | A to BBB A2, A3 and  unrated bank securities | ≤ 1 year | 2 |
| > 1 year and ≤ years | 6 |
| > 5 years | 12 |
| Iv | Units of Mutual Funds | | Highest haircut applicable to any of the above securities, in which the eligible mutual fund. |
| **C** | **Cash in the same currency** | | | 0 |
| **D** | **Gold** | | | 15 |
|  | **Securitisation Exposures64** | | | |
|  |  | ≤ 1 year | 2 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Ii | AAA to AA | > 1 year and ≤ 5 years | 8 |
| > 5 years | 16 |
|  | Iii | A to BBB and  unrated bank securities. | ≤ 1 year | 4 |
| > 1 year and ≤ years | 12 |
| > 5 years | 24 |

**Standard Supervisory Haircut for Exposures and Collaterals which are obligations of foreign central sovereigns foreign corporates**

|  |  |  |  |
| --- | --- | --- | --- |
| **Issue rating for debt securities**  **as assigned by international rating agencies** | **Residual Maturity** | **Sovereigns**  (%) | **Other**  **Issues (%)** |
| AAA to AA / A1 | **<** = 1 year | 0.5 | 1 |
| > 1 year and < or  = 5 years | 2 | 4 |
| > 5 years | 4 | 8 |
| A to BBB /  A2 / A3 and Unrated Bank Securities | < = 1 year | 1 | 2 |
| > 1 year and < or  = 5 years | 3 | 6 |
| > 5 years | 6 | 12 |

In the case of transactions with holding periods other than 10 business days, the haircut will be adjusted by scaling up down the haircut for 10 business days. If a transaction has a margining frequency different from daily margining, the applicable haircut for the transaction is also adjusted.

Where the collateral is a basket of assets, the haircut on the basket will be,



where ai is the weight of the asset (as measured by the amount/value of the asset in units of currency) in the basket and Hi, the haircut applicable to that asset.

Repo-style transactions also attract a capital charge for counterparty credit risk (CCR), defined as the risk of default by the counterparty in a repo-style transaction, resulting in non-delivery of the security lent pledged sold or non-repayment of the cash. If a bank has borrowed funds by selling, lending, or posting securities as collateral, the exposure will be an off-balance sheet exposure equal to the market value of the securities sold or lent, scaled up after applying an appropriate haircut. The off-balance sheet exposure will be converted into on-balance sheet equivalent by applying a credit conversion factor of 100 percent.

|  |  |  |
| --- | --- | --- |
| **Transaction type** | **Minimum holding Period** | **Condition** |
| Repo-style transaction | five business days | daily remargining |
| Other capital market transactions | ten business days | daily remargining |
| Secured lending | twenty business days | daily revaluation |

In the case of a transaction where the borrower of funds has received money, the money received will be treated as collateral for the securities lent, sold,pledged, and since the collateral is cash, the haircut for it would be zero. The credit equivalent amount arrived at net of the cash collateral will attract a risk weight as applicable to the counterparty. The securities will return to the books of the borrowing bank after the repo period, and the bank will continue to maintain the capital for the credit risk in the securities in cases where the securities involved in repo are held under HTM category, and capital for market risk in cases where the securities are held under AFS HFT categories. The capital charge for credit risk specific risk would be determined according to the credit rating of the issuer of the security. In the case of Government securities, the capital charge for credit specific risk will be zero.

Formula for adjustment for different holding periods and or non-daily mark-to-market or remargining:

Adjustment for the variation in holding period and margining mark-to-market, (ix) and (x) above will be done as per the following formula:

*NR* (*TM* 1)

10

*H H* 10

where:

H = haircut

H10 = 10-business-day standard supervisory haircut for instrument

NR = actual number of business days between remargining for capital market transactions or revaluation for secured transactions.

TM = minimum holding period for the type of transaction

In the case of a transaction where the lender of funds has lent money, the amount lent will be treated as an on-balance sheet/funded exposure on the counterparty, collateralized by the securities accepted under the repo. The exposure, being cash, will receive a zero haircut. The collateral will be adjusted downwards, marked down as per the applicable haircut. The amount of exposure reduced by the adjusted amount of collateral will receive a risk weight as applicable to the counterparty.

{**Refer 7.5.5 to 7.7}**

In the event of default by the counterparty, the bank should be able to pursue the guarantor for outstanding payments under the transaction documentation without delay. The guarantor may pay all outstanding amounts in one lump sum or assume the future payment obligations of the counterparty. The bank must be able to receive payments from the guarantor without first taking legal action against the counterparty.

The guarantee should be explicitly documented and cover all types of payments the obligor is expected to make under the transaction documentation, except for uncovered payments such as interests. If the guarantee covers only the principal payment, interests and other uncovered payments should be treated as unsecured amounts.

**GA = G x (1- HFX)**

where:

G = nominal amount of the credit protection

HFX = haircut appropriate for currency mismatch between the credit protection and underlying obligation.

Credit protection provided by sovereigns, sovereign entities (including BIS, IMF, European Central Bank and European Community, as well as MDBs), banks, and primary dealers with lower risk weights than the counterparty, and externally rated entities, including credit protection provided by parent, subsidiary, and affiliate companies with lower risk weights than the obligor, will be recognized.

The protected portion of the exposure will be assigned the risk weight of the protection provider, and the uncovered portion will be assigned the risk weight of the counterparty. If the amount guaranteed or protected is less than the exposure amount, proportional cover will be afforded based on the seniority of the secured and unsecured portions.

When there is a maturity mismatch with recognised credit risk mitigants (collateral, on-balance sheet netting and guarantees) the following adjustment will be applied:

**Pa = P x ( t- 0.25 ) ÷ ( T- 0.25)**

Pa = value of the credit protection adjusted for maturity mismatch P = credit protection (e.g. collateral amount, guarantee amount)

adjusted for any haircuts

t = min (T, residual maturity of the credit protection arrangement) expressed in years

T=min (5, residual maturity of the exposure) expressed in years

If there is a currency mismatch between the credit protection and the exposure, a haircut will be applied to the amount protected, depending on the supervisory haircuts used by the bank.

A claim may be covered by a sovereign guarantee that is indirectly counter-guaranteed by a sovereign, provided that the sovereign counter-guarantee covers all credit risk elements of the claim, and both the original guarantee and the counter-guarantee meet all operational requirements for guarantees.

A maturity mismatch occurs when the residual maturity of collateral is less than that of the underlying exposure. Collateral with maturity mismatches will be recognized only if their original maturities are one year or longer, and they will no longer be recognized when they have a residual maturity of three months or less. The maturity of the underlying exposure and the collateral should be defined conservatively, taking into account any applicable grace periods.

If a bank has multiple credit risk mitigation techniques covering a single exposure, it should subdivide the exposure into portions and apply the relevant risk weight to each portion.

When a bank uses multiple credit risk mitigation (CRM) techniques to cover a single exposure, the exposure must be subdivided into portions covered by each type of CRM technique. Each portion should be assigned a separate risk weight based on the specific CRM technique used to cover it.

For example, if a bank has a loan exposure of $100 and it is partially covered by collateral and guarantee, the bank must subdivide the exposure into portions covered by collateral and guarantee. Let's say $50 is covered by collateral and $50 is covered by guarantee. The risk-weighted assets of each portion must be calculated separately based on the specific CRM technique used to cover it. So, $50 covered by collateral will have a different risk weight than $50 covered by guarantee.

Similarly, when credit protection is provided by a single protection provider but with differing maturities, they must be subdivided into separate protection as well. Each portion should be assigned a separate risk weight based on its specific maturity and the type of CRM technique used to cover it.

{**Refer 8 to 8.3.6}**

**Capital Charge for Market Risk**

Market risk refers to the possibility of losses arising from movements in market prices of on-balance sheet and off-balance sheet positions. The market risk positions subject to capital charge requirement are:

|  |  |  |
| --- | --- | --- |
| **Sr. No.** | **Nature of debt securities / issuer** | **Table to be followed** |
| a. | Central, State and Foreign Central Governments’ Bonds:  (i) Held in HFT category  (ii) Held in AFS category | Table 16 – Part A Table 16 – Part B |
| b. | Banks’ Bonds:  (i) Held in HFT category  (ii) Held in AFS category | Table 16 – Part C Table 16 – Part D |
| c. | Corporate Bonds (other than Bank Bonds):  (i) Held in HFT category  (ii) Held in AFS category | Table 16 – Part E(i) Table 16 – Part E(ii) |
| d. | Securitiesd Debt Instruments Held in HFT and AFS categories | Table 16 – Part F |
| e. | Re-securitiesd Debt Instruments Held in HFT and AFS categories | Table 16 – Part G |
| f. | Non-common Equity Capital Instruments issued by Financial Entities other than Banks  (i) Held in HFT category  (ii) Held in AFS category | Table 16 – Part H Table 16 – Part I |
| g. | Equity Investments in Banks Held in HFT and AFS Categories | Table 19 – Part A |
| h. | Equity Investments in Financial Entities (other than Banks)  Held in HFT and AFS Categories | Table 19 – Part B |
| i. | Equity Investments in Non-financial (commercial) Entities | Table 19 – Part C |

The risks related to interest rate-related instruments and equities in the trading book, and

Foreign exchange risk (including open position in precious metals) throughout the bank (both banking and trading books).

The deduction for market risk should be made from Common Equity Tier 1 Capital.

**Specific Risk Capital Charge for Sovereign securities issued by Indian and foreign sovereigns – Held by banks under the HFT Category**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sr. No.** | **Nature of Investment** | **Residual Maturity** | **Specific risk capital (as % of exposure)** |
| **A.** | **Indian Central Government and State Governments** | | |
| 1. | Investment in Central and State Government Securities | All | 0.00 |
| 2. | Investments in other approved securities guaranteed by Central Government | All | 0.00 |
| 3. | Investments in other approved securities guaranteed by State Government | 6 months or less | 0.28 |
| More than 6 months and up to and including 24 months | 1.13 |
| More than 24 months | 1.80 |
| 4. | Investment in other securities where payment of interest and repayment of principal are guaranteed by Central Government | All | 0.00 |
| 5. | Investments in other securities where payment of interest and repayment of principal are guaranteed by State Government. | 6 months or less | 0.28 |
| More than 6 months and up to and including 24 months | 1.13 |
| More than 24 months | 1.80 |
| **B.** | **Foreign Central Governments** | | |
| 1. | AAA to AA | All | 0.00 |
| 2. | A to BBB | 6 months or less | 0.28 |
| More than 6 months and up to and including 24 months | 1.13 |
| More than 24 months | 1.80 |
| 3. | BB to B | All | 9.00 |
| 4. | Below B | All | 13.50 |
| 5. | Unrated | All | 13.50 |

(i) In case of banks where the RBI has not prescribed capital adequacy norms, the lending investing bank may calculate the applicable Common Equity Tier 1 and capital conservation buffer of the concerned bank notionally by obtaining necessary information from the invested bank and using the capital adequacy norms applicable to commercial banks. If it is not feasible to compute the applicable Common Equity Tier 1 and capital conservation buffer on a notional basis, the specific risk capital charge of 31.5% or 56.25%, as per the risk perception of the investing bank, should be applied uniformly to the investing bank's entire exposure.

(ii) If capital adequacy norms are not applicable to a bank currently, investments in their capital-eligible instruments would not arise for now. However, the table above will become applicable to them if they issue any capital instruments where other banks are eligible to invest in the future.

**Specific Risk Capital Charge for Sovereign securities issued by Indian and foreign sovereigns – Held by banks under the HFT Category**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sr. No.** | **Nature of Investment** | **Residual Maturity** | **Specific risk capital (as % of exposure)** |
| **A.** | **Indian Central Government and State Governments** | | |
| 1. | Investment in Central and State Government Securities | All | 0.00 |
| 2. | Investments in other approved securities guaranteed by Central Government | All | 0.00 |
| 3. | Investments in other approved securities guaranteed by State Government | 6 months or less | 0.28 |
| More than 6 months and up to and including 24 months | 1.13 |
| More than 24 months | 1.80 |
| 4. | Investment in other securities where payment of interest and repayment of principal are guaranteed by Central Government | All | 0.00 |
| 5. | Investments in other securities where payment of interest and repayment of principal are guaranteed by State Government. | 6 months or less | 0.28 |
| More than 6 months and up to and including 24 months | 1.13 |
| More than 24 months | 1.80 |
| **B.** | **Foreign Central Governments** | | |
| 1. | AAA to AA | All | 0.00 |
| 2. | A to BBB | 6 months or less | 0.28 |
| More than 6 months and up to and including 24 months | 1.13 |
| More than 24 months | 1.80 |
| 3. | BB to B | All | 9.00 |
| 4. | Below B | All | 13.50 |
| 5. | Unrated | All | 13.50 |

The existing specific risk capital charges up to 9% have been scaled up to reflect the application of specific risk charge corresponding to risk weight of 125% instead of 100%. For instance, the existing specific risk charge for exposure to capital instruments issued by scheduled banks with applicable Common Equity Tier 1 and capital conservation buffer more than 9% and an instrument having residual maturity of less than 6 months is 1.4%. This is scaled up as under: 1.4\*125% = 1.75.

**Alternative Total Capital Charge for securities issued by Indian and foreign sovereigns - Held by banks under the AFS Category**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sr.**  **No.** | **Nature of Investment** | **Residual Maturity** | **Specific risk capital (as % of exposure)** |
| **A.** | **Indian Central Government and State Governments** | | |
| 1. | Investment in Central and State Government Securities | All | 0.00 |
| 2. | Investments in other approved securities guaranteed by Central Government | All | 0.00 |
| 3. | Investments in other approved securities guaranteed by State Government | All | 1.80 |
| 4. | Investment in other securities where payment of interest and repayment of principal are guaranteed by Central Government | All | 0.00 |
| 5. | Investments in other securities where payment of interest and repayment of principal are guaranteed by State  Government. | All | 1.80 |
| **B.** | **Foreign Central Governments** | | |
| 1. | AAA to AA | All | 0.00 |
| 2. | A | All | 1.80 |
| 3. | BBB | All | 4.50 |
| 4. | BB to B | All | 9.00 |
| 5. | Below B | All | 13.50 |
|  | Unrated | All | 9.00 |

Until invested banks publicly disclose their Basel III capital ratios, risk weights capital charges. The Master Circular DBOD. No.BP.BC.9/21.06.001/2013-14 dated July 1, 2013, on Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework.

Scope and Coverage of Capital Charge for Market Risks

These guidelines address the issues involved in computing 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. The trading book for the purpose of capital adequacy will include:

(i) Securities included under the Held for Trading category

(ii) Securities included under the Available for Sale category

(iii) Open gold position limits

(iv) Open foreign exchange position limits

(v) Trading positions in derivatives, and

(vi) Derivatives entered into for hedging trading book exposures.

**Specific risk capital charge for bonds issued by banks**

**– Held by banks under the HFT category**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Residual maturity | Specific risk capital charge (%) | | | |
| All Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and Co-Operative  Banks) | | All Non-Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and  Co-Operative Banks ) | |
| Level of Common Equity Tier 1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank (where applicable) |  | Investment s in capital instrument s (other than equity#) | All other claims | Investment s in capital instrument s | All other Claims |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Applicable Minimum CET1 + Applicable CCB and above | ≤6 months | 1.75 | 0.28 | 1.75 | 1.75 |
| > 6 months and  ≤ 24 months | 7.06 | 1.13 | 7.06 | 7.06 |
| >24 months | 11.25 | 1.8 | 11.25 | 11.25 |
| Applicable Minimum CET1 + CCB = 75%  and <100% of applicable CCB | All Maturities | 13.5 | 4.5 | 22.5 | 13.5 |
| Applicable Minimum CET1 + CCB = 50%  and <75% of  applicable CCB | All Maturities | 22.5 | 9 | 31.5 | 22.5 |
| Applicable Minimum CET1 + CCB = 0%  and <50% of applicable CCB | All Maturities | 31.5 | 13.5 | 56.25 | 31.5 |
| Minimum CET1 less than applicable minimum | All Maturities | 56.25 | 56.25 | Full deduction\* | 56.25 |

Banks must manage market risks in their books on an ongoing basis and ensure that the capital requirements for market risks are maintained continuously, i.e., at the close of each business day. Banks must also maintain strict risk management systems to monitor and control intraday exposures to market risks.

Capital for market risk is not relevant for securities that have already matured and remain unpaid. These securities will attract capital only for credit risk. On completion of 90 days delinquency, these will be treated on par with NPAs for deciding the appropriate risk weights for credit risk.

Measurement of Capital Charge for Interest Rate Risk

This section describes the framework for measuring the risk of holding or taking positions in debt securities and other interest rate-related instruments in the trading book.

The capital charge for interest rate-related instruments would apply

**Alternative Total Capital Charge for bonds issued by banks**

**– Held by banks under AFS category**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Specific risk capital charge (%) | | | |
| All Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and  Co-Operative Banks) | | All Non-Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and  Co-Operative Banks ) | |
| Level of Common Equity Tier 1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank (where applicable)) | Investments in capital instruments (other than equity#) | All other claims | Investments in capital instruments (other than equity#) | All other claim s |
| 1 | 2 | 3 | 4 | 5 |
| Applicable Minimum CET1 + Applicable CCB and above | 11.25 | 1.8 | 11.25 | 11.25 |
| Applicable Minimum CET1 + CCB = 75% and <100% of applicable CCB | 13.5 | 4.5 | 22.5 | 13.5 |
| Applicable Minimum CET1 + CCB = 50% and <75% of applicable CCB | 22.5 | 9 | 31.5 | 22.5 |
| Applicable Minimum CET1 + CCB = 0% and <50% of applicable CCB | 31.5 | 13.5 | 56.25 | 31.5 |
| Minimum CET1 less than applicable minimum | 56.25 | 56.25 | Full deduction\* | 56.25 |

**\*** deduction should be made from Common Equity Tier 1 capital

The guidelines issued by the Reserve Bank of India (RBI) regarding investments made by banks in the capital-eligible instruments of other banks. It outlines the various methods for calculating the applicable Common Equity Tier 1, capital conservation buffer, and specific risk capital charge for such investments.

**Specific Risk Capital Charge for Corporate Bonds (Other than bank bonds) – Held by banks under HFT Category**

|  |  |  |
| --- | --- | --- |
| **\* Rating by the ECAI** | **Residual maturity** | **Specific Risk Capital Charge (in %)** |
| AAA to BBB | 6 months or less | 0.28 |
| Greater than 6 months and up to and including 24 months | 1.14 |
| Exceeding 24 months | 1.80 |
| BB and below | All maturities | 13.5 |
| Unrated (if permitted) | All maturities | 9 |

For banks that have not been prescribed capital adequacy norms by the RBI, the investing bank may calculate the applicable Common Equity Tier 1 and capital conservation buffer of the investee bank using the capital adequacy norms as applicable to commercial banks. If this is not feasible, a specific risk capital charge of 31.5% or 56.25% should be applied uniformly to the investing bank's entire exposure, depending on the risk perception of the investing bank.

**Alternative Total Capital Charge for Corporate Bonds (Other than bank bonds) – Held by banks under AFS Category**

|  |  |
| --- | --- |
| **\* Rating by the ECAI** | **Total Capital Charge (in per cent)** |
| AAA | 1.8 |
| AA | 2.7 |
| A | 4.5 |
| BBB | 9.0 |
| BB and below | 13.5 |
| Unrated | 9.0 |

The guidelines also state that if capital adequacy norms are not applicable to an investee bank, investments in their capital-eligible instruments would not arise for now. However, the guidelines will become applicable if the investee bank issues any capital instruments in the future that are eligible for investment by other banks.

**Specific Risk Capital Charge for Securitised Debt Instruments (SDIs) – Held by banks under HFT and AFS Category**

|  |  |  |
| --- | --- | --- |
| **\* Rating by the ECAI** | **Specific Risk Capital Charge** | |
| **Securitisation Exposures (in %)** | **Securitisation Exposures (SDIs) relating to Commercial Real Estate Exposures (in %)** |
| AAA | 1.8 | 9.0 |
| AA | 2.7 | 9.0 |
| A | 4.5 | 9.0 |
| BBB | 9.0 | 9.0 |
| BB | 31.5 (100.0 in the case of originators) | 31.5 (100.0 in the case of originators) |
| B and below or unrated | 100.0 | 100.0 |

The methods for arriving at risk weights and capital charges for banks that have not disclosed their Basel III capital ratios publicly, as well as the rating symbols used by Indian and foreign rating agencies to indicate the creditworthiness of banks.

**Specific Risk Capital Charge for Re-securitised Debt Instruments (RSDIs) – Held by banks under HFT and AFS Category**

|  |  |  |
| --- | --- | --- |
| **\* Rating by the ECAI** | **Specific Risk Capital Charge** | |
| **Re-Securitisation Exposures (in %)** | **Re-Securitisation Exposures (RSDIs) relating to Commercial Real Estate Exposures (in %)** |
| AAA | 3.6 | 18 |
| AA | 5.4 | 18 |
| A | 9.0 | 18 |
| BBB | 18 | 18 |
| BB | 63 (100 in the case of originators) | 63 (100 in the case of originators) |
| B and below or unrated | 100 | 100 |

Banks must compute both the counterparty credit risk charge and the specific risk charge for OTC derivatives in the trading book as part of their capital requirements for credit risk under the Standardised approach.

**Part H: Specific risk capital charge for non-common equity capital instruments issued by financial entities other than bank**

**– Held by banks under the HFT category**

|  |  |  |
| --- | --- | --- |
|  | Residual maturity | Specific risk capital charge (%) |
|  |  | Investments in non-common equity capital instruments of financial entities other than banks. |
| 1 | 2 | 3 |
| Specific risk charge | ≤6 months | 1.75 |
| > 6 months and ≤ 24 months | 7.06 |
| >24 months | 11.25 |

These ratings indicate the ratings assigned by Indian rating agencies/ECAIs or foreign rating agencies. In the case of foreign ECAIs, the rating symbols used here correspond to Standard and Poor. The modifiers “+” or “-“have been subsumed with the main rating category.

**Alternative Total Capital Charge for non-common equity capital instruments issued financial entities other than banks**

**- Held by banks under the AFS category**

|  |  |
| --- | --- |
|  | Specific risk capital charge (%) |
|  | Investments in non- common equity capital instruments of financial entities other than banks. |
| 1 | 2 |
| Specific risk charge | 11.25 |

{**Refer 8.3.7 to 8.6.2}**

General Market Risk:

The capital requirements for general market risk aim to account for potential losses resulting from fluctuations in market interest rates. The capital charge for this risk comprises four components:

The net long or short position across the entire trading book, with the exception of short positions that are only allowed in derivatives and Central Government Securities in India.

A small portion of the matched positions in each time-band, referred to as the "vertical disallowance."

A larger portion of the matched positions across different time-bands, referred to as the "horizontal disallowance."

**Duration Method – Time Bands and Assumed changes in Yield**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Time Bands** | **Assumed Change in Yield** |  | **Time Bands** | **Assumed Change in Yield** |
| **Zone 1** |  | **Zone 3** |  |
| 1 month or less | 1.00 | 3.6 to 4.3 years | 0.75 |
| 1 to 3 months | 1.00 | 4.3 to 5.7 years | 0.70 |
| 3 to 6 months | 1.00 | 5.7 to 7.3 years | 0.65 |
| 6 to 12 months | 1.00 | 7.3 to 9.3 years | 0.60 |
| **Zone 2** |  | 9.3 to 10.6 years | 0.60 |
| 1.0 to 1.9 years | 0.90 | 10.6 to 12 years | 0.60 |
| 1.9 to 2.8 years | 0.80 | 12 to 20 years | 0.60 |
| 2.8 to 3.6 years | 0.75 | over 20 years | 0.60 |

A net charge for positions in options, where applicable.

For each currency, separate maturity ladders should be used, and capital charges should be calculated independently for each currency and then added without offsetting between positions of opposite sign. If business is insignificant in certain currencies (where turnover in the respective currency is less than 5% of overall foreign exchange turnover), separate calculations for each currency are unnecessary. Instead, the net long or short position for each currency should be slotted within each appropriate time-band, and the individual net positions should be summed within each time-band, regardless of whether they are long or short positions, to produce a gross position figure. The gross positions in each time-band will be subject to the assumed change.

**Horizontal Disallowances**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Zones** | **Time band** | **Within the zones** | **Between adjacent zones** | **Between zones 1 and 3** |
| **Zone 1** | 1 month or less | 40% | 40%  40% | 100% |
| 1 to 3 months |
| 3 to 6 months |
| 6 to 12 months |
| **Zone 2** | 1.0 to 1.9 years | 30% |
| 1.9 to 2.8 years |
| 2.8 to 3.6 years |
| **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 |

The Basel Committee has suggested two broad methodologies for computing the capital charge for market risks: the standardised method and the banks' internal risk management models method. Because banks in India are still in a nascent stage of developing internal risk management models, it has been decided that banks may initially adopt the standardised method. Under the standardised method, two principal methods of measuring market risk are available: the "maturity" method and the "duration" method. Because the "duration" method is more accurate in measuring interest rate risk, it has been decided to adopt the standardised duration method to arrive at the capital charge. Accordingly, banks are required to measure the general market risk charge by calculating the price sensitivity (modified duration) of each position separately. Under this method, the mechanics are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Level of Common Equity Tier 1 capital (CET1) including applicable capital conservation buffer (CCB) (%) of the investee bank (where applicable) | All Scheduled Banks (Commercial, Regional Rural Banks, Local Area Banks and Co-Operative Banks) | | All Non-scheduled Banks (Commercial, Local Area Banks and Co-Operative Banks) (in %) | |
|  | Equity investments in other banks referred to in: | | Equity investments in other banks referred to in: | |
|  |  |  |  |
| Applicable Minimum CET1 + Applicable CCB and above | 11.25 | 22.5 | 11.25 | 27 |
| Applicable Minimum CET1 + CCB =  75% and <100% of applicable CCB | 13.5 | 27 | 22.5 | 31.5 |
| Applicable Minimum CET1 + CCB = 50% and <75% of applicable CCB | 22.5 | 31.5 | 31.5 | 40.5 |
| Applicable Minimum CET1 + CCB = 0% and <50% of applicable CCB | 31.5 | 40.5 | 56.25 | Full deduction\* |
| Minimum CET1 less than applicable minimum | 50 | Full deduction\* | Full deduction\* | Full deduction\* |

\* Full deduction should be made from Common Equity Tier 1 capital

**Specific risk charge for bank’s investments in the equity of financial entities other than banks**

|  |  |  |
| --- | --- | --- |
|  | Equity investments in financial entities other than banks referred to in: | |
| Specific risk charge (%) | 11.25 | 22.5 |

Calculate the price sensitivity (modified duration) of each instrument.

Apply the assumed change in yield to the modified duration of each instrument between 0.6 and 1.0 percentage points depending on the instrument's maturity.

**Specific risk charge for bank’s investments in the equity of non-financial (commercial) entities**

|  |  |  |
| --- | --- | --- |
|  | Equity investments in non-financial entities | |
|  | where a bank does not own more than 10% of the equity capital of investee companies | which are more than 10% of the equity capital of investee companies or which are affiliates of the bank (these exposures need not attract general market risk charge) |
| Specific risk charge (%) | 11.25 | 100 |

Slot the resulting capital charge measures into a maturity ladder with fifteen time bands.

Subject long and short positions in each time band to a 5% vertical disallowance to capture basis risk.

Carry forward the net positions in each time-band for horizontal offsetting, subject to the disallowances.

The measurement system should include all interest rate derivatives and off-balance-sheet instruments in the trading book that respond to changes in interest rates, such as forward rate agreements (FRAs), other forward contracts, bond futures, interest rate and cross-currency swaps, and forward foreign exchange positions. Options can be treated in various ways.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Specific Risk Capital Charges for bought and sold CDS positions in the Trading Book : Exposures to entities other than Commercial Real Estate Companies NBFC-ND-SI** | | | | |
| **Upto 90 days** | | | **After 90 days** | |
| **Ratings by the ECAI\*** | **Residual Maturity of the instrument** | **Capital charge** | **Ratings by the ECAI\*** | **Capital charge** |
| AAA to BBB | 6 months or less | 0.28 % | AAA | 1.8 % |
| Greater than 6 months and up to and including 24 months | 1.14% | AA | 2.7% |
| Exceeding 24 months | 1.80% | A | 4.5% |
| BBB | 9.0% |
| BB and below | All maturities | 13.5% | BB and below | 13.5% |
| Unrated (if permitted) | All maturities | 9.0% | Unrated (if permitted) | 9.0% |

Measurement of Capital Charge for Equity Risk:

The capital charge for equities applies to their current market value in the bank's trading book. The minimum capital requirement to cover the risk of holding or taking positions in equities in the trading book is outlined below. This applies to all instruments that exhibit market behavior similar to equities but not to non-convertible preference shares (which are covered by the interest rate risk requirements described earlier). 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.

|  |  |  |
| --- | --- | --- |
| **Specific Risk Capital Charges for bought and sold CDS positions in the Trading Book : Exposures to Commercial Real Estate Companies NBFC-ND-SI**# | | |
| **Ratings by the ECAI\*** | **Residual Maturity of the instrument** | **Capital charge** |
| AAA to BBB | 6 months or less | 1.4% |
| Greater than 6 months and up to and including 24 months | 7.7% |
| Exceeding 24 months | 9.0% |
| BB and below | All maturities | 9.0% |
| Unrated (if permitted) | All maturities | 9.0% |

Specific and General Market Risk:

The capital charge for specific risk (similar to credit risk) is 11.25% or the capital charge in line with the risk warranted by external rating.

{**Refer 8.6.2.1 to 8.8.1.2}**

The specific risk capital charges for CDS positions can be fully offset if the values of the two legs of the position always move in opposite directions and to the same extent. An 80% offset is possible when the values move in opposite directions but not to the same extent. Partial offsetting of specific risk capital charges is possible when the underlying asset is included in the obligations in the CDS documentation, but there is a maturity mismatch between credit protection and the underlying asset.

|  |  |
| --- | --- |
| **Add-on Factors for Protection Sellers** | |
| (As % of Notional Principal of CDS) | |
| **Type of Reference Obligation** | **Add-on Factor** |
| Obligations rated BBB- and above | 10% |
| Below BBB- and unrated | 20% |

For CDS positions not meant for hedging, a specific risk capital charge will be assessed against both sides of the position. The credit exposure for counterparty credit risk will be calculated according to the Current Exposure Method. The protection seller will have exposure to the protection buyer only if the fee premia is outstanding. The counterparty credit risk charge for all single name long CDS positions will be calculated as the sum of the current marked-to-market value and the potential future exposure add-on factors, capped to the amount of unpaid premia. The counterparty credit risk charge for all short CDS positions will be calculated as the sum of the current marked-to-market value and the potential future exposure.

The capital charge for counterparty risk for collateralized transactions in CDS will be calculated as per the Current Exposure Method, taking into account the collateral.

For positions that are accounted for at fair value, banks must establish and maintain adequate systems and controls to ensure prudent and reliable valuation estimates. Marking-to-market is the daily valuation of positions at readily available close-out prices in orderly transactions that are sourced independently. Banks should use observable inputs and minimize the use of unobservable inputs when estimating fair value using a valuation technique.

pecific Risk Charge in CDS Positions which are not meant for Hedging: This section explains that if a bank holds CDS positions that are not meant for hedging, a specific risk capital charge will be assessed against both sides of the positions.

|  |  |
| --- | --- |
| **Add-on Factors for Protection Buyers** | |
| (As % of Notional Principal of CDS) | |
| **Type of Reference Obligation** | **Add-on Factor** |
| Obligations rated BBB- and above | 10% |
| Below BBB- and unrated | 20% |

Capital Charge for Counterparty Credit Risk: This section explains how the credit exposure for counterparty credit risk on account of CDS transactions in the Trading Book will be calculated using the Current Exposure Method. It also explains how the counterparty credit risk charge for protection sellers and buyers will be calculated.

Capital Charge for Counterparty Risk for Collateralised Transactions in CDS: This section explains that the counterparty exposure for CDS traded in the OTC market will be calculated using the Current Exposure Method, taking into account collaterals and margins maintained by the individual market participants.

Treatment of Exposures below Materiality Thresholds of CDS: This section explains how materiality thresholds on payments below which no payment is made in the event of loss will be assigned a risk weight of 1111% for capital adequacy purposes by the protection buyer.

Aggregation of the capital charge for Market Risks: This section explains how capital charges for specific risk and general market risk are to be computed separately before aggregation, and how the total capital charge for market risks is to be calculated.

Treatment for Illiquid Positions: This section explains how banks should establish and maintain adequate systems and controls for the valuation of illiquid positions, including documented policies and procedures, clear and independent reporting lines, and appropriate valuation methodologies such as marking-to-market and using observable inputs

Prudent Valuation Guidance: This section provides banks with guidance on prudent valuation practices for positions that are accounted for at fair value, particularly for positions without actual market prices or observable inputs to valuation. The guidance includes recommendations for systems and controls, valuation methodologies, and independent verification procedures.

(₹ in 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)  iv) Options |  |
| 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) |  |

when hedging CDS positions. This means that if the values of two legs of a CDS (i.e. long and short positions) move in opposite directions and to the same extent, the bank can fully offset the specific risk capital charges. If the two legs move in opposite directions but not to the same extent, the bank can offset 80% of the specific risk capital charges. If the two legs usually move in opposite directions, the bank can partially offset the specific risk capital charges.

The capital charges for counterparty credit risk in CDS transactions. For protection sellers, the counterparty credit risk charge is calculated as the sum of the current marked-to-market value and potential future exposure add-on factors, while for protection buyers, it is calculated as the sum of the current marked-to-market value and potential future exposure.

The treatment of exposures below materiality thresholds in CDS transactions, the aggregation of capital charges for market risks, and the treatment for illiquid positions.

**ICVALt = Max [0,{(EEt \*RPt) - (EE0 \*RP0)}]**

Where;

ICVALt = Cumulative Incurred CVA loss at time ‘t’.

EEt = Value of counterparty exposure projected after one year from ‘t’ and discounted back to ‘t’ using CEM and a risk free discount rate for one year

EE0 = Counterparty exposure estimated at time ‘0’ using CEM

RPt = Credit spread of the counterparty as reflected in the CDS or bond prices.

provides guidance on prudent valuation practices for positions that are accounted for at fair value. It emphasizes the importance of establishing adequate systems and controls for valuation, documenting policies and procedures, and using appropriate valuation methodologies such as marking-to-market.

**Capital Charge for Operational Risk**

The concept of operational risk and how it is measured for banks. Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. The New Capital Adequacy Framework provides three methods for calculating operational risk capital charges in a continuum of increasing sophistication and risk sensitivity.

The Basic Indicator Approach (BIA) is the starting point for operational risk capital calculation in India, and banks must hold capital for operational risk equal to a fixed percentage of positive annual gross income averaged over the previous three years. Banks are encouraged to move towards more sophisticated approaches as they develop more sophisticated operational risk measurement systems and practices.

**KBIA = [** ∑ **(GI1…n x** α **)]/n**

KBIA = the capital charge under the Basic Indicator Approach

GI = annual gross income, where positive, over the previous three years n = number of the previous three years for which gross income is

positive

α = 15 per cent, which is set by the BCBS , relating the industry wide level of required capital to the industry wide level of the indicator.

Internationally active banks and banks with significant operational risk exposures are expected to use an approach that is more sophisticated than the Basic Indicator Approach and appropriate for the risk profile of the institution. The Reserve Bank reviews the capital requirement produced by the Basic Indicator Approach for general credibility, and appropriate supervisory action is taken under Pillar 2 if credibility is lacking.

Overall, the text provides an overview of how operational risk is measured for banks in India and the importance of moving towards more sophisticated approaches as banks develop their operational risk management practices.

**Part B: Supervisory Review and Evaluation Process (SREP)**

**Introduction to the SREP under Pillar 2**

{**Refer 10.1 to 12.1.3}**

The New Capital Adequacy Framework (NCAF) was introduced in India in 2007, based on the Basel II Framework developed by the Basel Committee on Banking Supervision. The framework includes three pillars: Pillar 1, which is the minimum capital ratio, Pillar 2, which is the supervisory review process (SRP), and Pillar 3, which is market discipline. Banks are required to have a Board-approved policy on Internal Capital Adequacy Assessment Process (ICAAP) and to assess their capital requirement as per ICAAP. The objective of the SRP is to ensure that banks have sufficient capital to support all the risks in their business and to encourage them to develop better risk management techniques for monitoring and managing risks.

The main aspects of SRP and ICAAP include risks that are not captured by the minimum capital ratio and risks that are not taken into account. Since the capital adequacy ratio prescribed by the RBI of the Framework is only the regulatory minimum level, addressing only the three specified risks (viz., credit, market and operational risks), holding additional capital might be necessary for banks, on account of both – the possibility of some under-estimation of risks and the actual risk exposure of a bank vis-a-vis the quality of its risk management architecture.

Illustratively, some of the risks that banks are generally exposed to but which are not captured or not fully captured in the regulatory CRAR would include interest rate risk in the banking book, credit concentration risk, liquidity risk, settlement risk, reputational risk, strategic risk, risk of under-estimation of credit risk under the Standardised approach, model risk i.e., the risk of under-estimation of credit risk under the IRB approaches, risk of weakness in the credit-risk mitigants, residual risk of securitisation, etc.

The ICAAP document should include the capital adequacy assessment and projections of capital requirement for the ensuing year, along with the plans and strategies for meeting the capital requirement. Banks were advised to develop an ICAAP commensurate with their size, level of complexity, risk profile and scope of operations. The methodologies and techniques for conducting the ICAAP are still evolving, particularly in regard to measurement of non-quantifiable risks, such as reputational and strategic risks.

The New Capital Adequacy Framework (NCAF) adopted by Indian banks, based on the Basel II Framework developed by the Basel Committee on Banking Supervision. The NCAF requires banks to have a Board-approved policy on Internal Capital Adequacy Assessment Process (ICAAP) and assess their capital requirement accordingly. The Capital Adequacy Framework comprises three pillars, namely, Minimum Capital Ratio, Supervisory Review Process (SRP), and Market Discipline. The text focuses on the SRP and the ICAAP.

The objective of the SRP is to ensure that banks have adequate capital to support all the risks in their business and encourage them to use better risk management techniques for monitoring and managing their risks. Banks need to have a well-defined internal assessment process through which they assure the RBI (Reserve Bank of India) that they hold adequate capital towards the various risks to which they are exposed. The ICAAP is a crucial component of the SRP.

The guidelines provide broad principles to be followed by banks in developing their ICAAP. Banks need to develop and put in place, with the approval of their Boards, an ICAAP commensurate with their size, level of complexity, risk profile, and scope of operations. The ICAAP document should include the capital adequacy assessment and projections of capital requirement for the ensuing year, along with the plans and strategies for meeting the capital requirement.

The need for improved risk management in financial institutions. The major causes of serious banking problems continue to be lax credit standards for borrowers and counterparties, poor portfolio risk management, and a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties. The financial market crisis of 2007-08 has highlighted the critical importance of effective credit risk management to the long-term success of any banking organization and financial stability. The essential elements of a comprehensive credit risk management program include establishing an appropriate credit risk environment, operating under a sound credit granting process, maintaining an appropriate credit administration, measurement and monitoring process, and ensuring adequate controls over credit risk.

The SRP and the ICAAP cover risks that are not fully captured by the minimum capital ratio and those that are not taken into account at all, including interest rate risk, credit concentration risk, liquidity risk, settlement risk, reputational risk, strategic risk, risk of under-estimation of credit risk under the Standardised approach, model risk, risk of weakness in the credit-risk mitigants, residual risk of securitisation, etc. Banks need to assess their various risk exposures through a well-defined internal process and maintain an adequate capital cushion for such risks.

The financial market crisis of 2007-08 highlighted the critical importance of effective credit risk management to the long-term success of any banking organisation and as a key component to financial stability. The essential elements of a comprehensive credit risk management programme include establishing an appropriate credit risk environment, operating under a sound credit granting process, maintaining an appropriate credit administration, measurement and monitoring process, and ensuring adequate controls over credit risk.

{Refer 12to 12.3.3.1}

The Internal Capital Adequacy Assessment Process (ICAAP) is a procedure that banks use to assess their capital adequacy in relation to their risk profiles and maintain their capital levels. The supervisory authorities subject all banks to an evaluation process called the Supervisory Review and Evaluation Process (SREP) and take supervisory measures as necessary. The banks must have a process for assessing their overall capital adequacy, operate above the minimum regulatory capital ratios, and maintain suitable risk management systems. The SREP is conducted by the RBI periodically, generally, along with the RBI’s Annual Financial Inspection (AFI) of banks, and evaluates the adequacy and efficacy of the ICAAP of banks and the capital requirements derived from it. RBI generally expects banks to hold capital above their minimum regulatory capital levels, commensurate with their individual risk profiles, and take into account the combined implications of a bank’s compliance with regulatory minimum capital requirements, quality and results of a bank’s ICAAP, supervisory assessment of the bank’s risk management processes, control systems, and relevant information relating to the bank’s risk profile and capital position. Capital helps protect individual banks from insolvency, thereby promoting safety and soundness in the overall banking system. The RBI requires banks to maintain a buffer for uncertainties surrounding creditworthiness in markets that is below the level of creditworthiness sought by many banks for their own reasons.

The ICAAP is a process used by banks to assess their capital adequacy in relation to their risk profile and to develop a strategy for maintaining their capital levels. Banks are responsible for ensuring that they have an appropriate identification and measurement of risks, an appropriate level of internal capital in relation to their risk profile, and suitable risk management systems in place.

On the other hand, the SREP is a review and evaluation process adopted by regulatory authorities, which covers all the processes and measures defined in the principles listed above. Essentially, the SREP involves the review and evaluation of a bank’s ICAAP, conducting an independent assessment of the bank’s risk profile, and taking appropriate prudential measures and other supervisory actions if necessary.

The RBI (Reserve Bank of India) expects banks to hold capital above their minimum regulatory capital levels, commensurate with their individual risk profiles, to account for all material risks. The RBI conducts the SREP periodically, generally along with the RBI’s Annual Financial Inspection (AFI) of banks and in the light of the data in the off-site returns received from banks in the RBI, in conjunction with the ICAAP document, which is required to be submitted every year by banks to the RBI.

The RBI evaluates the adequacy and efficacy of the ICAAP of banks and the capital requirements derived by them therefrom. The RBI takes into account the combined implications of a bank’s compliance with regulatory minimum capital requirements, the quality and results of a bank’s ICAAP, and supervisory assessment of the bank’s risk management processes, control systems, and other relevant information relating to the bank’s risk profile and capital position.

Banks should maintain a buffer for uncertainties surrounding their creditworthiness in markets that are below the level of creditworthiness sought by many banks for their own reasons. This buffer is in addition to the minimum regulatory capital requirements, and banks should maintain it for a combination of bank-specific uncertainties.

The importance of maintaining appropriate levels of capital to promote safety and soundness in the banking system, and the role of regulatory authorities in evaluating banks’ capital adequacy through the ICAAP and SREP processes.

The responsibilities of the banks and supervisors are outlined, with banks expected to have in place a process for assessing their overall capital adequacy and a strategy for maintaining their capital levels. Banks are also expected to operate above the minimum regulatory capital ratios.

Supervisors have the responsibility to review and evaluate a bank's ICAAP, take appropriate action if they are not satisfied with the results of this process, and review and evaluate a bank's compliance with regulatory capital ratios. Supervisors also have the ability to require banks to hold capital in excess of the minimum and should seek to intervene at an early stage to prevent capital from falling below the minimum levels.

The ICAAP consists of a bank's procedures and measures designed to ensure appropriate identification and measurement of risks, an appropriate level of internal capital in relation to the bank's risk profile, and the application and further development of suitable risk management systems in the bank. The SREP consists of a review and evaluation process adopted by the supervisor, which covers all the processes and measures defined in the principles listed above.

The RBI, as a regulatory authority, generally expects banks to hold capital above their minimum regulatory capital levels, commensurate with their individual risk profiles, to account for all material risks. Under the SREP, the RBI assesses the overall capital adequacy of a bank through a comprehensive evaluation that takes into account all relevant available information. The RBI also takes into account the quality and results of a bank's ICAAP and supervisory assessment of the bank's risk management processes, control systems, and other relevant information relating to the bank's risk profile and capital position in determining the extent to which banks should hold capital in excess of the regulatory minimum.

The SREP of banks is conducted periodically by the RBI, generally, along with the RBI's Annual Financial Inspection (AFI) of banks and in the light of the data in the off-site returns received from banks in the RBI, in conjunction with the ICAAP document, which is required to be submitted every year by banks to the RBI. Through the SREP, the RBI evaluates the adequacy and efficacy of the ICAAP of banks and the capital requirements derived by them therefrom. If necessary, the SREP could also involve a dialogue between the bank's top management and the RBI from time to time.

{**refer 12.3.1.1 to 12.5}**

The responsibility for designing and implementing the Internal Capital Adequacy Assessment Process (ICAAP) lies with the bank's board of directors and the Chief Executive Officer. The board of directors and senior management must define the bank's risk appetite and ensure that its risk management framework includes policies that set specific limits on the bank's activities, which are consistent with its risk taking capacity. To understand the bank's overall risk exposure, senior management must bring together the perspectives of key business and control functions, overcoming organizational silos between business lines and sharing information on risks and mitigation techniques. The board of directors and senior management must possess sufficient knowledge of all major business lines to ensure that appropriate policies, controls and risk monitoring systems are effective.

The structure, design, and contents of the ICAAP should be approved by the Board of Directors to ensure that the ICAAP forms an integral part of the management process and decision making culture of the bank. Detailed policies that set specific prudential limits on the principal risks relevant to the bank's activities should be included in the firm-wide risk management programs. The bank's policies, procedures, and limits should provide for the identification, measurement, monitoring, control, and mitigation of the risks posed by its significant activities at the business line and firm-wide levels, ensure that the economic substance of the bank's risk exposures is fully recognized and incorporated into the bank's risk management processes, be consistent with the bank's stated goals and objectives and its overall financial strength, clearly delineate accountability and lines of authority across the bank's various business activities, escalate and address breaches of internal position limits, provide for the review of new businesses and products, and include a schedule and process for reviewing the policies, procedures, and limits and for updating them as appropriate.

A bank's management information system should provide the board and senior management with timely and relevant information concerning their institutions' risk profile in a clear and concise manner. The key elements necessary for the aggregation of risks are an appropriate infrastructure and MIS. The bank should monitor the risks posed by its significant activities on an ongoing basis and report to the board and senior management. The risk function and the Chief Risk Officer should be independent of the individual business lines and report directly to the CEO and the board of directors.

He responsibilities of the board of directors and senior management of a bank with regards to the Internal Capital Adequacy Assessment Process (ICAAP) - the process by which a bank assesses and manages its risks and determines its capital adequacy.

The board of directors and the Chief Executive Officer (CEO) or Managing Director are responsible for designing and implementing the ICAAP. They should define the institution's risk appetite and ensure that the bank's risk management framework includes detailed policies that set specific prudential limits on the bank's activities. To determine the bank's overall risk appetite, the board and senior management must first understand the bank's risk exposures on a firm-wide basis. Senior management must bring together the perspectives of the key business and control functions to develop an integrated firm-wide perspective on risk.

The board and senior management should also possess sufficient knowledge of all major business lines to ensure that appropriate policies, controls, and risk monitoring systems are effective. They should evaluate the potential risk exposure of new or complex products and activities and ensure that the infrastructure and internal controls necessary to manage the related risks are in place.

A bank's risk function and its chief risk officer (CRO) or equivalent position should be independent of the individual business lines and report directly to the CEO and the institution's board of directors. The risk function should highlight risk management concerns, such as risk concentrations and violations of risk appetite limits.

The policies, procedures, limits, and controls of a bank should be approved by the board of directors and should provide specific guidance for the implementation of broad business strategies. These policies and procedures should ensure the adequate and timely identification, measurement, monitoring, control, and mitigation of the risks posed by the bank's activities. The policies and procedures should also provide for the review of new businesses and products by bringing together all relevant risk management, control, and business lines to ensure that the bank is able to manage and control the activity prior to it being initiated.

A bank's Management Information System (MIS) should provide the board and senior management with timely and relevant information concerning the bank's risk profile. This information should include all risk exposures, including those that are off-balance sheet. The key elements necessary for the aggregation of risks are an appropriate infrastructure and MIS.

The importance of effective risk management in banks, which requires the involvement and oversight of the board of directors and senior management. By establishing appropriate policies, procedures, limits, and controls, and ensuring that an effective risk management framework is in place, banks can manage their risks effectively and maintain their capital adequacy.

computer hardware refers to the physical components that make up a computer system, including the motherboard, processor, memory, hard drive, and other internal and external components. These components work together to enable a computer to perform various functions, such as running applications, accessing the internet, and storing and retrieving data.

On the other hand, computer software refers to the programs and applications that run on the computer system. This includes the operating system, which manages the computer's resources and enables other software to run, as well as other applications like web browsers, word processors, and games.

Both hardware and software are essential components of a computer system, with hardware providing the physical infrastructure and software providing the instructions and applications that make the system functional. Without either hardware or software, a computer would not be able to perform its intended tasks.

{**Refer 12.6 to 12.11}**

"Principle of Proportionality" which is a guiding factor for implementing Internal Capital Adequacy Assessment Process (ICAAP) in banks. The RBI (Reserve Bank of India) expects banks to adopt progressively sophisticated approaches in designing their ICAAP, but the degree of sophistication adopted in the ICAAP should be proportionate to the nature, scope, scale, and degree of complexity in the bank’s business operations. The text outlines a broad approach for banks of different levels of complexity to formulate their ICAAP.

For banks with simple activities and risk management practices, the ICAAP can be carried out by identifying and considering the bank's largest losses over the last 3 to 5 years and preparing a shortlist of the most significant risks. Banks should also consider how much capital would be absorbed in the event of these risks and how capital requirements might change in line with business plans.

For moderately complex banks, ICAAP involves a more comprehensive list of risks to which the business is exposed. These banks need to estimate the possible losses that could arise from each risk and consider how the capital requirement captures the identified risks. The banks also need to estimate additional capital needed to protect customers and the bank, in addition to any other risk mitigation action that the bank plans to take. They should also project business activities for the next few years and estimate how the bank's capital and capital requirement would change in different scenarios.

For complex banks, ICAAP involves a proportional approach that may include using models for risk assessment, such as economic capital models (ECMs) for optimising the return for a desired level of risk. These banks are also likely to operate internationally, and there is likely to be centralised control over the models used throughout the group.

ICAAP should be subject to regular and independent review to ensure that the process is comprehensive and proportionate to the nature, scope, scale, and level of complexity of the bank's activities. Banks should conduct periodic reviews of their risk management processes, ensuring the integrity, accuracy, and reasonableness of the processes, and the appropriateness of the bank's capital assessment process based on the nature, scope, scale, and complexity of the bank's activities.

The principles and guidelines for implementing Internal Capital Adequacy Assessment Process (ICAAP) for banks in India.

The implementation of ICAAP should be guided by the principle of proportionality, which means that the level of sophistication of the ICAAP should be appropriate and commensurate with the nature, scope, scale, and complexity of the bank's business operations. In other words, banks should adopt progressively more sophisticated approaches in designing their ICAAP as their business complexity and risk exposures increase.

These guidelines range from identifying significant risks and preparing shortlists of risks to modeling economic capital and conducting periodic reviews of risk management processes.

The importance of regular and independent review and validation of the ICAAP to ensure that it accurately reflects the major sources of risk that the bank is exposed to. Banks are expected to have appropriate and effective internal control structures to monitor compliance with internal policies and procedures and conduct periodic reviews of their risk management processes.

Taking into account a bank's future business plans and the potential impact of adverse economic scenarios. By doing so, banks can better manage their risks and maintain adequate levels of capital to ensure their financial stability.

The ICAAP should be a comprehensive and proportionate assessment of the bank's activities that accurately reflects the major sources of risk that the bank is exposed to. Banks should have appropriate and effective internal control structures to monitor their compliance with internal policies and procedures. The ICAAP should be a forward-looking process that takes into account the bank's future business plans and projections. Regular and independent reviews of the ICAAP should be conducted to ensure its comprehensiveness and proportionality.

**Select Operational Aspects of the ICAAP** {refer13}

Internal Capital Adequacy Assessment Process (ICAAP), which is to identify all material risks. These risks can be reliably measured and quantified, and the appropriate means and methods to measure and quantify these risks can vary across banks. , including credit risk, market risk, operational risk, interest rate risk in the banking book, credit concentration risk, and liquidity risk.

Banks should have methodologies to assess credit risk, including concentrations in counterparty credit exposures. The banks must also determine whether the risk weights applied to such exposures are appropriate for their inherent risk. Additionally, banks must have counterparty credit risk management policies, processes, and systems that are conceptually sound and implemented with integrity. These policies should take account of market, liquidity, legal, and operational risks that can be associated with counterparty credit risk.

The bank's risk management policies must also assess potential business or strategic risks, such as reputational risk, periodic fluctuations in activity levels, and strategic activities. If banks employ risk mitigation techniques, they should understand the risk to be mitigated and the potential effects of that mitigation on the bank's risk profile.

The Reserve Bank of India has issued guidelines to banks on asset liability management, management of country risk, credit risk, operational risk, and others, and that banks' risk management processes, including their ICAAP, should be consistent with this existing guidance.

The concept of ICAAP (Internal Capital Adequacy Assessment Process), which is a requirement for banks to assess and manage their risks and ensure they have adequate capital to cover potential losses. The first objective of an ICAAP is to identify all material risks that the bank is exposed to, and this involves assessing and measuring various types of risks, such as credit risk, market risk, operational risk, interest rate risk, credit concentration risk, and liquidity risk.

Banks should have robust methodologies to assess credit risk, including individual borrower or counterparty risk as well as portfolio-level risk. Banks should also pay attention to identifying credit risk concentrations and assessing their potential impact on the bank's capital adequacy. Banks must manage counterparty credit risk (CCR) by implementing sound policies, processes, and systems to identify, measure, manage, approve, and report on CCR. The bank must also ensure that the risks associated with CCR are accounted for, including market, liquidity, legal, and operational risks. The board of directors and senior management must be actively involved in the CCR control process, and daily reports on a firm's exposures to CCR must be reviewed by a level of management with sufficient seniority and authority to enforce reductions in positions taken by individual credit managers or traders and reductions in the bank's overall CCR exposure.

The importance of stress testing to assess the impact of abnormal volatilities in market variables driving counterparty exposures and changes in the creditworthiness of the counterparty. Banks must have appropriate stress testing methodologies in place and review the results periodically to ensure they are reflected in the CCR policies and limits set by management and the board of directors.

The risk being mitigated and the potential effects of that mitigation on the bank's risk profile. Banks should also be aware of risks that may not be as formally defined as credit or market risk, such as reputational risk and business or strategic risk. Such risks may be equally important for a bank and should be given the same consideration as the more formally defined risk types. Overall, the ICAAP process is crucial for banks to identify and manage their risks effectively and maintain adequate capital levels to cover potential losses.

{**Refer 13.6}**

Credit concentration risk refers to the potential for a single exposure or a group of exposures to cause losses that are large enough to threaten the overall health or ability of a bank to maintain its core operations. Such risk concentrations have been a leading cause of major problems for banks. Credit concentration risk resulting from concentrated portfolios can be significant for most banks. To address credit concentration risk, banks should adopt both qualitative and quantitative criteria. Qualitative criteria include considering the degree of credit concentration in a particular economic sector or geographical area, the impact of adverse economic developments in an operational concentration region, and the impact of losing key personnel on a bank's ability to operate normally. Quantitative criteria involve performing credit concentration risk calculations at the counterparty, portfolio, and asset class levels, where prudential limits have been stipulated. Banks can use several approaches to measure credit concentration risk, such as Herfindahl-Hirshman Index (HHI). Risk concentrations should be analysed on both a solo and consolidated basis and should be integrated when assessing a bank's overall risk exposure. The growth of market-based intermediation has increased the possibility of risk concentrations, and banks should identify and aggregate similar risk exposures across the firm, including legal entities, asset types, risk areas, and geographic regions. Credit concentration risk can arise from various exposures, such as single counterparty or group of connected counterparties, regulated and non-regulated financial institutions, trading exposures, funding sources, banking book or trading book assets, and off-balance sheet exposures. Risk concentrations can also arise indirectly through investments backed by such assets.

The concept of credit concentration risk in banking, which refers to the risk of significant losses arising from a bank's exposure to a single borrower, group of borrowers, economic sector or geographical area. Such risk concentrations can threaten the health and operations of a bank, and have been a major cause of problems in banks historically.

To manage this risk, banks need to adopt qualitative and quantitative criteria to ensure that credit concentration risk is being adequately addressed. The qualitative criteria include considering the impact of losing key personnel, assessing the degree of credit concentration in a particular economic sector or geographical area, and conducting stress tests and scenario analyses.

The quantitative criteria involve calculating credit concentration risk at the counterparty level, portfolio level, and asset class level. Banks may use different methods for measuring concentration risk, such as the Herfindahl-Hirshman Index (HHI), but the method should have objective and transparent criteria. Additionally, banks should pay special attention to industry-wise exposures and ensure that their aggregate exposure to all large borrowers does not exceed a certain limit.

Risk concentrations should be analysed on both solo and consolidated basis, and viewed in the context of a single or a set of closely related risk-drivers that may have different impacts on a bank. Banks should be able to identify and aggregate similar risk exposures across the firm, including across legal entities, asset types, risk areas, and geographic regions.

Overall, managing credit concentration risk requires a comprehensive approach that involves various risk management processes and management information systems (MIS) to identify, monitor, and control different types of exposures, such as exposures to single counterparties or groups of connected counterparties, regulated and non-regulated financial institutions, trading exposures, funding sources, on-balance sheet and off-balance sheet exposures, and indirect exposures to particular asset types through investments backed by such assets.

{**Refer 13.7 to 13.9.1}**

The risks related to liquidity and off-balance sheet exposures in the banking industry. Liquidity risk refers to a bank's inability to meet its obligations due to difficulty in liquidating assets or obtaining adequate funding. The recent financial crisis highlighted the importance of assessing the potential impact of liquidity risk on capital adequacy. The Basel Committee on Banking Supervision published Principles for Sound Liquidity Risk Management and Supervision, which stresses the need for banks to have strong liquidity cushions to withstand prolonged periods of financial market stress and illiquidity. sound practices for the liquidity risk management of banks, including the need for strong governance of liquidity risk, the setting of a liquidity risk tolerance by the board, and the use of early warning indicators. Banks should also be prepared to manage liquidity under stressed conditions by performing stress tests or scenario analyses on a regular basis.

The risks associated with securitization, which has been used as an alternative source of funding and a mechanism to transfer risk to investors. The recent financial turmoil highlighted unexpected aspects of credit risk, concentration risk, market risk, liquidity risk, legal risk, and reputational risk, which banks failed to adequately address. Weaknesses in banks' risk management of securitization and off-balance sheet exposures resulted in large unexpected losses during the financial crisis. To help mitigate these risks, a bank's on- and off-balance sheet securitization activities should be included in its risk management disciplines.

Liquidity risk refers to the risk that a bank may not be able to meet its financial obligations as they become due because of difficulty in liquidating assets or in obtaining adequate funding. The recent financial crisis has highlighted the importance of assessing liquidity risk on capital adequacy, and banks are required to have strong liquidity cushions in order to weather prolonged periods of financial market stress and illiquidity. Effective liquidity risk management involves a number of practices, including identifying, measuring, and controlling liquidity risks; setting a liquidity risk tolerance by the board; appropriately pricing the costs, benefits, and risks of liquidity; managing intraday liquidity risks; performing stress tests or scenario analyses on a regular basis; and disclosing information to the public about the bank's liquidity risk management framework and liquidity position. Securitisation risk refers to the risks associated with using securitisation as a funding source or a mechanism to transfer risk to investors, which can include credit risk, concentration risk, market risk, liquidity risk, legal risk, and reputational risk. Effective risk management of securitisation and off-balance sheet exposures involves including these activities in a bank's risk management disciplines, such as product approval, risk concentration limits, and estimates of market, credit, and operational risk.

{**Refer 13.9.2 To 13.10}**

Reputational risk refers to the potential loss a bank may experience from negative public perception, which can lead to credit, liquidity, market and legal risk. It can affect a bank's ability to maintain existing or establish new business relationships and access sources of funding. This risk exists throughout the organization and arises from different sources, including the bank's business lines, liabilities, affiliated operations, and the markets in which it operates. A bank's internal risk management processes and the way management responds to external influences on bank-related transactions determine its exposure to reputational risk.

Reputational risk arises from various activities of banks such as the sponsorship of securitization structures, money market mutual funds, asset or funds management, and sale of credit exposures to securitization trusts. The failure of banks to recognize the reputational risk associated with their off-balance sheet vehicles was one of the major reasons behind the 2007 upheaval. Therefore, a bank should identify potential sources of reputational risk to which it is exposed and incorporate the risks that arise into its risk management processes.

The financial market crisis provided several examples of banks providing financial support that exceeded their contractual obligations to preserve their reputation. Such implicit support exposes a bank to the risk of loss, such as loss arising from deterioration in the credit quality of the securitization's underlying assets.

Bank management should have appropriate policies in place to identify sources of reputational risk when entering new markets, products, or lines of activities. In addition, a bank's stress testing procedures should take account of reputational risk so management has a firm understanding of the consequences and second round effects of reputational risk.

Once a bank identifies potential exposures arising from reputational concerns, it should measure the amount of support it might have to provide or losses it might experience under adverse market conditions. It should also develop methodologies to measure the effect of reputational risk in terms of other risk types, such as credit, liquidity, market, or operational risk. that a bank should pay particular attention to the effects of reputational risk on its overall liquidity position, taking into account both possible increases in the asset side of the balance sheet and possible restrictions on funding should the loss of reputation result in various counterparties' loss of confidence.

{**Refer 13.11 to13.12}**

The importance of proper valuation practices and sound stress testing practices in the banking industry. The complexity and unique characteristics of structured financial products such as securitization transactions make it difficult to value them accurately due to the absence of active and liquid markets, as well as the links between valuations and underlying risk factors

Banks in India are presently not allowed to assume such exposures without RBI’s permission, but their foreign branches may have such exposures booked before the issuance of a specific circular. Because transparent prices from liquid markets are not available, valuation relies on models or proxy-pricing methodologies and expert judgment, and these outputs are highly sensitive to the inputs and parameter assumptions adopted, which may be subject to estimation error and uncertainty.

Therefore, banks are expected to have adequate governance structures and control processes for fair valuing exposures for risk management and financial reporting purposes. The governance structures and processes should be embedded in the overall governance structure of the bank, and consistent for both risk management and reporting purposes. The governance structures and processes are expected to explicitly cover the role of the board and senior management.

A bank should also have clear and robust governance structures for the production, assignment, and verification of financial instrument valuations. Policies should ensure that the approvals of all valuation methodologies are well documented. In addition, policies and procedures should set forth the range of acceptable practices for the initial pricing, marking-to-market model, valuation adjustments, and periodic independent revaluation.

Valuation controls should be applied consistently across similar instruments (risks) and consistent across business lines (books), and these controls should be subject to internal audit. Banks must test and review the performance of its models under stress conditions so that it understands the limitations of the models under stress conditions.

The importance of using reliable and relevant inputs when determining the fair value of instruments. Banks should consider factors such as the frequency and availability of the prices quotes, whether those prices represent actual regularly occurring transactions on an arm's length basis, the breadth of the distribution of the data, and the timeliness of the information relative to the frequency of valuations, among other things.

The importance of sound stress testing practices in the banking industry, which is used as part of internal risk management. Stress testing helps banks to identify adverse unexpected outcomes related to various risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. Stress testing also supplements other risk management approaches and measures, providing forward-looking assessments of risk, overcoming limitations of models and historical data, supporting internal and external communication, and informing capital and liquidity planning.

ovarall,The need for banks to have adequate governance structures, control processes, and reliable inputs when determining the fair value of instruments, as well as sound stress testing practices to manage risks effectively. These measures help to ensure that banks can withstand shocks and maintain their stability and resilience in the face of changing market conditions.

{**Refer 13.13 to 13.16}**

The importance of sound compensation practices and risk management in the banking industry. It emphasizes the need for banks to develop a culture of risk management, where the CEO, CRO, senior management, trading desk, business line heads, and employees prioritize longer-term capital preservation and the financial strength of the firm over short-term accounting profit generation.

Compensation policies should consider risk-adjusted performance measures and be disclosed to stakeholders. The board of directors and senior management of each bank are responsible for mitigating risks arising from remuneration policies to ensure effective firm-wide risk management.

The contribution of compensation practices to the 2007 financial crisis. High short-term profits led to generous bonus payments without adequate regard for longer-term risks, which amplified excessive risk-taking and threatened the global financial system. To improve compensation practices and strengthen supervision, the Financial Stability Board published Principles for Sound Compensation Practices in April 2009.

Designing and operating compensation systems in a manner that aligns with risk management and overall performance of the firm. It emphasizes the importance of active oversight by the board of directors, independence and expertise of relevant board members and employees, adequate controls, compliance with policies and procedures, and a balance between profit earned and the degree of risk assumed. Furthermore, it highlights the need for compensation payout schedules that are sensitive to the time horizon of risks and compensation packages that are consistent with risk alignment.

The importance of an integrated approach to capital adequacy assessment process (ICAAP) and the use of both quantitative and qualitative approaches in measuring risk for banks. The article emphasizes the need for quantitative approaches like large historical databases, stress testing, and scenario analyses to form the foundation of a bank's measurement framework. However, the article also highlights that qualitative tools like experience and judgment may be more heavily utilized in situations where risks cannot be reliably measured with quantitative tools. The integration of both quantitative and qualitative approaches is critical in developing a comprehensive and effective risk management strategy for banks.

The importance of risk aggregation and diversification effects in an effective ICAAP, where risks across the entire bank should be assessed, and potential concentrations across more than one risk dimension should be identified and managed.

**Part C: Market Discipline**

**Guidelines for Market Discipline**

**General**

**{Refer 14.1 To 14.11.2}**

The concept of market discipline in the banking industry. The purpose of market discipline is to supplement the minimum capital requirements and supervisory review process, by encouraging banks to provide a set of disclosures that allow market participants to assess key pieces of information regarding the bank's scope of application, capital, risk exposures, risk assessment processes, and capital adequacy.

The idea is that by providing disclosures that are based on a common framework, banks can inform the market about their exposure to various risks and enhance comparability. It's important that banks' disclosures be consistent with how senior management and the Board of Directors assess and manage risks, and that they use specified methodologies for measuring the various risks they face and the resulting capital requirements.

The importance of appropriate disclosure, noting that non-compliance with prescribed disclosure requirements may attract a penalty, including a financial penalty. However, it is not intended that direct additional capital requirements would be a response to non-disclosure, except in specific circumstances where disclosure is a qualifying criterion for obtaining lower risk weightings or applying specific methodologies

The need for validation of disclosures, to ensure that the information provided is accurate and consistent with audited financial statements. Banks should also decide which disclosures are relevant based on the materiality concept, which means that information should be disclosed if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

such as the need for a formal disclosure policy approved by the Board of Directors, the implementation of a process for assessing the appropriateness of disclosures, and the frequency and scope of disclosures required. The guidelines on composition of capital disclosure requirements were issued in 2013, and banks were required to make their first set of disclosures by September 30th of that year.

{**Refer 14.12 to 14.14.6}**

The reporting requirements for banks regarding their capital positions during the transition period for phasing-in of deductions, as per the Basel III rules. A template has been designed for this purpose, which must be used by all banks for all reporting periods, and no rows or columns should be added or deleted from it to ensure consistency and comparability of regulatory capital across banks and jurisdictions.

The Basel Committee has suggested two approaches for cases where the national implementation of Basel III rules applies a more conservative definition of an element, and banks must disclose any differences in their capital definitions in the notes to the template.

During the transitional period, banks will be required to use a modified version of the disclosure template to capture the existing treatments for the regulatory adjustments, and must disclose a full reconciliation of all regulatory capital elements back to the balance sheet in the audited or unaudited financial statements.

Banks must follow a three-step approach to show the link between their balance sheet and the numbers used for regulatory capital calculation, expand the lines of the balance sheet under regulatory scope of consolidation, map each component to the composition of capital disclosure template, and disclose the reported balance sheet under the regulatory scope of consolidation.

Banks are required to disclose the legal entities included in their accounting and regulatory scope of consolidation and explain any differences in the consolidation methods to enable market participants and supervisors to investigate the risks posed by unconsolidated entities.

The requirements for banks to disclose information about their balance sheet assets and equity, as well as the method of consolidation and description of entity activities. However, some elements used in the calculation of regulatory capital may not be easily identifiable from the face of the balance sheet. Therefore, banks must expand the rows of the balance sheet to show all the components used in the definition of capital disclosure template, and each element must be given a reference number. For instance, the amount of paid-up share capital may need to be expanded to show which part of it is included in Common Equity Tier 1 (CET1) capital and which part is included in Additional Tier 1 (AT1) or Tier 2 (T2) capital, or not included in regulatory capital at all. Another example is the deduction of intangible assets, which may not be easily identifiable in the balance sheet and may be reported in combination with other deferred tax liabilities. Banks only need to expand the balance sheet elements to the extent required to reach the components used in the definition of capital disclosure template.

A requirement for banks to disclose information about their capital using a specific template. If the template includes the item 'goodwill net of related deferred tax liability', the bank must also include 'a - c' next to it. This is to show how the components of the balance sheet under regulatory consolidation were used to calculate this item in the disclosure template.

The process of disclosing capital using this template is a three-step approach that is flexible and varies with the complexity of the bank's balance sheet. The level of disclosure is proportional to the complexity of the balance sheet, and banks can skip a step if it does not add further information. This approach allows supervisors and market participants to trace the origin of the regulatory capital elements back to their location on the balance sheet under regulatory consolidation. The approach is flexible enough to be used with any accounting standards. Banks are required to map all the components of the regulatory capital disclosure templates back to the balance sheet under regulatory consolidation, regardless of where the accounting standards require the source to be reported on the balance sheet.

{**Refer 14.14.7 to14.15}**

A requirement for banks to complete a 'main features template' to ensure consistency and comparability in the disclosure of the main features of capital instruments. Banks must disclose a description of the main features of the capital instruments issued by them, and also make the full terms and conditions of their capital instruments available.

The purpose of separately disclosing the main features of capital instruments is to provide an overview of a bank's capital structure, as it may be difficult for users to extract key features from the full disclosure of terms and conditions made by banks.

The minimum level of summary disclosure required for each regulatory capital instrument issued by banks. Banks must report each capital instrument, including common shares, in a separate column of the template, which will provide a 'main features report' summarizing all of the regulatory capital instruments of the banking group. Banks must keep the completed main features report up-to-date, updating and making it publicly available whenever a bank issues or repays a capital instrument, or whenever there is redemption, conversion, write-down, or other material change in the nature of an existing capital instrument.

Additionally, banks are required to make the full terms and conditions of all instruments included in regulatory capital available on their websites, allowing supervisors and market participants to investigate the specific features of individual capital instruments. Banks must keep the terms and conditions of all capital instruments up-to-date and update them promptly, making such updated disclosure publicly available.

{**Refer 15.to 15.3}**

**Part D: Capital Conservation Buffer Framework91**

**Capital Conservation Buffer**

**Objective**

The capital conservation buffer (CCB) is a requirement for banks to maintain a buffer of capital above the regulatory minimum during normal times. The buffer can be drawn down in periods of stress when losses are incurred. If banks deplete their buffers, they can rebuild them by reducing discretionary distributions of earnings, such as dividend payments, share buybacks, and staff bonus payments. They may also raise new capital from the market. Banks that make payments in excess of the constraints imposed would need prior approval from the Reserve Bank of India (RBI). The framework aims to reduce procyclicality and increase banking sector resilience during adverse economic conditions. The CCB can only be drawn down when a bank faces a systemic or idiosyncratic stress, and banks should not operate in the buffer range in normal times simply to compete with other banks and win market share. The framework applies during the Basel III transition period and requires banks to maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement of 9%. Banks must not distribute capital in case the capital level falls within this range, but they can conduct business as usual when their capital levels fall into the conservation range as they experience losses. The constraints imposed are related to the distributions only and are not related to the operations of banks. The distribution constraints imposed on banks when their capital levels fall into the range increase as the banks’ capital levels approach the minimum requirements.

|  |  |  |
| --- | --- | --- |
| **Minimum capital conservation standards for individual bank** | | |
| Common Equity Tier 1 Ratio after including the current periods retained  earnings | Minimum Capital Conservation Ratios (expressed as a percentage of earnings) |
| 5.5% - 6.125% | 100% |
| >6.125% - 6.75% | 80% |
| >6.75% - 7.375% | 60% |
| >7.375% - 8.0% | 40% |
| >8.0% | 0% |

The CCB can only be drawn down when a bank is facing systemic or idiosyncratic stress and should not be used during normal times to compete with other banks and win market share. Banks are required to maintain a CCB of 2.5% above the regulatory minimum capital requirement of 9%, and they should not distribute capital when their capital levels fall within this range. The constraints imposed on banks when their capital levels fall into the range increase as the banks’ capital levels approach the minimum requirements.

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 25: Minimum capital conservation standards for individual bank** | | | |
| Common Equity Tier 1 Ratio after including the current periods retained earnings | | | Minimum Capital Conservation Ratios (expressed as % of  earnings) |
| As on March 31, 2015 | As on March 31, 2016 | As on March 31, 2017 |
| 5.5% - 5.65625% | 5.5% - 5.8125% | 5.5% - 5.96875% | 100% |
| >5.65625% - 5.8125% | >5.8125% - 6.125% | >5.96875% - 6.4375% | 80% |
| >5.8125% - 5.96875% | >6.125% - 6.4375% | >6.4375% - 6.90625% | 60% |
| >5.96875% - 6.125% | >6.4375% - 6.75% | >6.90625% - 7.375% | 40% |
| >6.125% | >6.75% | >7.375% | 0% |

The CCB requirement is part of a framework that aims to strengthen the ability of banks to withstand adverse economic conditions, increase banking sector resilience, and provide the mechanism for rebuilding capital during economic recovery. By retaining a greater proportion of earnings during a downturn, banks will be able to help ensure that capital remains available to support the ongoing business operations of lending activities during the period of stress.

The key aspects of the CCB requirements include the restriction on distributions of dividends, share buybacks, discretionary payments on other Tier 1 capital instruments, and discretionary bonus payments to staff. Payments that do not result in the depletion of Common Equity Tier 1 capital, such as certain scrip dividends, are not considered distributions. Earnings are defined as distributable profits before the deduction of elements subject to the restriction on distributions.

{**Refer 16 to16.5.3}**

**Part E: Leverage Ratio Framework95**

**Leverage Ratio**

**Rationale and Objective**

The background and objectives of the Basel III regulations, which are aimed at preventing excessive leverage in the banking system and mitigating the risk of another financial crisis. One of the features of the crisis was the accumulation of excessive leverage in the banking sector, which contributed to a positive feedback loop of losses, declines in bank capital, and credit contraction. To address this issue, Basel III introduced a non-risk-based leverage ratio that would act as a supplementary measure to the risk-based capital requirements. The leverage ratio would constrain the build-up of leverage in the banking sector and reinforce the risk-based requirements with a simple, non-risk-based backstop measure. The minimum Tier 1 leverage ratio would be 3% during the parallel run period from January 1, 2013, to January 1, 2017, and banks should maintain their existing level of leverage ratio during this period. The leverage ratio would be calculated based on the average of the month-end leverage ratio over the quarter and would take into account the definitions of capital and total exposure. The capital measure for the leverage ratio would be based on the new definition of Tier 1 capital, and items that are deducted completely from capital would also be deducted from the measure of exposure to avoid double-counting. The exposure measure for the leverage ratio would follow the accounting measure of exposure, and banks would include all on-balance sheet items of assets and apply specific provisions and valuation adjustments to non-derivative exposures. Securities financing transactions and derivatives would also be included in the exposure measure, and banks should calculate exposure in respect of derivatives using the accounting measure of exposure plus an add-on for potential future exposure. Off-balance sheet items would also be calculated for the purposes of the leverage ratio.

The financial crisis and the build-up of excessive leverage in the banking system that amplified the negative feedback loop between losses, declines in bank capital, and contraction in credit availability. To address this issue, a simple, transparent, non-risk based leverage ratio has been introduced under Basel III. The leverage ratio is intended to constrain the build-up of leverage in the banking sector, helping avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. It is also intended to reinforce the risk-based requirements with a simple, non-risk-based “backstop” measure. The leverage ratio is calculated based on the average of the month-end leverage ratio over the quarter using the new definition of Tier 1 capital. During the parallel run period, banks should maintain their existing level of leverage ratio but not fall below 4.5%. The capital and exposure should be measured consistently and should avoid double-counting. Banks should calculate exposure in respect of derivatives for the purposes of the leverage ratio by applying the accounting measure of exposure plus an add-on for potential future exposure. Banks should calculate off-balance sheet items enumerated for the purposes of the leverage ratio by applying the accounting measure of exposure.

The crisis highlighted that some banks had built up excessive leverage while still showing strong risk-based capital ratios. This means that they were holding a lot of debt relative to their equity, which amplified the downward pressure on asset prices during the crisis. This led to a positive feedback loop between losses, declines in bank capital, and contraction in credit availability, exacerbating the crisis.

To prevent such a scenario from happening again, the Basel Committee introduced a minimum Tier 1 leverage ratio of 3%, which banks must maintain on a quarterly basis. During a parallel run period from 2013 to 2017, banks were required to strive to maintain their existing level of leverage ratio, but in no case should it fall below 4.5%.

The leverage ratio is calculated by dividing a bank's Tier 1 capital by its total exposure. Tier 1 capital includes common equity, retained earnings, and other specified types of capital. Total exposure includes on- and off-balance sheet exposures, such as loans, derivatives, and securitis financing transactions.

The capital measure and exposure measure should be calculated for the leverage ratio. The capital measure should be based on the new definition of Tier 1 capital and should exclude items that are deducted completely from capital. The exposure measure should follow the accounting measure of exposure and should include all on-balance sheet items and certain off-balance sheet items, such as securities financing transactions and derivatives.

Overall, the leverage ratio is intended to act as a backstop measure to reinforce existing risk-based capital requirements and to prevent the build-up of excessive leverage in the banking system. By maintaining a simple, non-risk-based measure of leverage, the banking system should be more stable and less prone to the negative feedback loop between losses, declines in bank capital, and contraction in credit availability that contributed to the financial crisis.

the criteria for classification of common shares (paid-up equity capital) for regulatory purposes in Indian banks. It explains that all common shares should ideally have voting rights, but in rare cases where non-voting common shares are issued, they must be identical to voting common shares in all other aspects. The limit on voting rights will be determined by the respective statutes governing individual banks.

{**Refer pg 155to161}**

The criteria for classification of common shares (paid-up equity capital) for regulatory purposes in Indian banks. It explains that all common shares should ideally have voting rights, but in rare cases where non-voting common shares are issued, they must be identical to voting common shares in all other aspects. The limit on voting rights will be determined by the respective statutes governing individual banks.

That paid-up equity capital represents the most subordinated claim in liquidation of the bank and is entitled to a claim on the residual assets proportional to its share of paid-up capital. The principal is perpetual and never repaid outside of liquidation, and distributions are paid out of distributable items (including retained earnings), with no contractual cap on distributions.

There are no circumstances under which distributions are obligatory, and non-payment is not an event of default. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made.

Paid-up equity capital takes the first and proportionately greatest share of any losses, and each instrument absorbs losses on a going concern basis proportionately with all others. The paid-up amount is classified as equity capital, not as a liability, and is directly issued and paid up. The paid-up amount is neither secured nor covered by a guarantee of the issuer or related entity nor subject to any other arrangement that legally or economically enhances the seniority of the claim.

The paid-up capital is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, if permitted by applicable law, given by the Board of Directors or by other persons duly authorized by the owners. The paid-up capital is clearly and separately disclosed in the bank's balance sheet.

Common equity represents the most subordinate claim in the liquidation of the Indian operations of the foreign bank.

It is entitled to a claim on residual assets that is proportional to its share of paid-up capital, after all senior claims have been repaid in liquidation. This means that the claim is unlimited and variable, rather than fixed or capped.

The principal amount of the common equity is perpetual and is never repaid outside of liquidation, except with the approval of the Reserve Bank of India (RBI).

Distributions to the head office of the foreign bank are paid out of distributable items, including retained earnings. The level of distributions is not linked to the amount paid-up at issuance and is not subject to a contractual cap, except to the extent that the bank is unable to pay distributions that exceed the level of distributable items.

Distributions to the head office of the foreign bank are only paid after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including for other elements classified as the highest quality issued capital.

This common equity takes the first and proportionately greatest share of any losses as they occur.

The common equity is clearly and separately disclosed in the bank's balance sheet.

the criteria for perpetual non-cumulative preference shares (PNCPS) to be included in the Additional Tier 1 Capital of Indian banks for capital adequacy purposes. The following terms and conditions must be met for PNCPS to qualify for inclusion:

The PNCPS must be issued by the bank and fully paid up.

The amount of PNCPS to be raised may be decided by the Board of Directors of banks.

PNCPS cannot be included in Additional Tier 1 Capital with perpetual debt instruments (PDI) more than 1.5% of risk-weighted assets while complying with a minimum Tier 1 of 7% of risk-weighted assets. However, excess PNCPS and PDI can be included in Total Tier 1 capital reported and can be reckoned to comply with Tier 2 capital if the latter is less than 2% of RWAs.

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

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

PNCPS shall not be issued with a 'put option', but banks may issue the instruments with a call option at a particular date subject to certain conditions, including prior approval of RBI and the bank replacing the called instrument with capital of the same or better quality.

The use of tax event and regulatory event calls may be permitted, subject to the requirements set out in points (b) to (d) of criterion 1.6. Banks may not create an expectation or signal an early redemption maturity of the regulatory capital instrument.

In summary, the criteria set out in the text aim to ensure that PNCPS issued by Indian banks meet certain standards for inclusion in Additional Tier 1 Capital for capital adequacy purposes.

The repurchase, buy-back, and redemption of financial instruments by banks. In general, banks must obtain prior approval from the RBI before repaying the principal of any instruments. Banks cannot assume that they will receive approval and must not create market expectations that approval will be given.

There are two different situations when the bank may repurchase or redeem the instrument. In the first situation, the option to offer the instrument for repayment lies with the investors, and in the second situation, it lies with the bank. Banks may only repurchase, buy-back, or redeem instruments if they replace them with capital of the same or better quality, or if their capital position is well above the minimum capital requirements after the transaction.

regulations around dividend discretion. Banks must have full discretion to cancel distributions or payments at any time, and cancellation of payments should not be an event of default. Banks must have access to cancelled payments to meet obligations as they fall due, and cancellation of payments should not impose restrictions on the bank except in relation to distributions to common stakeholders. Dividends must be paid out of distributable items, and they cannot be cumulative. The instrument cannot have a credit-sensitive coupon feature, and banks must take prior approval of the RBI for floating reference rates. It may be in order for banks to have a dividend stopper arrangement that stops dividend payments on common shares in the event holders of AT1 instruments are not paid dividends coupons, but these stoppers must not impede the full discretion that banks must have at all times to cancel distributions payments on the Additional Tier 1 instrument, nor must they act in a way that could hinder the recapitalization of the bank.

{11march pg 110 To 161}

{12th March 161 to 204 }

{**Refer 1.8 to 1.6}**

Dividend Discretion:

This section outlines the bank's discretion to cancel dividend payments at any time and emphasizes that the cancellation of such payments must not be considered an event of default. It also notes that banks must have access to cancelled payments to meet their obligations as they fall due. Finally, the section stipulates that dividends must be paid out of distributable items, and that the dividend shall not be cumulative.

Credit Sensitive Coupon Feature:

This section prohibits banks from having a credit sensitive coupon feature in their PNCPS instruments. Such a feature would mean that the dividend paid out would be reset periodically based on the bank's credit standing. The text emphasizes that banks must seek approval from RBI (DBOD) if they wish to offer a floating reference rate.

Dividend Stopper Arrangement:

This section notes that banks may have a dividend stopper arrangement to stop dividend payments on common shares if the holders of AT1 instruments are not paid dividend coupons. However, such stoppers must not impede the bank's full discretion to cancel distributions payments. The text also outlines various actions that a stopper may prohibit and emphasizes that such stoppers must not impede the normal operation of the bank or any restructuring activity.

Treatment in Insolvency:

This section stipulates that the PNCPS instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of a requirement to prove insolvency under any law or otherwise.

Loss Absorption Features:

This section outlines the requirements for loss absorption features in PNCPS instruments. It notes that PNCPS should have principal loss absorption through either conversion to common shares at a pre-specified trigger point or a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have various effects, including reducing the claim of the instrument in liquidation, reducing the amount re-paid when a call is exercised, and partially or fully reducing dividend payments on the instrument.

Prohibition on Purchase Funding of PNCPS:

This section prohibits banks or related parties from purchasing PNCPS instruments or funding their purchase. Banks are also prohibited from granting advances against the security of PNCPS issued by them.

**Reporting Format**

**Details of Investments by FIIs and NRIs in Perpetual Non-Cumulative Preference Shares qualifying as Additional Tier 1 capital**

(a) Name of the bank:

(b) Total issue size / amount raised (in Rupees) :

(c) Date of issue :

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **FIIs** | | | **NRIs** | | |
| **No of FIIs** | **Amount raised** | | **No. of NRIs** | **Amount raised** | |
| **in Rupees** | **as a percentageof the total issue size** | **in Rupees** | **as a percentageof the total issue size** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

It is certified that

(i) the aggregate investment by all FIIs does not exceed 49 % of the issue size and investment by no individual FII exceeds 10 % of the issue size.

(ii) It is certified that the aggregate investment by all NRIs does not exceed 24 % of the issue size and investment by no individual NRI exceeds 5 % of the issue size

Reporting of Non-payment of Dividends:

This section stipulates that all instances of non-payment of dividends should be notified by issuing banks to the relevant regulatory authorities.

Seniority of Claim:

This section outlines the seniority of claims for investors in PNCPS instruments. Such investors are deemed superior to investors in equity shares but are subordinated to the claims of other regulatory capital instruments, depositors, and general creditors of the bank. The claim is neither secured nor covered by a guarantee of the issuer or related entity.

Investment in Instruments Raised in Indian Rupees by Foreign Entities NRIs:

This section outlines the limits on investment by foreign institutional investors (FIIs) and non-resident Indians (NRIs) in PNCPS instruments issued in Indian rupees. It notes that investment by FIIs and NRIs is subject to overall limits, with each FII not exceeding 10% of the issue, and each NRI not exceeding 5% of the issue. The text also emphasizes that banks must comply with the terms and conditions stipulated by regulatory authorities in regard to the issue of the instruments.

Compliance with Reserve Requirements:

This section notes that the funds collected by banks for the issuance of PNC.

{**Refer 1.7 to 4}**

Guidelines and regulations for banks and financial institutions in India regarding the use of tax event and regulatory event calls, treatment in bankruptcy liquidation, prohibition on purchase funding, reporting of non-payment of coupon, seniority of claim, investment in instruments raised in Indian Rupees by foreign entities NRIs, compliance with reserve requirements, reporting of issuances, classification in the balance sheet, and prudential guidelines on credit default swaps (CDS).

The guidelines permit the use of tax event and regulatory event calls, subject to certain requirements listed in points (b) to (d) of criterion 1.6, which includes the condition that RBI must be convinced that the bank was not in a position to anticipate these events at the time of issuance of these instruments.

In bankruptcy and liquidation, investors have no rights to accelerate the repayment of future scheduled payments (coupon or principal) except in these circumstances. The bank and related parties over which the bank exercises control or significant influence are prohibited from purchasing these instruments or indirectly funding their purchase, and banks cannot grant advances against the security of these instruments issued by them.

Issuing banks are required to notify the Chief General Managers-in-Charge of Department of Banking Operations and Development and Department of Banking Supervision of the Reserve Bank of India, Mumbai, of any non-payment of coupon. Claims of investors in instruments shall be senior to the claims of investors in instruments eligible for inclusion in Tier 1 capital, subordinate to the claims of all depositors and general creditors of the bank, and not secured or covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.

Investment by foreign entities and NRIs in these instruments shall be subject to an overall limit of 49% and 24% of the issue, respectively, with investment by each FII not exceeding 10% of the issue and investment by each NRI not exceeding 5% of the issue. Investment by FIIs in these instruments will also be subject to a separate ceiling of USD 500 million, and overall non-resident holding of preference shares and equity shares in public sector banks will be subject to the statutory regulatory limit.

Banks issuing these instruments are required to comply with the terms and conditions stipulated by SEBI and other regulatory authorities, as well as reserve requirements. Reporting of issuances and compliance with overall investment ceilings and cross holding limits are also required. These instruments will be classified as ‘Borrowings’ under Schedule 4 of the Balance Sheet.

The guidelines detail prudential guidelines on credit default swaps (CDS), which allow banks to undertake transactions in such CDS as both market-makers and users, with the prudential guidelines dealing with credit event payments, deliverable asset obligations, and reference obligations.

guidelines and regulations issued by the Reserve Bank of India (RBI) regarding the issuance and investment in certain financial instruments, specifically tax event and regulatory event calls. These guidelines outline various requirements and limitations related to the exercise of these calls, the treatment of investors in bankruptcy and liquidation, restrictions on purchase funding, reporting obligations, seniority of claims, and investment limitations for foreign entities and non-resident Indians (NRIs).

guidelines on the use of credit default swaps (CDS) for managing credit risk associated with corporate bonds. These guidelines define key terms and outline requirements related to credit event payments, deliverable asset obligations, and reference obligations.

Intended to provide clarity and regulation around the issuance and investment in certain financial instruments and credit risk management strategies in India.

{**Refer 5 to 6.22}**

Banks handle positions in their banking book that are hedged by bought credit default swap (CDS) positions. If certain conditions are met, the exposure against the reference entity underlying asset will not be taken into account, and the protection seller will be deemed to have substituted the exposure.

The first condition that must be satisfied is that the risk weight applicable to the protection seller under the Basel II Standardized Approach for credit risk must be lower than that of the underlying asset. The second condition is that there must be no maturity mismatch between the underlying asset and the reference deliverable obligation. If these conditions are not met, the amount of credit protection recognized should be computed differently.

**Pa = P x (t- .25) ÷ (T- .25)**

Where:

Pa = value of the credit protection adjusted for maturity mismatch

P = credit protection

t = min (T, residual maturity of the credit protection arrangement) expressed in years

T = min (5, residual maturity of the underlying exposure) expressed in years

***Example:*** *Suppose the underlying asset is a corporate bond of Face Value of Rs. 100 where the residual maturity is of 5 years and the residual maturity of the CDS is 4 years. The amount of credit protection is computed as under:*

*100 \* {(4-.25) ÷ (5-.25)} = 100\*(3.75÷ 4.75) = 78.95*

a. Once the residual maturity of the CDS contract reaches **three months**, protection ceases to be recognised.

If the bank subsequently breaches any of these conditions, the exposure on the underlying asset will be taken into account, and the CDS position will be transferred to the Trading Book. The unprotected portion of the underlying exposure will be risk-weighted as applicable under the Basel II framework. The amount of credit protection will be adjusted if there are any mismatches between the underlying asset obligation and the reference deliverable asset obligation regarding asset or maturity.

If there is an asset mismatch, meaning that the underlying asset is different from the reference asset or deliverable obligation, protection will be recognized only if the mismatched assets meet.

**Specific risk capital charges for bought and sold CDS positions in the Trading Book: Exposures to entities other than**

**Commercial Real Estate Companies/ NBFC-ND-SI**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Upto 90 days** | | | **After 90 days123** | |
| **Ratings by the ECAI\*** | **Residual Maturity of the instrument** | **Capital charge** | **Ratings by the ECAI\*** | **Capital charge** |
| AAA to BBB | 6 months or less | 0.28 % | AAA | 1.8 % |
| Greater than 6 months and up to and including 24 months | 1.14% | AA | 2.7% |
| Exceeding 24 months | 1.80% | A | 4.5% |
| BBB | 9.0% |
| BB and below | All maturities | 13.5% | BB and below | 13.5% |
| Unrated (if  permitted) | All maturities | 9.0% | Unrated (if  permitted) | 9.0% |

\* These ratings indicate the ratings assigned by Indian rating agencies ECAIs or foreign rating agencies. In the case of foreign ECAIs, the rating symbols used here correspond to Standard and Poor. The modifiers “+” or “-“ have been subsumed within the main category.

The conditions under which a protection buyer can use a credit default swap (CDS) to protect against credit risk in the underlying asset. If the maturity of the CDS contract is equal to or greater than the maturity of the underlying asset, the protection buyer is eligible to use the protection. However, if there is a maturity mismatch, the amount of protection recognized will be adjusted depending on the residual maturity of the CDS contract.

Banks can use CDS contracts to hedge against credit risk in their corporate bonds portfolios, either through internal or external hedges. If a bank uses an internal hedge by booking a CDS in its Trading Book, the Banking Book exposure is not deemed to be hedged for capital purposes unless the bank transfers the credit risk to an eligible third party protection provider.

The capital adequacy requirements for CDS positions in the Trading Book. A CDS does not create a position for general market risk, but the present value of the premium payable or receivable is sensitive to changes in interest rates, so appropriate capital charges for general market risk are applied. The notional amount and maturity of the CDS are used to calculate the specific risk capital charge for exposure to the reference entity.

capital charge table applies to exposures up to 90 days, and a 9.0% capital charge for exposures to Commercial Real Estate Companies and NBFC-ND-SI beyond 90 days will be taken, regardless of the rating of the reference deliverable obligation.

**Specific risk capital charges for bought and sold CDS positions in the Trading Book: Exposures to Commercial Real Estate**

**Companies NBFC-ND-SI#**

|  |  |  |
| --- | --- | --- |
| **Ratings by the ECAI\*** | **Residual Maturity of the instrument** | **Capital charge** |
| AAA to BBB | 6 months or less | 1.4% |
| Greater than 6 months and up to and including 24  months | 7.7% |
| Exceeding 24 months | 9.0% |
| BB and below | All maturities | 9.0% |
| Unrated (if permitted) | All maturities | 9.0% |

# The above table will be applicable for exposures upto 90 days. Capital charge for exposures to Commercial Real Estate Companies / NBFC-ND-SI beyond 90 days shall be taken at 9.0%, regardless of rating of the reference deliverable obligation.

\* These ratings indicate the ratings assigned by Indian rating agencies ECAIs or foreign rating agencies. In the case of foreign ECAIs, the rating symbols used here correspond to Standard and Poor. The modifiers “+” or “-“ have been subsumed within the main category.

The specific risk capital charges for positions hedged by credit default swaps (CDS). Specific risk capital charges are charges that banks must hold against potential losses from specific risks associated with a particular transaction.

where the two legs of the CDS (i.e. long and short positions) always move in the opposite direction and to the same extent, banks may fully offset specific risk capital charges. This means that no specific risk capital requirement applies to both sides of the CDS positions.

where the value of the two legs always moves in the opposite direction but not broadly to the same extent, banks may offset 80% of the specific risk capital charges. This would be the case when a long cash position is hedged by a CDS and there is an exact match in terms of the reference deliverable obligation and the maturity of both the reference deliverable obligation and the CDS. However, key features of the CDS (e.g. credit event definitions, settlement mechanisms) should not cause the price movement of the CDS to materially deviate from the price movements of the cash position. An 80% specific risk offset will be applied to the side of the transaction with the higher capital charge, while the specific risk requirement on the other side will be zero.

{**Refer 7 to 13}**

The regulations related to capital charges for counterparty credit risk in Credit Default Swap (CDS) transactions. CDS is a financial contract that allows investors to hedge against the risk of default on loans, bonds, or other financial instruments. The exposure of protection buyers and sellers, the treatment of collateralized transactions, the provision of general provisions, and exposure norms. It also explains the prudential treatment post-credit event for both protection buyers and sellers. The text also outlines the exposure norms for CDS transactions and provides guidelines for the calculation of credit risk charges.

A CDS is a financial contract between two parties, a protection buyer and a protection seller, in which the protection seller agrees to compensate the protection buyer in the event of a credit event, such as a default or bankruptcy, of a specific reference entity, which is typically a corporation or sovereign entity. In exchange for this protection, the protection buyer pays a periodic fee or premium to the protection seller.

The capital and risk management requirements for both protection buyers and protection sellers. For example, it mentions that a protection seller's exposure to a protection buyer is only present if the fee premia are outstanding, and that the counterparty credit risk charge for single name long CDS positions in the Trading Book will be calculated as the sum of the current marked-to-market value and potential future exposure.

The capital charge for counterparty risk for collateralized transactions in CDS, noting that collateral and margins will be maintained by individual market participants and that the counterparty exposure for CDS traded in the OTC market will be calculated using the Current Exposure Method.

The treatment of exposures below materiality thresholds, which are equivalent to retained first loss positions and should be assigned a risk weight of 1111%130 for capital adequacy purposes by the protection buyer. are required for all CDS positions, including the hedged positions, and that banks should hold general provisions for gross positive marked-to-market values of the CDS contracts.

The prudential treatment post-credit event for both protection buyers and protection sellers. For example, it notes that in the event that the credit event payment is not received within the stipulated period, the protection buyer must ignore the credit protection of the CDS and maintain an appropriate level of capital and provisions for the exposure. Similarly, the protection seller must debit the profit and loss account and recognize a liability to pay the protection buyer until the credit event payment is received. If the fair value of the deliverable obligation or reference obligation is not available after the credit event, the protection seller must debit the profit and loss account for the full amount of the protection sold and recognize a liability to pay the protection buyer equal to that amount.

The use of credit default swaps (CDS) in the corporate bond market. CDS are a type of financial instrument used for hedging against credit risk. The primary purpose of CDS is to provide investors with an avenue to hedge credit risk in corporate bonds after they have invested in them. However, it should not be used as a substitute for a bank guarantee. Banks are also not allowed to sell credit protection by writing a CDS on a corporate bond on the date of its issuance or undertake to write such protection in the future.

Exposures on account of all CDS contracts will be aggregated and combined with other on-balance sheet and off-balance sheet exposures against the reference entity for the purpose of complying with the exposure norms. A protection seller will recognize an exposure to the reference entity of the CDS contract equal to the amount of credit protection sold, subject to certain conditions. A protection buyer, on the other hand, will not reckon any exposure on the reference entity in some cases and will continue to reckon exposure on the reference entity equal to the outstanding position of the underlying asset in other cases.

The netting of exposures and reporting requirements. No netting of positive and negative marked-to-market values of the contracts with the same counterparty will be allowed for the purpose of capital adequacy for counterparty credit risk, provisioning, and exposure norms. Banks are required to report their "total exposure" in cases where they have assumed exposures against borrowers in excess of the normal single group exposure limits due to the credit protections obtained by them through CDS, guarantees, or any other instruments of credit risk transfer to the Department of Banking Supervision (DBS) on a quarterly basis.

**Illustrations on Credit Risk Mitigation (Loan- Exposures) Calculation of Exposure amount for collateralised transactions**

Where,

E \* = Max { 0, [ E x (1 + He ) – C x ( 1 – Hc – HFX ) ] }

E\* = Exposure value after risk mitigation E = Current value of the exposure

He = Haircut appropriate to the exposure

C = Current value of the collateral received Hc = Haircut appropriate to the collateral

HFX = Haircut appropriate for currency mismatch between the collateral and exposure

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Sly. No.** | **Particulars** | **Case I** | **Case 2** | **Case 3** | **Case 4** | **Case 5** |
| **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** | **(7)** |
| 1 | **Exposure** | **100** | **100** | **100** | **100** | **100** |
| 2 | Maturity of the exposure | 2 | 3 | 6 | 3 | 3 |
| 3 | Nature of the  exposure | Corporate  Loan | Corporat  e Loan | Corporate  Loan | Corporate  Loan | Corporat  e Loan |
| 4 | Currency | INR | INR | USD | INR | INR |
| 5 | Exposure in rupees | 100 | 100 | 4000  (Row 1 x exch. rate##) | 100 | 100 |
| 6 | Rating of exposure | BB | A | BBB- | AA | B- |
| Applicable Risk  weight | 150 | 50 | 100@ | 30 | 150 |
| 7 | Haircut for exposure\* | 0 | 0 | 0 | 0 | 0 |
| 8 | **Collateral** | 100 | 100 | 4000 | 2 | 100 |
| 9 | Currency | INR | INR | INR | USD | INR |
| 10 | **Collateral in Rs.** | **100** | **100** | **4000** | **80**  (Row 1 x Exch. Rate) | **100** |
| 11 | Residual maturity of collateral (years) | 2 | 3 | 6 | 3 | 5 |
| 12 | Nature of collateral | Sovereign (GoI)  Security | Bank Bonds | Corporate Bonds | Foreign  Corporate Bonds | Units of  Mutual Funds |
| 13 | Rating of Collateral | NA | Unrated | BBB | AAA (S & P) | AA |
| 14 | Haircut for | 0.02 | 0.06 | 0.12 | 0.04 | 0.08 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | collateral (%) |  |  |  |  |  |
| 15 | Haircut for currency mismatches ( %) [cf. para 7.3.7 (vi)  of circular] | 0 | 0 | 0.08 | 0.08 | 0 |
| 16 | Total Haircut on collateral  [Row 10 x (row  14+15)] | 2 | 6 | 800 | 9.6 | 8.0 |
| 17 | Collateral after haircut  ( Row 10 - Row  16) | 98 | 94 | 3200 | 70.4 | 92 |
| 18 | **Net Exposure (Row 5 – Row 17**  **)** | **2** | **6** | **800** | **29.6** | **8** |
| 19 | Risk weight ( %) | 150 | 50 | 100@ | 30 | 150 |
| 20 | **RWA (Row 18 x 19)** | **3** | **3** | **800** | **8.88** | **12** |

## Exchange rate assumed to be 1 USD = Rs.40 # Not applicable

@ In case of long term ratings, as per para 6.4.2 of the circular, where “+” or “-“ notation is attached to the rating, the corresponding main rating category risk weight is to be used. Hence risk weight is 100 per cent.

( \* ) Haircut for exposure is taken as zero because the loans are not marked to market and hence are not volatile

**Part - B**

**Illustrations on computation of capital charge for Counterparty Credit Risk (CCR) – Repo Transactions**

An illustration showing computation of total capital charge for a repo transaction comprising the capital charge for CCR and Credit Market risk for the underlying security,

**A. Particulars of a Repo Transaction:**

|  |  |
| --- | --- |
| **Type of the Security** | GOI security |
| **Residual Maturity** | 5 years |
| **Coupon** | 6 % |
| **Current Market Value** | Rs.1050 |
| **Cash borrowed** | Rs.1000 |
| **Modified Duration of the security** | 4.5 years |
| **Assumed frequency of margining** | Daily |
| **Haircut for security** | 2%  (Cf. Item A(i), Table 14 Circular) |
| **Haircut on cash** | Zero  (Cf. Item C in Table 14 of the Circular) |
| **Minimum holding period** | 5 business-days  (Cf. para 7.3.7 (ix) of the Circular) |
| **Change in yield for computing the capital charge for general market risk** | 0.7 % p.a.  (Cf. Zone 3 in Table 17 of the Circular) |

**Computation of total capital charge comprising the capital charge for Counterparty Credit Risk (CCR) and Credit Market risk for the underlying security**

**In the books of the borrower of funds (for the off-balance sheet exposure due to lending of the security under repo)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sl.N  o. | **Items** | | **Particulars** | **Amount (in Rs.)** |
| **A.** | | **Capital Charge for CCR** | | | |
| 1. | Exposure | | MV of the security | 1050 |
| 2. | CCF for Exposure | | 100 % |  |
| 3. | On-Balance Sheet Credit Equivalent | | 1050 \* 100 % | 1050 |
| 4. | Haircut | | 1.4 % **@** |  |
| 5. | *Exposure adjusted for haircut as per*  *Table 14 of the circular* | | 1050 \* 1.014 | 1064.70 |
| 6. | Collateral for the security lent | | Cash | 1000 |
| 7. | Haircut for exposure | | 0 % |  |
| 8. | *Collateral adjusted for haircut* | | 1000 \* 1.00 | 1000 |
| 9. | Net Exposure ( 5- 8) | | 1064.70 – 1000 | 64.70 |
| 10. | Risk weight (for a Scheduled CRAR- compliant bank) | | 20 % |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | | Risk weighted assets for CCR (9 x 10) | | **64.70 \* 20 %** | | **12.94** | |
| 12. | | Capital Charge for CCR (11 x 9%) | | 12.94 \* 0.09 | | 1.16 | |
| **B.** | **Capital for Credit/ market Risk of the security** | | | | | |
| 1. | Capital for credit risk  (if the security is held under HTM) | | Credit risk | | Zero (Being Govt. security) | |
| 2. | Capital for market risk  (if the security is held under AFS / HFT) | | Specific Risk | | Zero (Being Govt.  security) | |
| General Market Risk (4.5 \* 0.7 % \* 1050)  {Modified duration \* assumed yield change (%) \* market value of security} | | 33.07 | |
| **Total capital required**  **(for CCR + credit risk + specific risk + general market risk)** | | | | | | 34.23 | |

@ The supervisory haircut of 2 per cent

**In the books of the lender of funds (for the on-balance sheet exposure due to lending of funds under repo)**

(In this case, the cash lent is the exposure and the security borrowed is collateral)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sl.No** | **Items** | **Particulars** | **Amount (in Rs.)** | |
| **A.** | **Capital Charge for CCR** | | | | |
| 1. | Exposure | Cash | 1000 | |
| 2. | Haircut for exposure | 0 % |  | |
| 3. | *Exposure adjusted for haircut as per Table 14 of the circular* | 1000 \* 1.00 | 1000 | |
| 4. | Collateral for the cash lent | Market value of the security | 1050 | |
| 5. | Haircut for collateral | 1.4 % @ |  | |
| 6. | *Collateral adjusted for haircut* | 1050 \* 0.986 | 1035.30 | |
| 7. | Net Exposure ( 3 - 6) | Max { 1000 -1035.30} | 0 | |
| 8. | Risk weight (for a Scheduled  CRAR-compliant bank) | 20 % |  | |
| 9. | Risk weighted assets for CCR (  7 x 8) | **0 \* 20 %** | **0** | |
| 10. | Capital Charge for CCR | 0 | **0** | |
| **B.** | **Capital for Credit/ market Risk of the security** | | |
| 1. | Capital for credit risk  (if the security is held under HTM) | Credit Risk | Not applicable, as it is maintained by the borrower of funds |
| 2. | Capital for market risk  (if the security is held under AFS/HFT) | Specific Risk | Not applicable, as it is maintained by the borrower of funds |
| General Market Risk | Not applicable, as it is maintained by the borrower of funds |

**Measurement of capital charge for Market Risks in respect of Interest Rate Derivatives and Options**

{**Refer 195 to198}**

Guidelines for calculating the capital charge for interest rate derivatives and off-balance-sheet instruments in the trading book that react to changes in interest rates. These instruments include forward rate agreements (FRAs), other forward contracts, bond futures, interest rate and cross-currency swaps, and forward foreign exchange positions. Options can be treated differently depending on the circumstances.

The derivatives should be converted into positions in the relevant underlying and be subjected to specific and general market risk charges as described in the guidelines. The amounts reported should be the market value of the principal amount of the underlying or of the notional underlying. Banks must use the effective notional amount for instruments where the apparent notional amount differs from the effective notional amount.

Futures and forward contracts, including forward rate agreements, are treated as a combination of a long and a short position in a notional government security. The maturity of a future or FRA will be the period until delivery or exercise of the contract, plus the life of the underlying instrument, where applicable. For example, a long position in a June three-month interest rate future taken in April is 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. If a range of deliverable instruments can be delivered to fulfill the contract, the bank can elect which deliverable security goes into the duration ladder but should take into account any conversion factor defined by the exchange.

**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 |
| **Options**  - Government debt security  - Corporate debt security  - Index on interest rates (e.g. MIBOR)  - FRAs, Swaps | No Yes No  No |  |

The standardized methodology for calculating capital charges for derivatives. Swaps are treated as two notional positions, one in a floating rate instrument and the other in a fixed-rate instrument. Separate legs of cross-currency swaps are reported in relevant maturity ladders for each currency. Offsetting is allowed for identical positions in the same category of instruments, but no offsetting is allowed between positions in different currencies.

|  |  |
| --- | --- |
| **Position** | **Treatment** |
| Long cash and Long put Or  Short cash and Long call | The capital charge will be the market value of the underlying security134 multiplied by the sum of specific and general market risk charges135 for the underlying less the amount the option is in the money  (if any) bounded at zero136 |
| Long call Or  Long put | The capital charge will be the lesser of:  (i) the market value of the underlying security multiplied by the sum of specific and general market risk charges3 for the underlying  (ii) the market value of the option137 |

For options, banks are permitted to use alternative approaches to measure price risk. Those that solely use purchased options can use the simplified approach, while those that write options must use one of the intermediate approaches. The positions for options and their underlying instruments are not subject to the standardized methodology and are subject to separately calculated capital charges for general market risk and specific risk. The delta-plus method and the scenario approach are used to measure market risk for options. Under the delta-plus method, the delta-equivalent position of each option becomes part of the standardized methodology. For the scenario approach, simulation techniques are used to calculate changes in the value of an options portfolio for changes in the level and volatility of its associated underlyings.

{**Refer pg 199to 204}**

Intermediate approaches to calculate capital charges for banks that write options. One method, called the delta-plus method, allows banks to include delta-weighted options positions in their standardized methodology, which is calculated by multiplying the market value of the underlying by the delta. However, this method is not enough to cover all risks associated with options positions, so banks must also measure gamma (the rate of change of delta) and Vega (the sensitivity of an option's value to changes in volatility) sensitivities to calculate the total capital charge. These sensitivities can be calculated using an approved exchange model or the bank's own pricing model, subject to oversight by the Reserve Bank of India.

**Investments in the Capital of Banking, Financial and Insurance Entities which are Outside the Scope of Regulatory Consolidation**

**Details of Regulatory Capital Structure of a Bank**

|  |  |
| --- | --- |
| Paid-up equity capital | 300 |
| Eligible Reserve and Surplus | 100 |
| **Total common equity** | **400** |
| Eligible Additional Tier 1 capital | 15 |
| **Total Tier 1 capital** | **415** |
| Eligible Tier 2 capital | 135 |
| **Total Eligible capital** | **550** |

Delta-weighted positions with debt securities or interest rates as the underlying are slotted into the interest rate time-bands using a two-legged approach. This means that one entry is made when the underlying contract takes effect, and another when the contract matures. For example, a bought call option on a June three-month interest rate future is considered a long position with a maturity of five months and a short position with a maturity of two months, based on its delta-equivalent value in April.

Floating rate instruments with caps or floors are treated as a combination of floating rate securities and a series of European-style options. For example, a three-year floating rate bond indexed to six-month LIBOR with a cap of 15% is treated as a debt security that reprices in six months, and a series of five written call options on a forward rate agreement (FRA) with a reference rate of 15%, each with a negative sign at the time the underlying FRA takes effect and a positive sign at the time the underlying FRA matures.

**Details of Capital Structure and Bank's Investments in Unconsolidated Entities**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Entity** | **Total Capital of the Investee entities** | | | | **Investments of bank in these entities** | | | | |
|  | Common equity | Additional Tier 1 | Tier 2 | Total capital | Common Equity | Additional Tier 1 | Tier 2 | Total investment | |
| **Investments in the capital of banking, financial and insurance entities which are outside the**  **scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity** | | | | | | | | | |
| **A** | 250 | 0 | 80 | **330** | 12 | 0 | 15 | **27** | |
| **B** | 300 | 10 | 0 | **310** | 14 | 10 | 0 | **24** | |
| **Total** | **550** | **10** | **80** | **640** | **26** | **10** | **15** | **51** | |
| **Significant investments in the capital of banking, financial and insurance entities which are outside the scope of regulatory consolidation** | | | | | | | | | |
| **C** | 150 | 20 | 10 | **180** | 20 | 10 | 0 | | **30** |
| **D** | 200 | 10 | 5 | **215** | 25 | 5 | 5 | | **35** |
| **Total** | **350** | **30** | **15** | **395** | **45** | **15** | **5** | | **65** |

The capital charge for options with equities as the underlying is based on delta-weighted positions, which are incorporated in the measure of market risk. the Basel III Capital Regulations. Each national market is treated as a separate underlying. The capital charge for options on foreign exchange and gold positions is based on a separate method.

**Regulatory Adjustments on Account of Investments in Entities where Bank Does not own more than 10%**

**of the Issued Common Share Capital of the Entity**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **C-1: Bifurcation of Investments of bank into Trading and Banking Book** | | | | | | | | |
|  | Common Equity | | Additional Tier 1 | | | Tier 2 | Total investments | |
| Total investments in A & B held in Banking Book | 11 | | 6 | | | 10 | **27** | |
| Total investments in A & B held in Trading Book | 15 | | 4 | | | 5 | **24** | |
| Total of Banking and Trading Book Investments in A & B | **26** | | **10** | | | **15** | **51** | |
| **C-2: Regulatory adjustments** | | | | | | | | |
| Bank's aggregate investment in Common Equity of A & B | | | | 26 | | | | |
| Bank's aggregate investment in Additional Tier 1 capital of A & B | | | | 10 | | | | |
| Bank's aggregate investment in Tier 2 capital of A & B | | | | 15 | | | | |
| **Total of bank's investment in A and B** | | | | **51** | | | | |
| Bank common equity | | | | 400 | | | | |
| 10% of bank's common equity | | | | 40 | | | | |
| Bank's total holdings in capital instruments of A & B in excess of 10% of banks common equity (51-40) | | | | 11 | | | | |
| **Note:** Investments in both A and B will qualify for this treatment as individually, both of them are less than 10%  of share capital of respective entity. Investments in C & D do not qualify; as bank's investment is more than 10% of their common shares capital. | | | | | | | | |
|  | | | | | | | | |
| **C-3: Summary of Regulatory Adjustments** | |  | | | Banking Book | | | Trading Book |
| Amount to be deducted from common equity of the bank (26/51)\*11 | | 5.60 | | |  | | |  |
| Amount to be deducted from Additional Tier 1 of the bank (10/51)\*11 | | 2.16 | | |  | | |  |
| Amount to be deducted from Tier 2 of the bank (15/51)\*11 | | 3.24 | | |  | | |  |
| **Total Deduction** | | **11.00** | | |  | | |  |
| Common equity investments of the bank in A & B to be risk weighted | | 20.40  (26-5.60) | | | 8.63 (11/26)\*20  .40 | | | 11.77 |
| Additional Tier 1 capital investments of the bank in A & B to be risk weighted | | 7.84  (10-2.16) | | | 4.70 | | | 3.14 |
| Tier 2 capital investments of the bank in A & B to be risk weighted | | 11.76  (15-3.24) | | | 7.84 | | | 3.92 |
| **Total allocation for risk weighting** | | **40.00** | | | **21.17** | | | **18.83** |

VaR for interest rate options will be calculated based on the price sensitivity of the underlying bond or interest rate. The same methodology will be used for options on equities and equity indices, where the market value of the underlying will be multiplied by 9 percent. For foreign exchange and gold options, the market value of the underlying will also be multiplied by 9 percent.

For the calculation of gamma (which measures the rate of change of delta), each option on the same underlying will have a gamma impact that is either positive or negative. The individual gamma impacts will be summed, resulting in a net gamma impact for each underlying that is either positive or negative. Only those net gamma impacts that are negative will be included in the capital calculation. The total gamma capital charge will be the sum of the absolute value of the net negative gamma impacts.

For volatility risk, banks will be required to calculate the capital charges by multiplying the sum of the Vegas (which measures the sensitivity of the value of an option with respect to a change in volatility) for all options on the same underlying. The total capital charge for Vega risk will be the sum of the absolute value of the individual capital charges that have been calculated for Vega risk.

**Regulatory Adjustments on Account of Significant Investments in the Capital of Banking, Financial and Insurance Entities which are outside the Scope of Regulatory Consolidation**

|  |  |
| --- | --- |
| Bank aggregate investment in Common Equity of C & D | 45 |
| Bank's aggregate investment in Additional Tier 1 capital of C & D | 15 |
| Bank's aggregate investment in Tier 2 capital of C & D | 5 |
| **Total of bank's investment in C and D** | **65** |
| Bank's common equity | 400 |
| 10% of bank's common equity | 40 |
| Bank's investment in equity of C & D in excess of 10% of its common equity (45-40) | 5 |

|  |  |
| --- | --- |
| **D-1: Summary of regulatory adjustments** | |
| Amount to be deducted from common equity of the bank (excess over 10%) | 5 |
| Amount to be deducted from Additional Tier 1 of the bank (all Additional Tier 1 investments to be deducted) | 15 |
| Amount to be deducted from Tier 2 of the bank (all Tier 2 investments to be deducted) | 5 |
| **Total deduction** | **25** |
| Common equity investments of the bank in C & D to be risk weighted (upto 10%) | 40 |

**Total Regulatory Capital of the Bank after Regulatory Adjustments**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Before deduction | Deductions  as per Table C-3 | Deductions as per Table D-1 | After deductions |
| Common Equity | 400.00 | 5.61 | 5.00 | 387.24\* |
| Additional Tier 1 capital | 15.00 | 2.16 | 15.00 | 0.00 |
| Tier 2 capital | 135.00 | 3.24 | 5.00 | 126.76 |
| **Total Regulatory capital** | **550.00** | **11.00** | **25.00** | **514.00** |
| \*Since there is a shortfall of 2.16 in the Additional Tier 1 capital of the bank after deduction, which has to be deducted from the next higher category of capital i.e. common equity. | | | | |

In summary, the methodology for calculating VaR for various types of options in the banking industry, including interest rate options, equities and equity indices options, foreign exchange and gold options, and the calculation of gamma and Vega sensitivities.

**Illustration of Transitional Arrangements - Capital Instruments Which No Longer Qualify as Non-Common Equity Tier 1 Capital or Tier 2 Capital**

Date of Issue: April 14, 2005

Debt Capital Instrument: Notional amount = Rs. 1000 crore Date of maturity – April 15, 2022

Date of call - April 15, 2015

Features:

1. Call with step-up and meeting the non-viability criteria of conversion write-off

2. No step-up or other incentives to redeem but not meeting the non-viability criteria

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Residual maturity of the instrument as on (in years)** | | **Amortised amount** | **Amount to be recognized for capital adequacy purpose** | |
| Feature 1 | Feature 2 |
| January 1, 2013 | More than 9 but less than 10 | 1000 | 900 | 900 |
| March 31, 2014 | More than 8  but less than 9 | 1000 | 800 | 800 |
| March 31, 2015 | More than 7 but less than 8 | 1000 | 700 | 700 |
| March 31, 2016 | More than 6 but less than 7 | 1000 | 1000  (restored- call not exercised) | 600  (call not exercised) |
| March 31, 2017 | More than 5 but less than 6 | 1000 | 1000 | 500 |
| March 31, 2018 | More than 4 but less than 5 | 800 | 800  (discounted value- for Tier 2 debt  instrument) | 400 |
| March 31, 2019 | More than 3 but less than 4 | 600 | 600 | 300 |
| March 31, 2020 | More than 2  but less than 3 | 400 | 400 | 200 |
| March 31, 2021 | More than 1 but less than 2 | 200 | 200 | 100 |
| March 31, 2022 | Less than 1 | 0 | 0 | 0 |

The Scenario Approach that sophisticated banks can use to calculate the market risk capital charge for options portfolios and associated hedging positions. The approach involves creating a matrix of changes in the option portfolio's risk factors and calculating changes in the value of the option portfolio at various points along this "grid". The bank will revalue the option portfolio using matrices for simultaneous changes in the option's underlying rate or price and in the volatility of that rate or price. A different matrix will be set up for each individual underlying.

**CALCULATION OF CVA RISK CAPITAL CHARGE**

(Rs. in crore)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Derivatives | Counter party | Notional principal of trades whose MTM is  negative | Notional principal of trades whose MTM is  positive | Total Notional Principal (column 3+4) | Weighted average residual maturity | Positive MTM  value of trades (column  4) | PFE | Total current credit exposure as per  CEM | External rating of counter party |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Interest rate swaps | A | 150 | 150 | 300 | 1.85  years | 1.5 | 1% | 4.5 | A  (risk weight  50%) |
| Currency swaps | B | 300 | 200 | 500 | 5.01  years | 2.8 | 10% | 52.8 | AAA  (risk  weight 20%) |

The options and related hedging positions will be evaluated over a specified range above and below the current value of the underlying. The range for interest rates is consistent with the assumed changes in yield, and the other ranges are ±9 per cent for equities and ±9 per cent for foreign exchange and gold. At least seven observations (including the current observation) should be used to divide the range into equally spaced intervals.

The second dimension of the matrix entails a change in the volatility of the underlying rate or price. A single change in the volatility of the underlying rate or price equal to a shift in volatility of + 25 per cent and - 25 per cent is expected to be sufficient in most cases. After calculating the matrix, each cell contains the net profit or loss of the option and the underlying hedge instrument. The capital charge for each underlying will then be calculated as the largest loss contained in the matrix.

**Formula to be used for calculation of capital charge for CVA risk:**

￼

￼ Bi is the notional of purchased single name CDS hedges - nil

￼ Bind is the full notional of one or more index CDS of purchased protection, used to hedge CVA risk. - nil

￼ wind is the weight applicable to index hedges - nil

￼ Mihedge is the maturity of the hedge instrument with notional Bi

￼ Mi is the effective maturity of the transactions with counterparty ‘i’

￼ EADitotal is the exposure at default of counterparty ‘i’ (summed across its netting sets). For non-IMM banks the exposure should be discounted by applying the factor: (1-exp(-0.05\*Mi))/(0.05\*Mi).

￼h = 1 year

**Assumptions:**

￼ Applicable coupon rate on both legs of swap with exchange of coupon at yearly intervals for swap with counterparty A = 6% p.a.

￼ Applicable coupon rate on both legs of swap with exchange of coupon at yearly intervals for swap with counterparty =7% p.a.

The RBI is conscious of other risks associated with options, such as rho (rate of change of the value of the option with respect to the interest rate) and theta (rate of change of the value of the option with respect to time). While not proposing a measurement system for those risks at present, it expects banks undertaking significant options business to monitor such risks closely. Banks will be permitted to incorporate rho into their capital calculations for interest rate risk, if they wish to do so.

**Calculation:**

Discount factor to be applied to counterparty A: (1-exp (-0.05\*MA))/(0.05\*MA)

= 0.95551

Discounted EADA = 4.5\*0.95551=4.2981

Discount factor to be applied to counterparty B: (1-exp (-0.05\*MB))/(0.05\*MB)

=0.8846

Discounted EADB = 52.8\*0.8846=46.7061

*K= 2.33\*1\*[{(0.5\*.008\*(1.85\*4.2981-0) + (0.5\*0.007\*(5.01\*46.7061-0))-0}2+ (0.75\*0.0082\*(1.85\*4.2981-0)2 + (0.75\*0.0072\*(5.01\*46.7061-0)2]1/2*

= 2.33\*1.66 = 3.86

Therefore, total capital charge for CVA risk on portfolio basis = Rs. 3.86 crore

The requirements for banks to measure the interest rate risk in their banking books (IRRBB) and hold capital that corresponds to the level of risk under the Basel-II Framework. Supervisors must ensure that banks are holding adequate capital and take action if necessary. The guidelines for assessing the level of interest rate risk in the banking book and the required actions are outlined in the Pillar 2 guidelines issued by regulators.

**Calculation of Admissible Excess Additional Tier 1 (AT1) and Tier 2 Capital for the Purpose of Reporting and Disclosing Minimum Total Capital Ratios**

**Calculation of Admissible Additional Tier 1 Tier 2 Capital**

|  |  |
| --- | --- |
| **Capital Ratios as on March 31, 2018** | |
| Common Equity Tier 1 | 7.5% of RWAs |
| CCB | 2.5% of RWAs |
| Total CET1 | 10% of RWAs |
| PNCPS / PDI | 3.0% of RWAs |
| PNCPS / PDI eligible for Tier 1 capital | 2.05 % of RWAs  {(1.5/5.5)\*7.5% of CET1} |
| PNCPS / PDI ineligible for Tier 1 capital | 0.95% of RWAs  (3-2.05) |
| **Eligible Total Tier 1 capital** | **9.55% of RWAs** |
| Tier 2 issued by the bank | 2.5% of RWAs |
| Tier 2 capital eligible for CRAR | 2.73% of RWAs  {(2/5.5)\*7.5% of CET1} |
| PNCPS / PDI eligible for Tier 2 capital | 0.23% of RWAs  (2.73-2.5) |
| PNCPS / PDI not eligible Tier 2 capital | **0.72% of RWAs**  **(0.95-.23)** |
| **Total available capital** | **15.50%** |
| **Total capital** | **14.78% (12.28% +2.5%)**  **(CET1 -10%+AT1-2.05% +Tier 2-2.73)** |

Banks can use the indicative methodology prescribed in the supporting document "Principles for the Management and Supervision of Interest Rate Risk" issued by the Basel Committee on Banking Supervision (BCBS) to comply with the requirements of Pillar 2. The approach prescribed in this document takes into account both the earnings perspective and economic value perspective of interest rate risk, and the impact on income or the economic value of equity is calculated by applying a notional interest rate shock of 200 basis points.

**Computation of Capital for Market Risk**

(Rs. crore)

|  |  |  |
| --- | --- | --- |
| 1. | Capital Funds |  |
| Common Equity Tier 1 capital | 75 |
| Capital Conservation Buffer | 25 |
| PNCPS / PDI | 30 |
| Eligible PNCPS / PDI | 20.5 |
| Eligible Tier 1 capital | 95.5 |
| Tier 2 capital available | 25 |
| Tier 2 capital eligibility | 27.3 |
| Excess PNCPS/ PDI eligible for Tier 2 capital | 2.73 |
| Total eligible capital | 122.8 |
| 2. | Total Risk Weighted Assets (RWA) |  |
| RWA for credit and operational risk | 900 |
| RWA for market risk | 100 |
| 3. | Minimum Common Equity Tier 1 capital required to support credit and operational risk (900\*5.5%) | 49.5 |
| Maximum Additional Tier 1 capital within Tier 1 capital required to support credit and operational risk (900\*1.5%) | 13.5 |
| Maximum Tier 2 capital within Total capital required to support credit and operational risk (900\*2%) | 18 |
| Total eligible capital required to support credit and operational risk | 81 (49.5+13.5+18) |
| 4. | Minimum Common Equity Tier 1 capital available to support market risk | 25.5 (75-49.5) |
| Maximum Additional Tier 1 capital within Tier 1 capital available to support market risk | 7 (20.5-13.5) |
| Maximum Tier 2 capital within Total capital available to support market risk | 9.3(27.3-18) |
| Total eligible capital available to support market risk | 41.8(122.8-81) |

There are various methods for measuring the IRRBB, including Gap Analysis, simulation techniques, and internal models based on Value-at-Risk (VaR). Banks in India have been using Gap Reports to assess the impact of adverse movements in the interest rate on income through the gap method, but they may also use simulations. Banks can calculate the impact on earnings by gap analysis or any other method with an assumed change in yield on 200 basis points over one year, and no capital needs to be allocated for the impact on earnings.

The impact of IRRBB on the Market Value of Equity (MVE), which can be computed using the method indicated in the BCBS Paper on "Principles for the Management and Supervision of Interest Rate Risk" issued in July 2004.

{**Refer pg213 to 219 }**

{12th march pg 161 to 204}

An ICAAP document is a detailed report that assesses a bank's entire spectrum of risks and outlines how the bank plans to mitigate those risks. The document also specifies how much capital the bank requires to meet its current and future needs, taking into account other mitigating factors. The purpose of the ICAAP document is to inform the bank's board of directors about these aspects and to explain the bank's internal capital adequacy assessment process and approach to capital management to the RBI.

The ICAAP document should be prepared in a format that is easily understandable by senior management and contains all relevant information necessary for the bank and the RBI to make informed judgments about the bank's appropriate capital level and risk management approach. The document should be formally approved by the bank's board before it is submitted to the RBI. It should also include technical information on risk measurement methodologies, capital models, and other work carried out to validate the approach.

The ICAAP document should contain an executive summary, background information, a summary of current and projected financial and capital positions, information on capital adequacy, key sensitivities and future scenarios, aggregation and diversification, testing and adoption of the ICAAP, and information on how the bank will use the ICAAP internally.

The executive summary provides an overview of the ICAAP methodology and results, including the purpose of the report and which regulated entities within a banking group are covered by the ICAAP, the bank's findings on how much internal capital it should hold compared to the minimum capital requirement, the adequacy of the bank's risk management processes, a summary of the bank's financial position and future profitability, a description of the capital raising and dividend plan, commentary on the most material risks to which the bank is exposed and how it plans to mitigate them, commentary on major issues requiring further analysis and decisions, and information on who carried out the assessment, how it was challenged, validated, and stress-tested, and who approved it.

The components of the Internal Capital Adequacy Assessment Process (ICAAP) report that banks prepare and submit to the regulatory authority.

The first section of the report covers the organizational and historical financial data of the bank, including group structure, operating profit, profit before and after tax, dividends, shareholders’ funds, capital funds, customer deposits, deposits by banks, total assets, and any implications for the bank's future.

The second section explains the bank's current financial position, expected changes, business plans, projected financial position, and future sources of capital, including a starting balance sheet and the date of the assessment.

The third section discusses the bank's risk appetite, the amount of capital required to meet regulatory needs or business plans, and the capital adequacy of the bank. It identifies the major risks faced by the bank, explains how the risks have been assessed, and provides quantitative results where possible. It also explains how the bank mitigates the risks and any other methods used to do so.

The fourth section describes the methodology and assumptions made in the risk assessments, including details of the methodology and process used to calculate risks, which risks are covered by which modeling approach, key assumptions and parameters within the capital modeling work, how parameters have been chosen, limitations of the model, and validation work. It also provides details of stress tests or scenario analyses carried out, the quantitative results of those tests and analyses, the range of adverse scenarios applied, and resulting capital requirements.

"Key sensitivities and future scenarios" that explains how a bank would be affected by economic recession or downturns in business cycles or markets that are relevant to its activities. The Reserve Bank of India (RBI) wants to know how a bank would manage its business and capital to survive a recession while meeting minimum regulatory standards. The analysis includes financial projections for three to five years based on business plans and solvency calculations.

To conduct the analysis, a severe recession that occurs only once in a 25-year period is typically considered, and the time horizon is from the day of the ICAAP calculation to the deepest part of the recession envisaged. Typical scenarios include how an economic downturn would affect the bank's capital funds and future earnings and the bank's CRAR, taking into account future changes in its projected balance sheet. The projections should show separately the effects of management actions to change the bank's business strategy and the implementation of contingency plans.

Projections of future CRAR would include the effect of changes in the credit quality of the bank's credit risk counterparties, including migration in their ratings during a recession, as well as the bank's capital and its credit risk capital requirement. The bank would also assess any other capital planning actions to enable it to continue to meet its regulatory capital requirements throughout a recession, such as new capital injections from related companies or new share issues.

The section would also explain which key macroeconomic factors are being stressed and how they have been identified as drivers of the bank's earnings. The bank would explain how these macroeconomic factors affect the key parameters of the internal model, demonstrating how the relationship between the two has been established.

The "Management Actions" section elaborates on the management actions assumed in deriving the ICAAP. It includes the quantitative impact of management actions, sensitivity testing of key management actions, and revised ICAAP figures with management actions excluded. The section also provides evidence of management actions implemented in the past during similar periods of economic stress.

The process of combining and assessing various risk assessments to determine the overall capital adequacy of a bank. This involves using quantitative techniques to combine different risks, taking into account any diversification benefits and assumptions about correlations between risks, both in normal and stressed conditions. The overall assessment should also consider the inherent uncertainty in any modelling approach, weaknesses in the bank's risk management procedures, and the differing purposes of capital.

The section also discusses the testing and adoption of the Internal Capital Adequacy Assessment Process (ICAAP) within the bank. This includes describing the testing and control processes applied to ICAAP models and calculations, as well as the review and approval process by senior management or the board. It also details the use of ICAAP within the bank, including how capital management is embedded, the use of scenario analyses and stress testing, and how the bank's actual operating philosophy on capital management fits into the ICAAP document.

The section concludes by encouraging banks to provide any anticipated future refinements to the ICAAP and any other information they believe would be helpful to the regulator in reviewing the ICAAP document.

The minimum requirements to ensure loss absorbency of additional tier 1 instruments at pre-specified trigger and of all non-equity regulatory capital instruments at the point of non-viability, as per the Basel III Capital Regulations. The Additional Tier 1 (AT1) instruments should have principal loss absorption through either conversion into common shares at an objective pre-specified trigger point or a write-down mechanism, which allocates losses to the instrument at a pre-specified trigger point. All non-common Tier 1 and Tier 2 capital instruments issued by a bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event.

The loss absorption of AT1 instruments at the pre-specified trigger and the level of pre-specified trigger and the amount of equity to be created by conversion write-down. The conversion write-down of AT1 instruments is primarily intended to replenish the equity in the event it is depleted by losses. Banks may issue AT1 instruments with conversion, temporary written-down, and permanent write-off features. However, whichever option is exercised, it should be exercised across all investors of a particular issue. The instruments subject to temporary write-down may be written-up subsequently subject to certain conditions.

The requirements for a report on a bank's financial and capital positions. The report should include background information such as the bank's group structure, operating profit, and customer deposits, as well as a summary of the bank's current and projected financial positions. This should include the bank's present financial position, expected changes to the business profile, projected business plans, and future sources of capital. The report should also detail the bank's capital adequacy, including a description of its risk appetite, the amount of capital required to meet regulatory needs or business plans, and the confidence level and time horizon used for internal capital assessment. The report should also provide a detailed review of the bank's capital adequacy, including the effective date of the calculations, any events that may impact the calculations, and the time period selected for assessing the capital requirement.

The requirements for a bank to provide a detailed analysis of the major risks it faces across several categories, including credit risk, market risk, operational risk, liquidity risk, concentration risk, interest rate risk, residual risk of securitization, strategic risk, business risk, reputation risk, and pension obligation risk. For each risk, the bank must explain how it has been assessed and, to the extent possible, provide quantitative results of that assessment.

The bank must also explain how it has mitigated any risks highlighted in the report of the RBI's on-site inspection, and compare the RBI-assessed CRAR during on-site inspection with the results of the CRAR calculations of the bank under the ICAAP. The bank must articulate its risk appetite in quantitative terms by risk category and explain any other methods used to mitigate risks.

The bank to describe its methodology and assumptions in assessing each of the major risks. Banks may choose to base their ICAAP on the results of the CRAR calculation, or use internal models for all risks. The description must make clear which risks are covered by which modeling or calculation approach, including details of the methodology and process used to calculate risks in each category and the reason for choosing the method used in each case.

Where the bank uses an internal model for risk quantification, The bank to explain key assumptions and parameters within the capital modeling work and provide background information on the derivation of any key assumptions. It must also explain how parameters were chosen, the limitations of the model, the sensitivity of the model to changes in key assumptions or parameters, and the validation work undertaken to ensure the continuing adequacy of the model.

Where stress tests or scenario analyses have been used to validate, supplement, or probe the results of other modeling approaches, the text requires the bank to provide details of simulations to capture risks not well estimated by the bank's internal capital model. It must also provide details of the quantitative results of stress tests and scenario analyses, including the distribution of outcomes obtained for the main individual risk factors, and details of the range of combined adverse scenarios applied and resulting capital requirements. Finally, where applicable, details of any additional business-unit-specific or business-plan-specific stress tests selected must be provided.

The different parts or sections that make up a report that a bank is required to submit to the Reserve Bank of India (RBI). The report provides information on the bank's capital transferability, risk management system, off-balance sheet exposures, reputational risk and implicit support, valuation and liquidity risk, stress testing practices, and sound compensation practices.

The report starts with a discussion of capital transferability, which involves any limitations or constraints on the bank's ability to transfer capital in or out of its business. This could be due to various factors such as contractual, commercial, regulatory, or statutory restrictions. The report also considers restrictions on dividend distribution within the bank's group and the minimum capital levels required for overseas banking subsidiaries.

The second part of the report discusses the bank's risk management system, which includes oversight by the board and senior management, policies and procedures for risk management, risk identification and measurement, and internal controls.

The third section focuses on off-balance sheet exposures, particularly in structured products like securitization. The bank should analyze the credit quality and risk characteristics of underlying exposures, as well as potential maturity mismatches.

The fourth section is about reputational risk and implicit support, which could lead to credit, market, and legal risks. The report should discuss potential sources of reputational risk to the bank.

The fifth section discusses valuation and liquidity risk, describing the governance structures and control processes for valuing exposures and transactions, particularly illiquid positions.

The sixth section explains stress testing practices, including the role of the board and senior management in setting stress testing objectives, defining scenarios, and assessing potential actions based on the results of stress tests.

The final section focuses on sound compensation practices, describing the bank's compensation practices and how they are linked to long-term capital preservation and financial strength. The report should also disclose the calculation of risk-adjusted performance measures for employees and their link to compensation

{**Refer219 to**

If a bank breaches the pre-specified trigger for loss absorbency of AT1, the equity can be replenished through conversion or write-down. The replenished equity will initially be excluded from the total equity for determining the proportion of earnings to be paid out as dividends. However, once the bank has attained a total Common Equity ratio of 8% without counting the replenished equity, the replenished equity can be included for all purposes.

The conversion or write-down may be allowed more than once if the bank hits the pre-specified trigger level again. The order of seniority of the instruments for absorbing losses in case of liquidation is specified in the offer document and as per legal provisions.

If a bank is amalgamated with another bank, the treatment of AT1 instruments depends on whether they have been written-down or converted. If they have not been written-down or converted, they become part of the regulatory capital of the new bank. If they have been written-down temporarily, the new bank can write them up at its discretion. If they have been written-down permanently, they cannot be written up.

In case of conversion of AT1 instruments, the conversion price can be fixed at the time of issuance or based on the market price prevailing at the time of conversion. Banks should cap the number of shares and voting rights to prevent debt holders from exceeding the legally permissible limits. If the breach is inevitable, the bank should inform the Reserve Bank of India immediately. In the case of unlisted banks, the conversion price should be based on the fair value of the bank’s common shares.

The bank's capital clause should be modified to take care of conversion aspects and ensure that the issuing bank maintains all necessary authorization to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur.

The conversion and write-down of various types of non-equity regulatory capital instruments issued by banks in India. The guidelines aim to ensure that these instruments are capable of absorbing losses in a gone concern situation.

The order of conversion and write-down of these instruments should be based on the order in which they would absorb losses. Banks must clearly indicate the order of conversion and write-down of each instrument in the offer document. This order should also be based on the advice of legal counsels.

The terms and conditions of these instruments must include a provision that requires them to be written off or converted into common equity at the option of the Reserve Bank of India, upon the occurrence of the trigger event called the Point of Non-Viability (PONV) Trigger. The PONV Trigger event is the earlier of a decision that conversion or write-off is necessary, as determined by the Reserve Bank of India, or a decision to inject public sector capital or equivalent support, without which the bank would become non-viable, as determined by the relevant authority.

A non-viable bank is defined as a bank that, owing to financial and other difficulties, may no longer remain a going concern unless appropriate measures are taken to revive its operations. The most appropriate way to prevent the bank from becoming non-viable is to raise Common Equity Tier 1 capital.

If a bank is facing financial difficulties and approaching a PONV, it will be deemed to achieve viability if, within a reasonable time, it will be able to come out of its difficulties with appropriate measures such as write-off conversion, public sector injection of funds, or other measures as considered appropriate by the Reserve Bank. These measures aim to restore depositors' and investors' confidence, improve the bank's creditworthiness and borrowing capacity, and augment its resource base to fund balance sheet growth.

"non-viable" bank, and what measures can be taken to restore its viability. A non-viable bank is defined as a bank that is facing financial difficulties so severe that it may not be able to continue operating unless appropriate measures are taken. The most appropriate measure in this case is raising the Common Equity Tier 1 capital of the bank through write-offs or conversion of non-equity regulatory capital into common shares.

To restore viability, appropriate measures must be taken to revive the bank's operations. These measures may include augmentation of equity capital through write-offs, conversion, or public sector injection of funds. The aim of these measures is to restore depositor and investor confidence, improve the bank's creditworthiness, borrowing capacity, liquidity, and reduce the cost of funds, and augment the resource base to fund balance sheet growth.

There are specific requirements that non-common equity capital instruments must meet in order to absorb losses at the point of non-viability (PONV). These requirements may include conversion, temporary or permanent write-offs, depending on whether or not there is a public sector injection of funds. The RBI will determine the amount of non-equity capital that needs to be converted or written-off.

When a bank breaches the PONV trigger and its equity is replenished through conversion or write-off, the replenished equity amount will be excluded from the total equity for the purpose of determining the proportion of earnings to be paid out as dividends. However, once the bank has attained a total Common Equity ratio of 8% without counting the replenished equity capital, the replenished equity capital can be included for all purposes.

The guidelines also provide provisions for the treatment of non-common equity capital instruments in the event of winding-up, amalgamation, acquisition, re-constitution, etc. These provisions include the fixation of conversion price, capping of the number of shares/voting rights, and the order of conversion/write-down/write-off of non-common equity capital instruments at the PONV.

The requirements for non-common equity capital instruments to absorb losses at the point of non-viability (PONV) of a bank, as determined by the Reserve Bank of India (RBI). Such instruments may have conversion, temporary permanent write-off, or permanent write-off features, with the amount of non-equity capital to be converted or written-off determined by the RBI.

If a bank breaches the PONV trigger, its equity can be replenished through conversion or write-down, but the replenished amount of equity will be excluded from the total equity of the bank for determining the proportion of earnings to be paid out as dividends. Once the bank has attained a total common equity ratio of 8%, including the replenished equity capital, it may be included for all purposes.

The provisions regarding treatment of Additional Tier 1 (AT1) instruments, including order of conversionwrite-down write-off, fixation of conversion price, capping of number of shares voting rights, and treatment in the event of winding-up, amalgamation, acquisition, re-constitution, are also applicable to all non-common equity capital instruments.

The criteria to determine the PONV consist of objective and subjective criteria, and once confirmed, the next step would be to decide whether rescue of the bank would be through write-off conversion alone or write-off conversion in conjunction with a public sector injection of funds. The trigger at PONV will be evaluated at both consolidated and solo levels, and the minority interests in respect of capital instruments issued by subsidiaries of banks can be included in the consolidated capital of the banking group only if these instruments have pre-specified triggers loss absorbency at the PONV.

Any common stock paid as compensation to the holders of the instrument must be common stock of either the issuing subsidiary or the parent bank. The conversion write-down should be allowed more than once in case a bank hits the pre-specified trigger level subsequent to the first conversion write-down, which was partial.

**Calculation of Write-Up in Case of Temporarily Written-down Instruments**

|  |  |  |
| --- | --- | --- |
| **1** | **Basic details** | **Amount** |
| (i) | Book value of the equity | 70 |
| (ii) | Market value of the debt with an assumed coupon of 10% at the time of write-down | 30 |
| (iii) | Equity created from write-down | 30 |
| (iv) | Fresh equity issued after write-down | 50 |
| **2** | **Position at the end of first year after write-down** |  |
| (i) | Total book value of the equity in the beginning of the period:  [1(i)+1(iii)+1(iv)] | 150 |
| (ii) | Equity belonging to equity holders in the beginning of the period | 120 |
| (iii) | Balance of equity created out of write-down | 30 |
| (iv) | Accretion to reserves/distributable surplus during the first year | 25 |
| (v) | Dividend paid during the first year to the equity holders | Nil |
| (vi) | Amount to be written-up | Nil |
| (vii) | Interest payable on written-up amount | Nil |
| (viii) | Total book value of the equity at the end of the period: [(i)+(iv)] | 175 |
| (ix) | Equity belonging to equity holders at the end of the period: [2(ii)+(2(iv)] | 145 |
| (x) | Balance of equity created out of write-down at the end of the period : 2(iii) | 30 |
| **3** | **Position at the end of second year** |  |
| (i) | Accretion to reserves/distributable surplus during the second year | 40 |
| (ii) | Dividend paid during the second year to the equity holders | 20 |
| (iii) | Amount to be written-up :[3(ii)/2(ix)]\* 2(x): (20/145)\*30 | 4.14 |
| (iv) | Total amount written-up at the end of the year: 3(iii) | 4.14 |
| (v) | Interest payable on written-up amount | Nil |
| (vi) | Total distribution to be considered for complying with the restriction on capital distribution under the capital conservation buffer requirement:[(3(ii)+(3(iii)]: 20+4.14 | 24.14156 |
| (vii) | Net equity after distributions at the end of the period:[(2(viii)+3(i)-3(vi):  175+40-24.14 | 190.86 |
| (viii) | Equity belonging to equity holders at the end of the period: [2(ix) +3(i)- 3(vi)+(3(iii)]:145+40-24.14+4.14157 | 165 |
| (ix) | Balance of equity created out of write-down at the end of the period : 2(ix)-  3(iii):30-4.14 | 25.86 |
| **4** | **Position at the end of third year** |  |
| (i) | Accretion to reserves/distributable surplus during the third year | 75 |
| (ii) | Dividend paid during the third year to the equity holders | 35 |
| (iii) | Amount to be written-up :[4(ii)/3(viii)]\* 3(ix): (35/165)\*25.86 | 5.49 |
| (iv) | Total written-up amount at the end of the year [(3(iv)+(4(iii)]: 4.14+5.49 | 9.63 |
| (v) | Interest payable on written-up amount: 4.14\*0.1 | 0.414 |
| (vi) | Total distribution to be considered for complying with the restriction on capital distribution under the capital conservation buffer requirement:[(4(ii)+(4(iii)]: 35+5.49 | 40.49 |

**Calculation of Minority Interest - Illustrative Example**

This Annex illustrates the treatment of minority interest and other capital issued out of subsidiaries to third parties,

A banking group for this purpose consists of two legal entities that are both banks. Bank P is the parent and Bank S is the subsidiary and their unconsolidated balance sheets are set out below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Bank P Balance Sheet** | | **Bank S Balance Sheet** | |
| **Assets** |  | **Assets** |  |
| Loans to customers | 100 | Loans to customers | 150 |
| Investment in CET1 of Bank S | 7 |  |  |
| Investment in the AT1 of Bank S | 4 |  |  |
| Investment in the T2 of Bank  S | 2 |  |  |
| **Total** | **113** | **Total** | **150** |
| **Liabilities and equity** |  | **Liabilities and equity** |  |
| Depositors | 70 | Depositors | 127 |
| Tier 2 | 10 | Tier 2 | 8 |
| Additional Tier 1 | 7 | Additional Tier 1 | 5 |
| Common equity | 26 | Common equity | 10 |
| **Total** | **113** | **Total** | **150** |

The balance sheet of Bank P shows that in addition to its loans to customers, it owns 70% of the common shares of Bank S, 80% of the Additional Tier 1 of Bank S and 25% of the Tier 2 capital of Bank S.

The ownership of the capital of Bank S is therefore as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Capital issued by Bank S** | | | |
|  | **Amount issued to parent**  **(Bank P)** | **Amount issued to**  **third parties** | **Total** |
| Common Equity Tier 1 (CET1) | 7 | 3 | 10 |
| Additional Tier 1 (AT1) | 4 | 1 | 5 |
| ***Tier 1 (T1)*** | ***11*** | ***4*** | ***15*** |
| Tier 2 (T2) | 2 | 6 | 8 |
| ***Total capital (TC)*** | ***13*** | ***10*** | ***23*** |

|  |  |  |
| --- | --- | --- |
| **Consolidated Balance Sheet** | | |
| **Assets** |  | Remarks |
| Loans to customers | 250 | Investments of P in S aggregating Rs.13 will be cancelled during accounting consolidation. |
| **Liabilities and equity** |  |  |
| Depositors | 197 |  |
| Tier 2 issued by subsidiary to third parties | 6 | (8-2) |
| Tier 2 issued by parent | 10 |  |
| Additional Tier 1 issued by subsidiary to third parties | 1 | (5-4) |
| Additional Tier 1 issued by parent | 7 |  |
| Common equity issued by subsidiary to third parties (i.e. minority interest) | 3 | (10-7) |
| Common equity issued by parent | 26 |  |
| **Total** | **250** |  |

illustrate the minimum capital requirements and surplus capital of Bank S. It assumes that Bank SBank S and its subsidiary have the same minimum capital requirements, which means that they are subject to certain capital requirements, including a capital conservation buffer. The surplus capital is the amount of capital that exceeds these minimum requirements.

The actual values of Bank S's minimum capital requirements and surplus capital has risk-weighted assets (RWA) worth 100, while the actual value of its assets is 150

|  |  |  |  |
| --- | --- | --- | --- |
| **Minimum and surplus capital of Bank S** | | | |
|  | **Minimum plus capital conservation buffer required158** | **Actual capital available** | **Surplus**  (3-2) |
| 1 | 2 | 3 | 4 |
| Common Equity | 7.0 | 10 | 3.0 |
| Tier 1capital | (= 7.0% of 100) |  |  |
| Tier 1 capital | 8.5 | 15 | 6.5 |
|  | (= 8.5% of 100) | (10+5) |  |
| Total capital | 10.5 | 23 | 12.5 |
|  | (= 10.5% of 100) | (10+5+8) |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank S: Amount of capital issued to third parties included in consolidated capital** | | | | | |
|  | **Total amount issued (a)** | **Amount issued to third parties (b)** | **Surplus (c)** | **Surplus attributable to third parties (i.e. amount excluded from consolidated capital)**  **(d) = (c) \* (b)/(a)** | **Amount included in consolidated capital**  **(e) = (b) – (d)** |
| Common Equity Tier 1  capital | 10 | 3 | 3.0 | 0.90 | 2.10 |
| Tier 1  capital | 15 | 4 | 6.5 | 1.73 | 2.27 |
| Total capital | 23 | 10 | 12.5 | 5.43 | 4.57 |

Three components of capital: Common Equity Tier 1, Tier 1, and Tier 2. The amount of Additional Tier 1 capital will be calculated by subtracting Tier 1 from Common Equity Tier 1, while the amount of Tier 2 capital will be calculated by subtracting Tier 1 from Total Capital.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Total amount issued by parent (all of which is to be included in consolidated**  **capital)** | **Amount issued by subsidiaries to third parties to be included in consolidated capital** | **Total amount issued by parent and subsidiary to be included in consolidated capital** |
| Common Equity Tier 1 capital | 26 | 2.10 | 28.10 |
| *Additional Tier 1 capital* | *7* | *0.17* | *7.17* |
| Tier 1 capital | 33 | 2.27 | 35.27 |
| *Tier 2 capital* | *10* | *2.30* | *12.30* |
| Total capital | 43 | 4.57 | 47.57 |

**Pillar 3**

**Disclosure Requirements**

**Scope of Application and Capital Adequacy**

**Scope of Application**

**Name of the head of the banking group to which the framework applies**

**Qualitative Disclosures:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Name of the entity /  Country of incorporation | Whether the entity is included under accounting scope of consolidation (yes / no) | Explain the  method of consolidation | Whether the  entity is  included under regulatory scope of consolidation159 (yes / no) | Explain the  method of consolidation | Explain the reasons for difference in the method of consolidation | Explain the  reasons if consolidated under only one of the scopes of consolidation  160 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

**List of group entities considered for consolidation**

**List of group entities not considered for consolidation both under the accounting and regulatory scope of consolidation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Name of the entity country of incorporation | Principle activity of the entity | Total balance sheet equity (as stated in the accounting balance sheet of the legal entity) | % of  bank’s holding in the total equity | Regulatory treatment of bank’s investments in the capital instruments of the entity | Total balance sheet assets (as stated in the accounting balance sheet of the legal entity) |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**Quantitative Disclosures:**

**List of group entities considered for consolidation**

|  |  |  |  |
| --- | --- | --- | --- |
| Name of the entity country of  incorporation  *(as indicated in (i)a. above)* | Principle activity of the entity | Total balance sheet equity *(as stated in the accounting*  *balance sheet of the legal entity)* | Total balance sheet assets *(as stated in the accounting*  *balance sheet of the legal entity)* |
|  |  |  |  |
|  |  |  |  |

**The aggregate amount of capital deficiencies161 in all subsidiaries which are not included in the regulatory scope of consolidation i.e. that are deducted:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Name of the subsidiaries  country of incorporation | Principle activity of the entity | Total balance sheet equity  *(as stated in the accounting balance sheet of*  *the legal entity)* | % of bank’s holding in the total equity | Capital deficiencies |
|  |  |  |  |  |
|  |  |  |  |  |

**The aggregate amounts (e.g. current book value) of the bank’s total interests in insurance entities, which are risk-weighted:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Name of the insurance entities country of incorporation | Principle activity of the entity | Total balance sheet equity  *(as stated in the accounting balance sheet of the legal entity)* | % of bank’s holding in the total equity proportion of voting power | Quantitative impact on regulatory capital of using risk weighting method versus using the full deduction  method |
|  |  |  |  |  |
|  |  |  |  |  |

**Any restrictions or impediments on transfer of funds or regulatory capital within the banking group:**

**Capital Adequacy**

|  |
| --- |
| **Qualitative disclosures**  (a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities |
| **Quantitative disclosures**  (b) Capital requirements for credit risk:  • Portfolios subject to standardised approach  • Securitisation exposures |
| (c) Capital requirements for market risk:  • Standardised duration approach;  - Interest rate risk  - Foreign exchange risk (including gold)  - Equity risk |
| (d) Capital requirements for operational risk:  • Basic Indicator Approach  • The Standardised Approach (if applicable) |
| (e) Common Equity Tier 1, Tier 1and Total Capital ratios:  • For the top consolidated group; and  • For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Framework is applied) |

The importance of assessing and managing risks for banks, and how this information is important for market participants when evaluating a bank's financial health. The text specifically mentions four key risks that banks must manage: credit risk, market risk, interest rate risk in the banking book, and operational risk.

explain that banks must provide qualitative disclosures for each of these risks, including their risk management objectives and policies, the structure and organization of their risk management function, the scope and nature of their risk reporting and measurement systems, and their policies for hedging and mitigating risk.

For credit risk specifically, the text explains that disclosures should provide information about overall credit exposure and can be based on information not necessarily prepared for regulatory purposes. Disclosures on capital assessment techniques provide more specific information about credit exposures, how they are assessed, and data to assess the reliability of the information disclosed.

**Credit Risk: General Disclosures for All Banks**

|  |
| --- |
| **Qualitative Disclosures**  (a) The general qualitative disclosure requirement with respect to credit risk, including: Definitions of past due and impaired (for accounting purposes);  Discussion of the bank’s credit risk management policy; |
| **Quantitative Disclosures**  (b) Total gross credit risk exposures162, Fund based and Non-fund based separately.  (c) Geographic distribution of exposures163, Fund based and Non-fund based separately Overseas  Domestic  (d) Industry164 type distribution of exposures, fund based and non-fund based separately  (e) Residual contractual maturity breakdown of assets,165  (f) Amount of NPAs (Gross)  Substandard Doubtful 1  Doubtful 2  Doubtful 3 Loss  (g) Net NPAs  (h) NPA Ratios  Gross NPAs to gross advances Net NPAs to net advances  (i) Movement of NPAs (Gross)  Opening balance Additions Reductions Closing balance  (j) Movement of provisions for NPAs  Opening balance  Provisions made during the period Write-off  Write-back of excess provisions Closing balance  (k) Amount of Non-Performing Investments  (l) Amount of provisions held for non-performing investments  (m) Movement of provisions for depreciation on investments  Opening balance  Provisions made during the period Write-off  Write-back of excess provisions  Closing balance |

**Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach**

|  |
| --- |
| **Qualitative Disclosures**  (a) For portfolios under the standardised approach:  Names of credit rating agencies used, plus reasons for any changes; Types of exposure for which each agency is used; and  A description of the process used to transfer public issue ratings onto comparable assets in the banking book; |
| **Quantitative Disclosures**  (b) For exposure166 amounts after risk mitigation subject to the standardised approach, amount of a bank’s outstandings (rated and unrated) in the following three major risk buckets as well as those that are deducted;  Below 100 % risk weight 100 % risk weight  More than 100 % risk weight  Deducted |
|  |

**Credit Risk Mitigation: Disclosures for Standardised Approaches 167**

|  |
| --- |
| **Qualitative Disclosures**  (a) The general qualitative disclosure requirement with respect to credit risk mitigation including:  ***a) Policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting;***  policies and processes for collateral valuation and management; a description of the main types of collateral taken by the bank;  the main types of guarantor counterparty and their credit worthiness; and  information about (market or credit) risk concentrations within the mitigation taken |
| ***Quantitative Disclosures***  (b) ***For each separately disclosed credit risk portfolio the total exposure (after, where applicable, on- or off balance sheet netting) that is covered by eligible financial collateral after the application of haircuts.***  (c) ***For each separately disclosed portfolio the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees/credit derivatives (whenever specifically permitted by RBI)*** |

**Securitisation Exposures: Disclosure for Standardised Approach**

|  |  |
| --- | --- |
| **Qualitative Disclosures** | |
| (a) | The general qualitative disclosure requirement with respect to securitisation including a discussion of:  • the bank’s objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities.  • the nature of other risks (e.g. liquidity risk) inherent in securitised assets;  • the various roles played by the bank in the securitisation process (For example: originator, investor, servicer, provider of credit enhancement, liquidity provider, swap provider@, protection provider#) and an indication of the extent of the bank’s involvement in each of them;  • a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures (for example, how the behaviour of the underlying assets impacts securitisation exposures. 5.16.1 of Basel III Capital Regulations).  • a description of the bank’s policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation exposures;  @ A bank may have provided support to a securitisation structure in the form of an interest rate swap or currency swap to mitigate the interest rate/currency risk of the underlying assets, if permitted as per regulatory rules.  # A bank may provide credit protection to a securitisation transaction through guarantees, credit derivatives or any other similar product, if permitted as per  regulatory rules. |
| (b) | **Summary of the bank’s accounting policies for securitisation activities, including**:  • whether the transactions are treated as sales or financings;  • methods and key assumptions (including inputs) applied in valuing positions retained or purchased  • changes in methods and key assumptions from the previous period and impact of the changes;  • policies for recognising liabilities on the balance sheet for arrangements that  could require the bank to provide financial support for securitised assets. |
| (c) | In the banking book, the names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used. |
| **Quantitative disclosures: Banking Book** | |
| (d) | The total amount of exposures securitised by the bank. |
| (e) | For exposures securitised losses recognised by the bank during the current period broken by the exposure type (e.g. Credit cards, housing loans, auto loans etc. detailed by underlying security) |
| (f) | Amount of assets intended to be securitised within a year |
| (g) | Of (f), amount of assets originated within a year before securitisation. |
| (h) | The total amount of exposures securitised (by exposure type) and unrecognised gain or losses on sale by exposure type. |
| (i) | Aggregate amount of:  • on-balance sheet securitisation exposures retained or purchased broken down by exposure type and  • off-balance sheet securitisation exposures broken down by exposure type |
| (j) | (i) Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between exposures and further broken down into different risk weight bands for each regulatory capital |

|  |  |
| --- | --- |
|  | approach  (ii) Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital (by exposure type). |
| **Quantitative Disclosures: Trading book** | |
| (k) | Aggregate amount of exposures securitised by the bank for which the bank has retained some exposures and which is subject to the market risk approach, by exposure type. |
| (l) | Aggregate amount of:  • on-balance sheet securitisation exposures retained or purchased broken down by exposure type; and  • off-balance sheet securitisation exposures broken down by exposure type. |
| (m) | **Aggregate amount of securitisation exposures retained or purchased separately for**:  • securitisation exposures retained or purchased subject to Comprehensive Risk Measure for specific risk; and  • securitisation exposures subject to the securitisation framework for specific  risk broken down into different risk weight bands. |
| (n) | Aggregate amount of:  • the capital requirements for the securitisation exposures, subject to the securitisation framework broken down into different risk weight bands.  • securitisation exposures that are deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital(by exposure type). |

**Market Risk in Trading Book**

|  |
| --- |
| **Qualitative disclosures**  (a) The general qualitative disclosure requirement for market risk including the portfolios covered by the standardised approach. |
| **Quantitative disclosures**  (b) The capital requirements for:  interest rate risk;  equity position risk; and foreign exchange risk; |

**Qualitative disclosures**

In addition to the general qualitative disclosure requirement, the approach(es) for operational risk capital assessment for which the bank qualifies.

**Operational Risk**

**Interest Rate Risk in the Banking Book (IRRBB)**

|  |
| --- |
| **Qualitative Disclosures**  (a) The general qualitative disclosure requirement including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement. |
| **Quantitative Disclosures**  (b) The increase (decline) in earnings and economic value (or relevant measure used by management) for upward and downward rate shocks according to management’s method for measuring IRRBB, broken down by currency (where the turnover is more than 5% of the total turnover). |

**General Disclosure for Exposures Related to Counterparty Credit Risk**

|  |  |  |
| --- | --- | --- |
| **Qualitative Disclosures** | (a) | The general qualitative disclosure requirement with respect to derivatives and CCR, including:  ￼ Discussion of methodology used to assign economic capital and credit limits for counterparty credit exposures; |
|  |  | ￼ Discussion of policies for securing collateral and establishing credit reserves;  ￼ Discussion of policies with respect to wrong-way risk exposures; |
|  |  | ￼ Discussion of the impact of the amount of collateral the bank would have to provide given a credit rating downgrade. |
| **Quantitative** | (b) | Gross positive fair value of contracts, netting benefits168, netted |
| **Disclosures** |  | current credit exposure, collateral held (including type, e.g. cash, |
|  |  | government securities, etc.), and net derivatives credit |
|  |  | exposure169. Also report measures for exposure at default, or |
|  |  | exposure amount, under CEM. The notional value of credit |
|  |  | derivative hedges, and the distribution of current credit exposure |
|  |  | by types of credit exposure170. |
|  | (c) | Credit derivative transactions that create exposures to CCR |
|  |  | (notional value), segregated between use for the institution’s |
|  |  | own credit portfolio, as well as in its intermediation activities, |
|  |  | including the distribution of the credit derivatives products |
|  |  | used171, broken down further by protection bought and sold |
|  |  | within each product group |

{**Refer 238 to**

**{refer 3 to**

The capital positions of banks after a transition period for the phasing-in of deductions ends on March 31, 2017. The template includes certain rows that are in italics, which will be deleted after all ineligible capital instruments have been fully phased out starting from April 1, 2022.

The Basel III Capital Regulations require the disclosure of certain regulatory adjustments, such as the adjustment of 'Goodwill net of related tax liability,' which is included in the template. This regulatory adjustment will be broken down into its goodwill component and the related tax liability component.

The template includes shaded rows, with dark gray rows introducing a new section that details a specific component of regulatory capital. The light gray rows with no thick border represent the sum cells in the relevant section. Finally, the light gray rows with a thick border show the main components of regulatory capital and the capital ratios.

**Composition of Capital**

**Template to be used only from March 31, 2017**

(Rs. in million)

|  |  |  |  |
| --- | --- | --- | --- |
| **Basel III common disclosure template to be used from March 31, 2017** | | |  |
| **Common Equity Tier 1 capital: instruments and reserves** | | | Ref No |
| 1 | Directly issued qualifying common share capital plus related stock surplus (share premium) |  |  |
| 2 | Retained earnings |  |  |
| 3 | Accumulated other comprehensive income (and other reserves) |  |  |
| *4* | *Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies1)* |  |  |
| 5 | Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) |  |  |
| 6 | **Common Equity Tier 1 capital before regulatory adjustments** |  |  |
| **Common Equity Tier 1 capital: regulatory adjustments** | | |  |
| 7 | Prudential valuation adjustments |  |  |
| 8 | Goodwill (net of related tax liability) |  |  |
| 9 | Intangibles (net of related tax liability) |  |  |
| 10 | Deferred tax assets2 |  |  |
| 11 | Cash-flow hedge reserve |  |  |
| 12 | Shortfall of provisions to expected losses |  |  |
| 13 | Securitisation gain on sale |  |  |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities |  |  |
| 15 | Defined-benefit pension fund net assets |  |  |
| 16 | Investments in own shares (if not already netted off paid-up capital on reported balance sheet) |  |  |
| 17 | Reciprocal cross-holdings in common equity |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| 18 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) |  |  |
| 19 | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory  consolidation, net of eligible short positions (amount above 10% threshold)3 |  |  |
| 20 | Mortgage servicing rights4 (amount above 10% threshold) |  |  |
| 21 | Deferred tax assets arising from temporary differences5 (amount above 10% threshold, net of related tax liability) |  |  |
| 22 | Amount exceeding the 15% threshold6 |  |  |
| 23 | *of which: significant investments in the common stock of financial entities* |  |  |
| 24 | *of which: mortgage servicing rights* |  |  |
| 25 | *of which: deferred tax assets arising from temporary differences* |  |  |
| 26 | National specific regulatory adjustments7 (26a+26b+26c+26d) |  |  |
| 26a | *of which:* Investments in the equity capital of unconsolidated insurance subsidiaries |  |  |
| 26b | *of which:* Investments in the equity capital of unconsolidated non- financial subsidiaries8 |  |  |
| 26c | *of which:* Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank9 |  |  |
| 26d | *of which:* Unamortised pension funds expenditures |  |  |
| 27 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions |  |  |
| 28 | **Total regulatory adjustments to Common equity Tier 1** |  |  |
| 29 | **Common Equity Tier 1 capital (CET1)** |  |  |
| **Additional Tier 1 capital: instruments** | | |  |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (share premium) (31+32) |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| 31 | of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares) |  |  |
| 32 | of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments) |  |  |
| *33* | *Directly issued capital instruments subject to phase out from Additional Tier 1* |  |  |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in  row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) |  |  |
| *35* | *of which: instruments issued by subsidiaries subject to phase out* |  |  |
| 36 | **Additional Tier 1 capital before regulatory adjustments** |  |  |
| **Additional Tier 1 capital: regulatory adjustments** | | |  |
| 37 | Investments in own Additional Tier 1 instruments |  |  |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments |  |  |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10%  threshold) |  |  |
| 40 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory  consolidation (net of eligible short positions)10 |  |  |
| 41 | National specific regulatory adjustments (41a+41b) |  |  |
| 41a | *of which:* Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries |  |  |
| 41b | *of which:* Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank |  |  |
| 42 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions |  |  |
| 43 | **Total regulatory adjustments to Additional Tier 1 capital** |  |  |
| 44 | **Additional Tier 1 capital (AT1)** |  |  |
| 44a | **Additional Tier 1 capital reckoned for capital adequacy11** |  |  |
| 45 | **Tier 1 capital (T1 = CET1 + Admissible AT1) (29 + 44a)** |  |  |
| **Tier 2 capital: instruments and provisions** | | |  |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus |  |  |
| *47* | *Directly issued capital instruments subject to phase out from Tier 2* |  |  |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount  allowed in group Tier 2) |  |  |
| *49* | *of which: instruments issued by subsidiaries subject to phase out* |  |  |
| 50 | Provisions12 |  |  |
| 51 | **Tier 2 capital before regulatory adjustments** |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Tier 2 capital: regulatory adjustments** | | |  |
| 52 | Investments in own Tier 2 instruments |  |  |
| 53 | Reciprocal cross-holdings in Tier 2 instruments |  |  |
| 54 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10%  threshold) |  |  |
| 55 | Significant investments13 in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) |  |  |
| 56 | National specific regulatory adjustments (56a+56b) |  |  |
| 56a | *of which:* Investments in the Tier 2 capital of unconsolidated insurance subsidiaries |  |  |
| 56b | *of which:* Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank |  |  |
| 57 | **Total regulatory adjustments to Tier 2 capital** |  |  |
| 58 | **Tier 2 capital (T2)** |  |  |
| 58a | **Tier 2 capital reckoned for capital adequacy14** |  |  |
| 58b | **Excess Additional Tier 1 capital reckoned as Tier 2 capital** |  |  |
| 58c | **Total Tier 2 capital admissible for capital adequacy (58a + 58b)** |  |  |
| 59 | **Total capital (TC = T1 + Admissible T2) (45 + 58c)** |  |  |
| 60 | **Total risk weighted assets (60a + 60b + 60c)** |  |  |
| 60a | *of which: total credit risk weighted assets* |  |  |
| 60b | *of which: total market risk weighted assets* |  |  |
| 60c | *of which: total operational risk weighted assets* |  |  |
| **Capital ratios and buffers** | | |  |
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) |  |  |
| 62 | Tier 1 (as a percentage of risk weighted assets) |  |  |
| 63 | Total capital (as a percentage of risk weighted assets) |  |  |
| 64 | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted  assets) |  |  |
| 65 | *of which: capital conservation buffer requirement* |  |  |
| 66 | *of which: bank specific countercyclical buffer requirement* |  |  |
| 67 | *of which: G-SIB buffer requirement* |  |  |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) |  |  |
| **National minima (if different from Basel III)** | | |  |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel III minimum) |  |  |
| 70 | National Tier 1 minimum ratio (if different from Basel III minimum) |  |  |
| 71 | National total capital minimum ratio (if different from Basel III |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | minimum) |  |  |
| **Amounts below the thresholds for deduction (before risk weighting)** | | |  |
| 72 | Non-significant investments in the capital of other financial entities |  |  |
| 73 | Significant investments in the common stock of financial entities |  |  |
| 74 | Mortgage servicing rights (net of related tax liability) |  |  |
| 75 | Deferred tax assets arising from temporary differences (net of related tax liability) |  |  |
| **Applicable caps on the inclusion of provisions in Tier 2** | | |  |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap) |  |  |
| 77 | Cap on inclusion of provisions in Tier 2 under standardised approach |  |  |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) |  |  |
| 79 | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach |  |  |
| ***Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022*** | | |  |
| *80* | *Current cap on CET1 instruments subject to phase out arrangements* |  |  |
| *81* | *Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)* |  |  |
| *82* | *Current cap on AT1 instruments subject to phase out arrangements* |  |  |
| *83* | *Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)* |  |  |
| *84* | *Current cap on T2 instruments subject to phase out arrangements* |  |  |
| *85* | *Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)* |  |  |

|  |  |  |
| --- | --- | --- |
| Row No.  of the template | Particular | (Rs. in million) |
| 10 | Deferred tax assets associated with accumulated losses |  |
| Deferred tax assets (excluding those associated with accumulated losses) net of Deferred tax liability |  |
| Total as indicated in row 10 |  |
| 19 | If investments in insurance subsidiaries are not deducted fully from capital and instead considered under 10% threshold for deduction, the resultant increase in the capital of bank |  |
| of which: Increase in Common Equity Tier 1 capital |  |
| of which: Increase in Additional Tier 1 capital |  |
| of which: Increase in Tier 2 capital |  |
| 26b | If investments in the equity capital of unconsolidated non-financial subsidiaries are not deducted and hence, risk weighted then: |  |
| (i) Increase in Common Equity Tier 1 capital |  |
| (ii) Increase in risk weighted assets |  |
| 44a | Excess Additional Tier 1 capital not reckoned for capital adequacy (difference between Additional Tier 1 capital as reported in row 44 and admissible Additional Tier 1 capital as reported in 44a) |  |
| of which: Excess Additional Tier 1 capital which is considered as |  |
|  | Tier 2 capital under row 58b |  |
| 50 | Eligible Provisions included in Tier 2 capital |  |
| Eligible Revaluation Reserves included in Tier 2 capital |  |
| Total of row 50 |  |
| 58a | Excess Tier 2 capital not reckoned for capital adequacy (difference between Tier 2 capital as reported in row 58 and T2 as reported in 58a) |  |

|  |  |
| --- | --- |
| **Explanation of each row of the Common Disclosure Template** | |
| **Row No.** | **Explanation** |
| 1 | Instruments issued by the parent bank of the reporting banking group which meet all of the CET1 entry criteria set out This should be equal to the sum of common shares (and related surplus only) which must meet the common shares criteria. This should be net of treasury stock and other investments in own shares to the extent that these are already derecognised on the balance sheet under the relevant accounting standards. Other  paid-up capital elements must be excluded. All minority interest must be excluded. |
| 2 | Retained earnings, prior to all regulatory adjustments. |
| 3 | Accumulated other comprehensive income and other disclosed reserves, prior to all regulatory adjustments. |
| 4 | Banks must report zero in this row. |
| 5 | Common share capital issued by subsidiaries and held by third parties. Only the amount that is eligible for inclusion in group CET1 should be reported. |
| 6 | Sum of rows 1 to 5. |
| 7 | Valuation adjustments according to the requirements. |
| 8 | Goodwill net of related tax liability, |
| 9 | Intangibles (net of related tax liability). |
| 10 | Deferred tax assets (net of related tax liability). |
| 11 | The element of the cash-flow hedge reserve. |
| 12 | Shortfall of provisions to expected losses. |
| 13 | Securitisation gain on sale. |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities. |
| 15 | Defined benefit pension fund net assets, the amount to be deducted. |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet), |
| 17 | Reciprocal cross-holdings in common equity. |
| 18 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued share capital (amount above 10% threshold), amount to be deducted from  CET1 in accordance with paragraph 4.4.9.2(B) of the Master Circular |

|  |  |
| --- | --- |
| 19 | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold), amount to be deducted from CET1 in accordance. |
| 20 | Not relevant |
| 21 | Not relevant |
| 22 | Not relevant |
| 23 | Not relevant |
| 24 | Not relevant |
| 25 | Not relevant |
| 26 | Any national specific regulatory adjustments that are required by national authorities to be applied to CET1 in addition to the Basel III minimum set of adjustments [i.e. in terms of December 2010 (rev June 2011) document issued by the Basel Committee on  Banking Supervision]. |
| 27 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 to cover deductions. If the amount reported in row 43 exceeds the amount reported in row 36 the excess is to be reported here. |
| 28 | Total regulatory adjustments to Common equity Tier 1, to be calculated as the sum of  rows 7 to 22 plus row 26 and 27. |
| 29 | Common Equity Tier 1 capital (CET1), to be calculated as row 6 minus row 28. |
| 30 | Instruments that meet all of the AT1 entry criteria. All instruments issued of subsidiaries of the consolidated group should be excluded from this row. |
| 31 | The amount in row 30 classified as equity under applicable Accounting Standards. |
| 32 | The amount in row 30 classified as liabilities under applicable Accounting Standards. |
| 33 | Directly issued capital instruments subject to phase out from Additional Tier 1 in accordance with the requirements.of the Master Circular |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties, the amount allowed in group AT1. of the Master Circular (please see Annex 17 for illustration). |
| 35 | The amount reported in row 34 that relates to instruments subject to phase out from AT1 in accordance of the Master Circular |
| 36 | The sum of rows 30, 33 and 34. |
| 37 | Investments in own Additional Tier 1 instruments, amount to be deducted from AT1 of the Master Circular |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments, amount to be deducted from  AT1 (A) of the Master Circular |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued common share capital of the entity (net of eligible short positions), amount to be deducted from AT1 (B) of the Master Circular |
| 40 | Significant investments in the capital of banking, financial and insurance entities that are  outside the scope of regulatory consolidation (net of eligible short positions), amount to be deducted from AT1 (C) of the Master Circular |
| 41 | Any national specific regulatory adjustments that are required by national authorities to be applied to Additional Tier 1 in addition to the Basel III minimum set of adjustments [i.e. in terms of December 2010 (rev June 2011) document issued by the Basel  Committee on Banking Supervision. |
| 42 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions. If the amount reported in row 57 exceeds the amount reported in row 51 the excess is to be reported here. |
| 43 | The sum of rows 37 to 42. |
| 44 | Additional Tier 1 capital, to be calculated as row 36 minus row 43. |
| 45 | Tier 1 capital, to be calculated as row 29 plus row 44a. |
| 46 | Instruments that meet all of the Tier 2 entry criteria set out in of the Master Circular. All instruments issued of subsidiaries of the consolidated group should be excluded from this row. Provisions and Revaluation Reserves should not be included in Tier 2 in this row. |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 in accordance with  the requirements of the Master Circular |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 32) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) in accordance of the Master Circular |
| 49 | The amount reported in row 48 that relates to instruments subject to phase out from Tier  2 in accordance of the Master Circular |
| 50 | Provisions and Revaluation Reserves included in Tier 2 calculated of the Master Circular |
| 51 | The sum of rows 46 to 48 and row 50. |
| 52 | Investments in own Tier 2 instruments, amount to be deducted from Tier 2 in accordance of the Master Circular |
| 53 | Reciprocal cross-holdings in Tier 2 instruments, amount to be deducted from Tier 2 in  accordance (A) of the Master Circular |
| 54 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued common share capital of the entity (net of eligible short positions), amount to  be deducted from Tier 2 B) of the Master Circular |
| 55 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions), amount to be deducted from Tier 2 in accordance(C) of the Master Circular |
| 56 | Any national specific regulatory adjustments that are required by national authorities to be applied to Tier 2 in addition to the Basel III minimum set of adjustments [i.e. in terms of December 2010 (rev June 2011) document issued by the Basel Committee on  Banking Supervision]. |
| 57 | The sum of rows 52 to 56. |
| 58 | Tier 2 capital, to be calculated as row 51 minus row 57. |
| 59 | Total capital, to be calculated as row 45 plus row 58c. |
| 60 | Total risk weighted assets of the reporting group. Details to be furnished under rows 60a, 60b and 60c. |
| 61 | Common Equity Tier 1ratio (as a percentage of risk weighted assets), to be calculated  as row 29 divided by row 60 (expressed as a percentage). |
| 62 | Tier 1 ratio (as a percentage of risk weighted assets), to be calculated as row 45 divided by row 60 (expressed as a percentage). |
| 63 | Total capital ratio (as a percentage of risk weighted assets), to be calculated as row 59  divided by row 60 (expressed as a percentage). |
| 64 | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets). To be calculated as 5.5% plus 2.5% capital conservation buffer plus the bank specific countercyclical buffer requirement whenever activated and applicable plus the bank G-SIB requirement (where applicable) as set out in *Global systemically important banks: assessment methodology and the additional loss absorbency requirement: Rules text (November 2011) issued by the Basel Committee*. This row will show the CET1 ratio below which  the bank will become subject to constraints on distributions. |
| 65 | The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the capital conservation buffer), i.e. banks will report 2.5% here. |
| 66 | The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the bank specific countercyclical buffer requirement. |
| 67 | The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the bank’s G-SIB requirement. |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted  assets). To be calculated as the CET1 ratio of the bank, less any common equity used to meet the bank’s minimum Tier 1 and minimum Total capital requirements. |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel III minimum). 5.5% should be reported. |
| 70 | National Tier 1 minimum ratio (if different from Basel III minimum). 7% should be  reported. |
| 71 | National total capital minimum ratio (if different from Basel III minimum). 9% should be reported. |
| 72 | Non-significant investments in the capital of other financial entities, the total amount of  such holdings that are not reported in row 18, row 39 and row 54. |
| 73 | Significant investments in the common stock of financial entities, the total amount of such holdings that are not reported in row 19 |
| 74 | Mortgage servicing rights, the total amount of such holdings that are not reported in row  19 and row 23. - Not Applicable in India. |
| 75 | Deferred tax assets arising from temporary differences, the total amount of such holdings that are not reported in row 21 and row 25. – Not applicable in India. |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised  approach of the Master Circular, prior to the application of the cap. |
| 77 | Cap on inclusion of provisions in Tier 2 under standardised approach calculated in accordance of the Master Circular. |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach calculated of the Master  Circular. |
| 79 | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach calculated of the Master Circular |
| 80 | Current cap on CET1 instruments subject to phase out arrangements see paragraph  4.5.5 of the Master Circular |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities), of the Master Circular |
| 82 | Current cap on AT1 instruments subject to phase out arrangements of the Master Circular |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)of the Master Circular |
| 84 | Current cap on T2 instruments subject to phase out arrangements  of the Master Circular |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) of the Master Circular |

The disclosure template that banks must use during the transition phase of the Basel III capital regulations, which ended on March 31, 2017. The template is similar to the post-March 31, 2017 disclosure template, but it has additional sections that banks must fill out.

One new section is a column to report the amount of each regulatory adjustment subject to the existing national treatment, labeled "pre-Basel III treatment." This information is necessary to calculate regulatory capital.

New rows have been added in each of the three sections on regulatory adjustments to show the existing treatment. Banks have the flexibility to add as many rows as required to show each of the pre-Basel III treatments during the transition period.

Additionally, the transition period may result in the phasing-out of previous prudential adjustments. In these cases, new rows added in each of the three sections on regulatory adjustments will be used to set out the impact of the phase-out.

New rows have been added immediately prior to the row on risk-weighted assets to take into account the existing treatment of a Basel III regulatory adjustment, which may be to apply a risk weighting.

New sections of the template work, including how to report unrealized gains and losses on holdings of available-for-sale debt securities and how to report investments in the capital of financial entities that qualify for a risk weighting of 125% under existing treatment but will be deducted from Common Equity Tier 1 capital under Basel III.

**Composition of Capital**

**Part II: Template to be used before March 31, 2017 (i.e. during the transition period of Basel III regulatory adjustments)**

(Rs. in million)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from April 1, 2013 to December 31, 2017)** | | | Amounts Subject to Pre-Basel III  Treatment | Ref No. |
| **Common Equity Tier 1 capital: instruments and reserves** | | |  |  |
| 1 | Directly issued qualifying common share capital plus related stock surplus (share premium) |  |
| 2 | Retained earnings |  |  |
| 3 | Accumulated other comprehensive income (and other reserves) |  |  |
| *4* | *Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies1)* |  |  |
|  | ***Public sector capital injections grandfathered until January 1, 2018*** |  |  |
| 5 | Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) |  |  |  |
| 6 | **Common Equity Tier 1 capital before regulatory adjustments** |  |  |  |
| **Common Equity Tier 1 capital: regulatory adjustments** | | |  |
| 7 | Prudential valuation adjustments |  |  |  |
| 8 | Goodwill (net of related tax liability) |  |  |  |
| 9 | Intangibles other than mortgage-servicing rights (net of related tax liability) |  |  |  |
| 10 | Deferred tax assets 2 |  |  |  |
| 11 | Cash-flow hedge reserve |  |  |  |
| 12 | Shortfall of provisions to expected losses |  |  |  |
| 13 | Securitisation gain on sale |  |  |  |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities |  |  |  |
| 15 | Defined-benefit pension fund net assets |  |  |  |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) |  |  |  |
| 17 | Reciprocal cross-holdings in common equity |  |  |  |
| 18 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) |  |  |  |
| 19 | Significant investments in the common stock of banking,  financial and insurance entities that are outside the scope of |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | regulatory consolidation, net of eligible short positions (amount above 10% threshold)3 |  |  |  |
| 20 | Mortgage servicing rights4 (amount above 10% threshold) |  |  |  |
| 21 | Deferred tax assets arising from temporary differences5 (amount above 10% threshold, net of related tax liability) |  |  |  |
| 22 | Amount exceeding the 15% threshold6 |  |  |  |
| 23 | of which: significant investments in the common stock of financial entities |  |  |  |
| 24 | of which: mortgage servicing rights |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 25 | of which: deferred tax assets arising from temporary differences |  |  |  |
| 26 | National specific regulatory adjustments7  (26a+26b+26c+26d) |  |  |  |
| 26a | *of which:* Investments in the equity capital of the unconsolidated insurance subsidiaries |  |  |  |
| 26b | *of which:* Investments in the equity capital of unconsolidated  non-financial subsidiaries8 |  |  |  |
| 26c | *of which:* Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank9 |  |  |  |
| 26d | *of which:* Unamortised pension funds expenditures |  |  |  |
|  | Regulatory Adjustments Applied to Common Equity Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment |  |  |  |
|  | *of which:* [INSERT TYPE OF ADJUSTMENT]  For example: filtering out of unrealised losses on AFS debt securities (not relevant in Indian context) |  |  |
|  | *of which:* [INSERT TYPE OF ADJUSTMENT] |  |  |
|  | *of which:* [INSERT TYPE OF ADJUSTMENT] |  |  |
| 27 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions |  |  |
| 28 | **Total regulatory adjustments to Common equity Tier 1** |  |  |
| 29 | **Common Equity Tier 1 capital (CET1)** |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Additional Tier 1 capital: instruments** | | |  |  |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32) |  |  |
| 31 | of which: classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares) |  |  |
| 32 | of which: classified as liabilities under applicable accounting standards (Perpetual debt Instruments) |  |  |
| *33* | *Directly issued capital instruments subject to phase out from Additional Tier 1* |  |  |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third  parties (amount allowed in group AT1) |  |  |
| *35* | *of which: instruments issued by subsidiaries subject to phase out* |  |  |
| 36 | **Additional Tier 1 capital before regulatory adjustments** |  |  |
| **Additional Tier 1 capital: regulatory adjustments** | | |  |
| 37 | Investments in own Additional Tier 1 instruments |  |  |  |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments |  |  |  |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share  capital of the entity (amount above 10% threshold) |  |  |  |
| 40 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)10 |  |  |  |
| 41 | National specific regulatory adjustments (41a+41b) |  |  |  |
| 41a | Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries |  |  |
| 41b | Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the  bank |  |  |
|  | Regulatory Adjustments Applied to Additional Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment |  |  |
|  | *of which*: [INSERT TYPE OF ADJUSTMENT e.g. DTAs] |  |  |
|  | *of which*: [INSERT TYPE OF ADJUSTMENT e.g. existing adjustments which are deducted from Tier 1 at 50%] |  |  |
|  | *of which*: [INSERT TYPE OF ADJUSTMENT] |  |  |
| 42 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions |  |  |
| 43 | **Total regulatory adjustments to Additional Tier 1 capital** |  |  |
| 44 | **Additional Tier 1 capital (AT1)** |  |  |
| 44a | **Additional Tier 1 capital reckoned for capital adequacy11** |  |  |
| 45 | **Tier 1 capital (T1 = CET1 + AT1) (29 + 44a)** |  |  |
| **Tier 2 capital: instruments and provisions** | | |  |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 |  |  |  |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not  included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) |  |  |
| *49* | *of which: instruments issued by subsidiaries subject to phase out* |  |  |
| 50 | Provisions12 |  |  |
| 51 | **Tier 2 capital before regulatory adjustments** |  |  |
| **Tier 2 capital: regulatory adjustments** | | |  |
| 52 | Investments in own Tier 2 instruments |  |  |  |
| 53 | Reciprocal cross-holdings in Tier 2 instruments |  |  |  |
| 54 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share  capital of the entity (amount above the 10% threshold) |  |  |  |
| 55 | Significant investments13 in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) |  |  |  |
| 56 | National specific regulatory adjustments (56a+56b) |  |  |  |
| 56a | *of which:* Investments in the Tier 2 capital of unconsolidated subsidiaries |  |  |
| 56b | *of which:* Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the  bank |  |  |
|  | Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment |  |  |
|  | *of which:* [INSERT TYPE OF ADJUSTMENT e.g. existing  adjustments which are deducted from Tier 2 at 50%] |  |  |
|  | *of which:* [INSERT TYPE OF ADJUSTMENT |  |  |
| 57 | **Total regulatory adjustments to Tier 2 capital** |  |  |
| 58 | **Tier 2 capital (T2)** |  |  |
| 58a | **Tier 2 capital reckoned for capital adequacy14** |  |  |
| 58b | **Excess Additional Tier 1 capital reckoned as Tier 2 capital** |  |  |
| 58c | **Total Tier 2 capital admissible for capital adequacy (58a**  **+ 58b)** |  |  |
| 59 | **Total capital (TC = T1 + T2) (45 + 58c)** |  |  |
|  | Risk Weighted Assets in respect of Amounts Subject to Pre- Basel III Treatment |  |  |
|  | *of which:* [INSERT TYPE OF ADJUSTMENT] |  |  |
|  | *of which*: … |  |  |
| 60 | **Total risk weighted assets (60a + 60b + 60c)** |  |  |
| 60a | *of which: total credit risk weighted assets* |  |
| 60b | *of which: total market risk weighted assets* |  |
| 60c | *of which: total operational risk weighted assets* |  |
| **Capital ratios** | | |
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) |  |
| 62 | Tier 1 (as a percentage of risk weighted assets) |  |
| 63 | Total capital (as a percentage of risk weighted assets) |  |
| 64 | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk  weighted assets) |  |
| 65 | *of which: capital conservation buffer requirement* |  |
| 66 | *of which: bank specific countercyclical buffer requirement* |  |
| 67 | *of which: G-SIB buffer requirement* |  |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) |  |
| **National minima (if different from Basel III)** | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel III minimum) |  |
| 70 | National Tier 1 minimum ratio (if different from Basel III  minimum) |  |
| 71 | National total capital minimum ratio (if different from Basel III minimum) |  |
| **Amounts below the thresholds for deduction (before risk weighting)** | | |
| 72 | Non-significant investments in the capital of other financial entities |  |
| 73 | Significant investments in the common stock of financial  entities |  |
| 74 | Mortgage servicing rights (net of related tax liability) |  |
| 75 | Deferred tax assets arising from temporary differences (net of related tax liability) |  |
| **Applicable caps on the inclusion of provisions in Tier 2** | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap) |  |
| *77* | Cap on inclusion of provisions in Tier 2 under standardised  approach |  |
| *78* | Provisions eligible for inclusion in Tier 2 in respect of  exposures subject to internal ratings-based approach (prior to application of cap) |  |
| *79* | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach |  |
| ***Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)*** | | |
| *80* | *Current cap on CET1 instruments subject to phase out arrangements* |  |
| *81* | *Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)* |  |
| *82* | *Current cap on AT1 instruments subject to phase out* |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | *arrangements* | | |  |
| *83* | *Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)* | | |  |
| *84* | *Current cap on T2 instruments subject to phase out arrangements* | | |  |
| *85* | *Amount excluded from T2 due to cap (excess over cap after*  *redemptions and maturities)* | | |  |
| Row No. of the template | | | Particular | | | (Rs. in million) |
| 10 | | | Deferred tax assets associated with accumulated losses | | |  |
| Deferred tax assets (excluding those associated with accumulated losses) net of Deferred tax liability | | |  |
| Total as indicated in row 10 | | |  |
| 19 | | | If investments in insurance subsidiaries are not deducted fully from capital and instead considered under 10% threshold for deduction, the resultant increase in the capital of bank | | |  |
| of which: Increase in Common Equity Tier 1 capital | | |  |
| of which: Increase in Additional Tier 1 capital | | |  |
| of which: Increase in Tier 2 capital | | |  |
| 26b | | | If investments in the equity capital of unconsolidated non-financial subsidiaries are not deducted and hence, risk weighted then: | | |  |
| (i) Increase in Common Equity Tier 1 capital | | |  |
| (ii) Increase in risk weighted assets | | |  |
| 44a | | | Excess Additional Tier 1 capital not reckoned for capital adequacy (difference between Additional Tier 1 capital as reported in row 44 and admissible Additional Tier 1 capital as reported in 44a) | | |  |
| of which: Excess Additional Tier 1 capital which is considered as  Tier 2 capital under row 58b | | |  |
| 50 | | | Eligible Provisions included in Tier 2 capital | | |  |
| Eligible Revaluation Reserves included in Tier 2 capital | | |  |
| Total of row 50 | | |  |
| 58a | | | Excess Tier 2 capital not reckoned for capital adequacy (difference between Tier 2 capital as reported in row 58 and T2 as reported in 58a) | | |  |
| **Explanation of each row of the common disclosure template** | | | | | | |
| **Row No.** | | **Explanation** | | | | |
| 1 | | Instruments issued by the parent bank of the reporting banking group which meet all of the CET1 entry criteria of the Master Circular, as applicable. This should be equal to the sum of common shares (and related surplus only) which must meet the common shares criteria. This should be net of treasury stock and other investments in own shares to the extent that these are already derecognised on the balance sheet under the relevant accounting standards. Other paid-up capital elements must be excluded. All minority interest must be  excluded. | | | | |
| 2 | | Retained earnings, prior to all regulatory adjustments of the Master Circular | | | | |
| 3 | | Accumulated other comprehensive income and other disclosed reserves, prior to all regulatory adjustments. | | | | |
| 4 | | Banks must report zero in this row. | | | | |
| 5 | | Common share capital issued by subsidiaries and held by third parties. Only the amount that is eligible for inclusion in group CET1 should be reported here as determined by the application of the Master Circular (Also see Annex 17 for illustration). | | | | |
| 6 | | Sum of rows 1 to 5. | | | | |
| 7 | | Valuation adjustments according to the requirements of the Master Circular | | | | |
| 8 | | Goodwill net of related tax liabilityof the Master Circular | | | | |
| 9 | | Intangibles (net of related tax liability) of the Master Circular | | | | |
| 10 | | Deferred tax assets (net of related tax liability) of the  Master Circular | | | | |
| 11 | | The element of the cash-flow hedge reserve described in of the Master Circular | | | | |
| 12 | | Shortfall of provisions to expected losses as described in of the Master  Circular | | | | |
| 13 | | Securitisation gain on sale as described in of the Master Circular | | | | |
| 14 | | Gains and losses due to changes in own credit risk on fair valued liabilities as of the Master Circular | | | | |
| 15 | | Defined-benefit pension fund net assets, the amount to be deducted of the Master Circular | | | | |
| 16 | | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) of the Master Circular | | | | |
| 17 | | Reciprocal cross-holdings in common equity (A) of the  Master Circular | | | | |
| 18 | | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued share capital (amount above 10% threshold), amount to be deducted from CET1 (B) of the Master Circular | | | | |
| 19 | | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold), amount to be deducted from CET1  (C) of the Master Circular | | | | |
| 20 | | Not relevant | | | | |
| 21 | | Not relevant | | | | |
| 22 | | Not relevant | | | | |
| 23 | | Not relevant | | | | |
| 24 | | Not relevant | | | | |
| 25 | | Not relevant | | | | |
| 26 | | Any national specific regulatory adjustments that are required by national authorities to be applied to CET1 in addition to the Basel III minimum set of adjustments [i.e. in terms of December 2010 (rev June 2011) document issued by the Basel Committee on Banking Supervision]. | | | | |
| 27 | | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional  Tier 1 to cover deductions. If the amount reported in row 43 exceeds the amount reported in row 36 the excess is to be reported here. | | | | |
| 28 | | Total regulatory adjustments to Common equity Tier 1, to be calculated as the sum of rows 7 to 22 plus row 26 and 27. | | | | |
| 29 | | Common Equity Tier 1 capital (CET1), to be calculated as row 6 minus row 28. | | | | |
| 30 | | Instruments that meet all of the AT1 entry criteria of the Master Circular. All instruments issued of subsidiaries of the consolidated group should be excluded from this row. | | | | |
| 31 | | The amount in row 30 classified as equity under applicable Accounting Standards. | | | | |
| 32 | | The amount in row 30 classified as liabilities under applicable Accounting Standards. | | | | |
| 33 | | Directly issued capital instruments subject to phase out from Additional Tier 1 in accordance with the requirements of the Master Circular | | | | |
| 34 | | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties, the amount allowed in group AT1 in accordance  with of the Master Circular (please see Annex 17 for illustration). | | | | |
| 35 | | The amount reported in row 34 that relates to instruments subject to phase out from AT1 in accordance with the requirements of of the Master Circular | | | | |
| 36 | | The sum of rows 30, 33 and 34. | | | | |
| 37 | | Investments in own Additional Tier 1 instruments, amount to be deducted from AT1 in accordance with of the Master Circular | | | | |
| 38 | | Reciprocal cross-holdings in Additional Tier 1 instruments, amount to be deducted from  AT1 in accordance (A) of the Master Circular | | | | |
| 39 | | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued common share capital of the entity (net of eligible short positions), amount to be deducted from AT1 (B) of the Master Circular | | | | |
| 40 | | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions), amount to be deducted from AT1 (C) of the  Master Circular | | | | |
| 41 | | Any national specific regulatory adjustments that are required by national authorities to be applied to Additional Tier 1 in addition to the Basel III minimum set of adjustments [i.e. in terms of December 2010 (rev June 2011) document issued by the Basel  Committee on Banking Supervision]. | | | | |
| 42 | | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions. If the amount reported in row 57 exceeds the amount reported in row 51 the excess is to be reported here. | | | | |
| 43 | | The sum of rows 37 to 42. | | | | |
| 44 | | Additional Tier 1 capital, to be calculated as row 36 minus row 43. | | | | |
| 45 | | Tier 1 capital, to be calculated as row 29 plus row 44a. | | | | |
| 46 | | Instruments that meet all of the Tier 2 entry criteria of the Master Circular. All instruments issued of subsidiaries of the consolidated group should be excluded from this row. Provisions and Revaluation Reserves should not be included in Tier 2 in this row | | | | |
| 47 | | Directly issued capital instruments subject to phase out from Tier 2 in accordance with  the requirements of the Master Circular | | | | |
| 48 | | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 32) issued by subsidiaries and held by third parties (amount allowed in group Tier 2), in accordance of the Master Circular | | | | |
| 49 | | The amount reported in row 48 that relates to instruments subject to phase out from  Tier 2 in accordance with the requirements of the Master Circular | | | | |
| 50 | | Provisions and Revaluation Reserves included in Tier 2, calculated in accordance of the Master Circular | | | | |
| 51 | | The sum of rows 46 to 48 and row 50. | | | | |
| 52 | | Investments in own Tier 2 instruments, amount to be deducted from Tier 2 in accordance of the Master Circular | | | | |
| 53 | | Reciprocal cross-holdings in Tier 2 instruments, amount to be deducted from Tier 2 in | | | | |
|  | | accordance (A) of the Master Circular | | | | |
| 54 | | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued common share capital of the entity (net of eligible short positions), amount to be deducted from Tier 2 (B) of the Master Circular | | | | |
| 55 | | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions), amount to be deducted from Tier 2(C) of the  Master Circular | | | | |
| 56 | | Any national specific regulatory adjustments that are required by national authorities to be applied to Tier 2 in addition to the Basel III minimum set of adjustments [i.e. in terms of December 2010 (rev June 2011) document issued by the Basel Committee on  Banking Supervision].. | | | | |
| 57 | | The sum of rows 52 to 56. | | | | |
| 58 | | Tier 2 capital, to be calculated as row 51 minus row 57. | | | | |
| 59 | | Total capital, to be calculated as row 45 plus row 58c. | | | | |
| 60 | | Total risk weighted assets of the reporting group. Details to be furnished under rows 60a, 60b and 60c. | | | | |
| 61 | | Common Equity Tier 1 ratio (as a percentage of risk weighted assets), to be calculated as row 29 divided by row 60 (expressed as a percentage). | | | | |
| 62 | | Tier 1 ratio (as a percentage of risk weighted assets), to be calculated as row 45 divided by row 60 (expressed as a percentage). | | | | |
| 63 | | Total capital ratio (as a percentage of risk weighted assets), to be calculated as row 59 divided by row 60 (expressed as a percentage). | | | | |
| 64 | | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets). To be calculated as 5.5% plus 2.5% capital conservation buffer plus the bank specific countercyclical buffer requirement whenever activated and applicable plus the bank G-SIB requirement (where applicable) as set out in document ‘*Global systemically important banks: assessment methodology and the additional loss absorbency requirement’: Rules text (November 2011) issued by the Basel Committee*. This row will show the CET1 ratio  below which the bank will become subject to constraints on distributions. | | | | |
| 65 | | The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the capital conservation buffer), i.e. banks will report 2.5% here. | | | | |
| 66 | | The amount in row 64 (expressed as a percentage of risk weighed assets) that relates  to the bank specific countercyclical buffer requirement. | | | | |
| 67 | | The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the bank’s G-SIB requirement. | | | | |
| 68 | | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted  assets). To be calculated as the CET1 ratio of the bank, less any common equity used to meet the bank’s minimum Tier 1 and minimum Total capital requirements. | | | | |
| 69 | | National Common Equity Tier 1 minimum ratio (if different from Basel III minimum). 5.5% should be reported. | | | | |
| 70 | | National Tier 1 minimum ratio (if different from Basel III minimum). 7% should be  reported. | | | | |
| 71 | | National total capital minimum ratio (if different from Basel III minimum). 9% should be reported. | | | | |
| 72 | | Non-significant investments in the capital of other financial entities, the total amount of  such holdings that are not reported in row 18, row 39 and row 54. | | | | |
| 73 | | Significant investments in the common stock of financial entities, the total amount of such holdings that are not reported in row 19 | | | | |
| 74 | | Mortgage servicing rights, the total amount of such holdings that are not reported in row 19 and row 23 - Not Applicable in India. | | | | |
| 75 | | Deferred tax assets arising from temporary differences, the total amount of such holdings that are not reported in row 21 and row 25. – Not applicable in India. | | | | |
| 76 | | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised  approach, calculated in accordance paragraph 4.2.5 of the Master Circular, prior to the application of the cap. | | | | |
| 77 | | Cap on inclusion of provisions in Tier 2 under standardised approach, calculated inof the Master Circular | | | | |
| 78 | | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach, of the Master  Circular. | | | | |
| 79 | | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach, calculated of the Master Circular | | | | |
| 80 | | Current cap on CET1 instruments subject to phase out arrangements. | | | | |
| 81 | | Amount excluded from CET1 due to cap (excess over cap after redemptions and  maturities), of the Master Circular | | | | |
| 82 | | Current cap on AT1 instruments subject to phase out arrangements, of the Master Circular | | | | |
| 83 | | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities), of the Master Circular | | | | |
| 84 | | Current cap on T2 instruments subject to phase out arrangements, of the Master Circular | | | | |
| 85 | | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities), of the Master Circular | | | | |

The first step in a three-step approach to reconciling bank balance sheet information with regulatory requirements. In this step, banks must take their financial statement balances (reported in the middle column) and adjust them to reflect the regulatory scope of consolidation (reported in the right-hand column). If there are any items in the regulatory consolidation balance sheet that are not present in the published financial statements, banks must report a value of zero in the middle column and report the corresponding amount in the column for regulatory scope of consolidation. Banks may also provide additional information on how they have treated such items in their balance sheets.

**Composition of Capital- Reconciliation Requirements**

(Rs. in million)

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Balance sheet as in financial statements** | **Balance sheet under regulatory scope of**  **consolidation** |
|  |  | **As on reporting date** | **As on reporting date** |
| **A** | **Capital & Liabilities** | | |
| i | Paid-up Capital |  |  |
| Reserves & Surplus |  |  |
| Minority Interest |  |  |
| Total Capital |  |  |
| ii | Deposits |  |  |
| *of which*: Deposits from banks |  |  |
| *of which*: Customer deposits |  |  |
| *of which*: Other deposits (pl. specify) |  |  |
| iii | Borrowings |  |  |
| *of which:* From RBI |  |  |
| *of which:* From banks |  |  |
| *of which:* From other institutions & agencies |  |  |
| *of which:* Others (pl. specify) |  |  |
| *of which:* Capital instruments |  |  |
| iv | Other liabilities & provisions |  |  |
|  | **Total** | | |
|  |  |  |  |
| **B** | **Assets** | | |
| i | Cash and balances with Reserve Bank of India |  |  |
| Balance with banks and money at call and short notice |  |  |
| ii | Investments: |  |  |
| *of which:* Government securities |  |  |
| *of which:* Other approved |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | securities |  |  |
| *of which:* Shares |  |  |
| *of which:* Debentures & Bonds |  |  |
| *of which:* Subsidiaries Joint Ventures Associates |  |  |
| *of which:* Others (Commercial  Papers, Mutual Funds etc.) |  |  |
| iii | Loans and advances |  |  |
| *of which:* Loans and advances to banks |  |  |
| *of which:* Loans and advances to  customers |  |  |
| iv | Fixed assets |  |  |
| v | Other assets |  |  |
| *of which:* Goodwill and intangible assets |  |  |
| *of which:* Deferred tax assets |  |  |
| vi | Goodwill on consolidation |  |  |
| vii | Debit balance in Profit & Loss account |  |  |
|  | **Total Assets** |  |  |

Banks related to the disclosure of their balance sheet information in a standardized format. In Step 1, the banks need to take their balance sheet information and report it when the regulatory scope of consolidation is applied. This means that the banks need to expand their balance sheet to include all the relevant elements that are used in the definition of capital disclosure template set out in Table DF-11 (Part I or Part II, whichever is applicable). The examples of such elements that may need to be included are provided below.

The banks need to expand their balance sheet as much as necessary to disclose all the required elements. The complexity of the balance sheet determines the number of items that need to be disclosed. Each element included in the balance sheet must be given a reference number or letter that can be used in Step 3 of the reconciliation process.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Balance sheet as in financial statements** | **Balance sheet under regulatory**  **scope of consolidation** |
|  |  | **As on reporting date** | **As on reporting date** |
| **A** | **Capital & Liabilities** | | |
| i | Paid-up Capital |  |  |
| *of which:* Amount eligible for CET1 |  | e |
| *of which:* Amount eligible for  AT1 |  | f |
| Reserves & Surplus |  |  |
| Minority Interest |  |  |
| Total Capital |  |  |
| ii | Deposits |  |  |
| *of which:* Deposits from banks |  |  |
| *of which:* Customer deposits |  |  |
| *of which:* Other deposits (pl. specify) |  |  |
| iii | Borrowings |  |  |
| *of which:* From RBI |  |  |
| *of which:* From banks |  |  |
| *of which:* From other institutions & agencies |  |  |
| *of which:* Others (pl. specify) |  |  |
| *of which:* Capital instruments |  |  |
| iv | Other liabilities & provisions |  |  |
| *of which:* DTLs related to goodwill |  | c |
| *of which:* DTLs related to  intangible assets |  | d |
|  | **Total** | | |
|  |  |  |  |
| **B** | **Assets** | | |
| i | Cash and balances with Reserve Bank of India |  |  |
| Balance with banks and money  at call and short notice |  |  |
| ii | Investments |  |  |
| *of which:* Government securities |  |  |
| *of which:* Other approved securities |  |  |
| *of which:* Shares |  |  |
| *of which:* Debentures & Bonds |  |  |
| *of which:* Subsidiaries Joint Ventures Associates |  |  |
| *of which:* Others (Commercial Papers, Mutual Funds etc.) |  |  |
| iii | Loans and advances |  |  |
| *of which:* Loans and advances to banks |  |  |
| *of which:* Loans and advances  to customers |  |  |
| iv | Fixed assets |  |  |
| v | Other assets |  |  |
| *of which:* Goodwill and intangible assets  *Out of which:* |  |  |
| Goodwill |  | a |
| Other intangibles (excluding MSRs) |  | b |
| Deferred tax assets |  |  |
| vi | Goodwill on consolidation |  |  |
| vii | Debit balance in Profit & Loss account |  |  |
|  | **Total Assets** |  |  |

A requirement for banks to complete a column in Table DF-11 (Part I or Part II) that shows the source of every input. The example given is for the "goodwill net of related deferred tax liability" item in the definition of capital disclosure template. The bank is required to indicate the source of this item by putting "a - c" next to the disclosure of this item in the template. This means that row 8 of the template has been calculated as the difference between component 'a' of the balance sheet under the regulatory scope of consolidation (as illustrated in step 2) and component 'c'. This is part of the three-step approach to reconciliation requirements, with this particular requirement falling under step 3.

|  |  |  |  |
| --- | --- | --- | --- |
| Extract of Basel III common disclosure template (with added column) – Table DF-11 (Part I Part II whichever, applicable) | | | |
| **Common Equity Tier 1 capital: instruments and reserves** | | | |
|  |  | Component of regulatory capital reported by bank | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from  step 2 |
| 1 | Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus |  | e |
| 2 | Retained earnings |  |  |
| 3 | Accumulated other comprehensive income (and other reserves) |  |  |
| 4 | Directly issued capital subject to phase  out from CET1 (only applicable to non- joint stock companies) |  |  |
| 5 | Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) |  |  |
| 6 | Common Equity Tier 1 capital before  regulatory adjustments |  |  |
| 7 | Prudential valuation adjustments |  |  |
| 8 | Goodwill (net of related tax liability) |  | a-c |

{**Refer 3.2 To**

Banks are required to use to ensure that they disclose the key features of their regulatory capital instruments. The template consists of several cells, and banks are required to fill in all the shaded cells for each regulatory capital instrument they have issued. If a particular question in the template is not applicable to a specific instrument, banks should indicate this by inserting "NA" in the relevant cell.

**Main Features of Regulatory Capital Instruments**

|  |  |  |
| --- | --- | --- |
| **Disclosure template for main features of regulatory capital instruments** | | |
| 1 | Issuer |  |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) |  |
| 3 | Governing law(s) of the instrument |  |
|  | *Regulatory treatment* |  |
| 4 | Transitional Basel III rules |  |
| 5 | Post-transitional Basel III rules |  |
| 6 | Eligible at solo/group/ group & solo |  |
| 7 | Instrument type |  |
| 8 | Amount recognised in regulatory capital (Rs. in million, as of most recent reporting date) |  |
| 9 | Par value of instrument |  |
| 10 | Accounting classification |  |
| 11 | Original date of issuance |  |
| 12 | Perpetual or dated |  |
| 13 | Original maturity date |  |
| 14 | Issuer call subject to prior supervisory approval |  |
| 15 | Optional call date, contingent call dates and redemption amount |  |
| 16 | Subsequent call dates, if applicable |  |
|  | *Coupons / dividends* |  |
| 17 | Fixed or floating dividend/coupon |  |
| 18 | Coupon rate and any related index |  |
| 19 | Existence of a dividend stopper |  |
| 20 | Fully discretionary, partially discretionary or mandatory |  |
| 21 | Existence of step up or other incentive to redeem |  |
| 22 | Noncumulative or cumulative |  |
| 23 | Convertible or non-convertible |  |
| 24 | If convertible, conversion trigger(s) |  |
| 25 | If convertible, fully or partially |  |
| 26 | If convertible, conversion rate |  |
| 27 | If convertible, mandatory or optional conversion |  |
| 28 | If convertible, specify instrument type convertible into |  |
| 29 | If convertible, specify issuer of instrument it converts into |  |
| 30 | Write-down feature |  |
| 31 | If write-down, write-down trigger(s) |  |
| 32 | If write-down, full or partial |  |
| 33 | If write-down, permanent or temporary |  |
| 34 | If temporary write-down, description of write-up mechanism |  |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) |  |
| 36 | Non-compliant transitioned features |  |
| 37 | If yes, specify non-compliant features |  |

|  |  |
| --- | --- |
| Further explanation of items in main features disclosure template | |
| 1 | Identifies issuer legal entity.  *Free text* |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)  *Free text* |
| 3 | Specifies the governing law(s) of the instrument  *Free text* |
| 4 | Specifies transitional Basel III regulatory capital treatment.  *Select from menu: [Common Equity Tier 1] [Additional Tier 1] [Tier 2]* |
| 5 | Specifies regulatory capital treatment under Basel III rules not taking into account transitional treatment.  *Select from menu: [Common Equity Tier 1] [Additional Tier 1] [Tier 2] [Ineligible]* |
| 6 | Specifies the level(s) within the group at which the instrument is included in capital.  *Select from menu: [Solo] [Group] [Solo and Group]* |
| 7 | Specifies instrument type, varying by jurisdiction. Helps provide more granular understanding of features, particularly during transition.  *Select from menu: [Common Shares] [Perpetual Non-cumulative Preference Shares] [Perpetual Debt Instruments] [Upper Tier 2 Capital Instruments] [Perpetual Cumulative Preference Shares] [ Redeemable Non-cumulative Preference Shares] [Redeemable*  *Cumulative Preference Shares] [Tier 2 Debt Instruments] [Others- specify]* |
| 8 | Specifies amount recognised in regulatory capital.  *Free text* |
| 9 | Par value of instrument  *Free text* |
| 10 | Specifies accounting classification. Helps to assess loss absorbency.  *Select from menu:*  *[Shareholders’ equity] [Liability ] [Non-controlling interest in consolidated subsidiary]* |
| 11 | Specifies date of issuance.  *Free text* |
| 12 | Specifies whether dated or perpetual.  *Select from menu: [Perpetual] [Dated]* |
| 13 | For dated instrument, specifies original maturity date (day, month and year). For perpetual instrument put “no maturity”.  *Free text* |
| 14 | Specifies whether there is an issuer call option. Helps to assess permanence.  *Select from menu: [Yes] [No]* |
| 15 | For instrument with issuer call option, specifies first date of call if the instrument has a call option on a specific date (day, month and year) and, in addition, specifies if the instrument has a tax and/or regulatory event call. Also specifies the redemption price. Helps to assess permanence.  *Free text* |
| 16 | Specifies the existence and frequency of subsequent call dates, if applicable. Helps to assess permanence.  *Free text* |
| 17 | Specifies whether the coupon/dividend is fixed over the life of the instrument, floating over the life of the instrument, currently fixed but will move to a floating rate in the future, currently floating but will move to a fixed rate in the future.  *Select from menu: [Fixed], [Floating] [Fixed to floating], [Floating to fixed]* |
| 18 | Specifies the coupon rate of the instrument and any related index that the coupon/dividend rate references.  *Free text* |
| 19 | Specifies whether the non-payment of a coupon or dividend on the instrument prohibits the payment of dividends on common shares (i.e. whether there is a dividend stopper). |
|  | *Select from menu: [Yes], [No]* |
| 20 | Specifies whether the issuer has full discretion, partial discretion or no discretion over whether a coupon/dividend is paid. If the bank has full discretion to cancel coupon/dividend payments under all circumstances it must select “fully discretionary” (including when there is a dividend stopper that does not have the effect of preventing the bank from cancelling payments on the instrument). If there are conditions that must be met before payment can be cancelled (e.g. capital below a certain threshold), the bank must select “partially discretionary”. If the bank is unable to cancel the payment outside of insolvency the bank must select “mandatory”.  *Select from menu: [Fully discretionary] [Partially discretionary] [Mandatory]* |
| 21 | Specifies whether there is a step-up or other incentive to redeem.  *Select from menu: [Yes] [No]* |
| 22 | Specifies whether dividends / coupons are cumulative or noncumulative.  *Select from menu: [Noncumulative] [Cumulative]* |
| 23 | Specifies whether instrument is convertible or not. Helps to assess loss absorbency.  *Select from menu: [Convertible] [Nonconvertible]* |
| 24 | Specifies the conditions under which the instrument will convert, including point of non- viability. Where one or more authorities have the ability to trigger conversion, the authorities should be listed. For each of the authorities it should be stated whether it is the terms of the contract of the instrument that provide the legal basis for the authority to trigger conversion (a contractual approach) or whether the legal basis is provided by statutory means (a statutory approach).  *Free text* |
| 25 | Specifies whether the instrument will always convert fully, may convert fully or partially, or will always convert partially  *Select from menu: [Always Fully] [Fully or Partially] [Always partially]* |
| 26 | Specifies rate of conversion into the more loss absorbent instrument. Helps to assess the degree of loss absorbency.  *Free text* |
| 27 | For convertible instruments, specifies whether conversion is mandatory or optional. Helps to assess loss absorbency.  *Select from menu: [Mandatory] [Optional] [NA]* |
| 28 | For convertible instruments, specifies instrument type convertible into. Helps to assess loss absorbency.  *Select from menu: [Common Equity Tier 1] [Additional Tier 1] [Tier 2] [Other]* |
| 29 | If convertible, specify issuer of instrument into which it converts.  *Free text* |
| 30 | Specifies whether there is a write down feature. Helps to assess loss absorbency.  *Select from menu: [Yes] [No]* |
| 31 | Specifies the trigger at which write-down occurs, including point of non-viability. Where one or more authorities have the ability to trigger write-down, the authorities should be listed. For each of the authorities it should be stated whether it is the terms of the contract of the instrument that provide the legal basis for the authority to trigger write- down (a contractual approach) or whether the legal basis is provided by statutory means (a statutory approach).  *Free text* |
| 32 | Specifies whether the instrument will always be written down fully, may be written down partially, or will always be written down partially. Helps assess the level of loss absorbency at write-down.  *Select from menu: [Always Fully] [Fully or Partially] [Always partially]* |
| 33 | For write down instrument, specifies whether write down is permanent or temporary. Helps to assess loss absorbency.  *Select from menu: [Permanent] [Temporary] [NA]* |
| 34 | For instrument that has a temporary write-down, description of write-up mechanism. |
|  | *Free text* |
| 35 | Specifies instrument to which it is most immediately subordinate. Helps to assess loss absorbency on gone-concern basis. Where applicable, banks should specify the column numbers of the instruments in the completed main features template to which the instrument is most immediately subordinate.  *Free text* |
| 36 | Specifies whether there are non-compliant features.  *Select from menu: [Yes] [No]* |
| 37 | If there are non-compliant features, banks to specify which ones. Helps to assess instrument loss absorbency.  *Free text* |

**Full Terms and Conditions of Regulatory Capital Instruments**

Under this template, banks are required to disclose the full terms and conditions of all instruments included in the regulatory capital

**Full Terms and Conditions of Regulatory Capital Instruments**

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| **Instruments** | **Full Terms and Conditions** |
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The disclosure requirements for remuneration for private sector and foreign banks operating in India. The guidelines on compensation of whole time directors, chief executive officers, and other risk takers were issued by the Reserve Bank of India (RBI) on January 13, 2012, and are applicable to all such banks. These banks are required to disclose information on remuneration in their Annual Financial Statements on an annual basis, using a specific template provided by the RBI. The template contains specific sections that must be completed, and any information that is not applicable should be indicated as such.

**Disclosure Requirements for Remuneration**

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| **Remuneration** | | | |
| **Qualitative disclosures** | (a) | Information relating to the composition and mandate of the Remuneration Committee. | |
| (b) | Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy. | |
| (c) | Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks. | |
| (d) | Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. | |
| (e) | A discussion of the bank's policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting. | |
| (f) | Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the bank utilizes and the rationale for using these different forms. | |
| **Quantitative disclosures** (The quantitative disclosures should only cover Whole Time Directors / Chief Executive Officer / Other Risk Takers) | (g) | \* | Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members. |
| (h) | \* | Number of employees having received a variable remuneration award during the financial year. |
| \* | Number and total amount of sign-on awards made during the financial year. |
| \* | Details of guaranteed bonus, if any, paid as joining / sign on bonus. |
| \* | Details of severance pay, in addition to accrued benefits, if any. |
| (i) | \* | Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. |
| \* | Total amount of deferred remuneration paid out in the financial year. |
| (j) | \* | Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred. |
| (k) | \* | Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and or implicit adjustments. |
| \* | Total amount of reductions during the financial year due to ex- post explicit adjustments. |
| \* | Total amount of reductions during the financial year due to ex- post implicit adjustments. |

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**TRANSITIONAL ARRANGEMENTS FOR NON-EQUITY REGULATORY CAPITAL INSTRUMENTS #**

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**GLOSSARY**

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| **Asset** | An asset is anything of value that is owned by a person or business |
| **Available for Sale** | The securities available for sale are those securities where the intention of the bank is neither to trade nor to hold till maturity. These securities are valued at the fair value which is determined by reference to the best available  source of current market quotations or other data relative to current value. |
| **Balance Sheet** | A balance sheet is a financial statement of the assets and liabilities of a trading concern, recorded at a particular point in time. |
| **Banking Book** | The banking book comprises assets and liabilities, which are contracted basically on account of relationship or for steady income and statutory obligations and are generally held till maturity. |
| **Basel Committee on Banking Supervision** | The Basel Committee is a committee of bank supervisors consisting of members from each of the G10 countries. The Committee is a forum for discussion on the handling of specific supervisory problems. It coordinates the sharing of supervisory responsibilities among national authorities in respect of banks' foreign establishments with the aim of ensuring effective  supervision of banks' activities worldwide. Update with latest |
| **Basic Indicator Approach** | An operational risk measurement technique permitted under Basel II. The approach sets a charge for operational risk as a fixed percentage ("alpha factor") of a single indicator. The indicator serves as a proxy for the bank's  risk exposure. |
| **Basis Risk** | The risk that the interest rate of different assets, liabilities and off-balance sheet items may change in different magnitude is termed as basis risk. |
| **Capital** | Capital refers to the funds (e.g., money, loans, equity, etc.) which are available to carry on a business, make an investment, and generate future revenue. Capital also refers to physical assets which can be used to generate future returns. |
| **Capital adequacy** | A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets.  An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent. For example, under BIS (Bank for International Settlements) rules, banks are required to maintain a certain level of capital against their risk-adjusted  assets. |
| **Capital reserves** | That portion of a company's profits not paid out as dividends to shareholders. They are also known as undistributable reserves. |
| **Convertible Bond** | A bond giving the investor the option to convert the bond into equity at a fixed conversion price or as per a pre-determined pricing formula. |
| **Credit risk** | Risk that a party to a contractual agreement or transaction will be unable to meet their obligations or will default on commitments. Credit risk can be associated with almost any transaction or instrument such as swaps, repos, CDs, foreign exchange transactions, etc.  Specific types of credit risk include sovereign risk, country risk, legal or force majeure risk, marginal risk and settlement risk. |
| **Debentures** | Bonds issued by a company bearing a fixed rate of interest usually payable  half yearly on specific dates and principal amount repayable on a particular date on redemption of the debentures. |

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| **Deferred Tax Assets** | Unabsorbed depreciation and carry forward of losses which can be set-off against future taxable income which is considered as timing differences result in deferred tax assets. The deferred Tax Assets are accounted as per the Accounting Standard 22.  Deferred Tax Assets have an effect of decreasing future income tax payments, which indicates that they are prepaid income taxes and meet definition of assets. Whereas deferred tax liabilities have an effect of increasing future year's income tax payments, which indicates that they are  accrued income taxes and meet definition of liabilities |
| **Delta (∆)** | The delta of an option a portfolio of options is the rate of change in the value of the option portfolio with respect to change in the price of the asset(s)  underlying the option(s). |
| **Derivative** | A derivative instrument derives much of its value from an underlying product. Examples of derivatives include futures, options, forwards and swaps. For example, a forward contract can be derived from the spot currency market and the spot markets for borrowing and lending. In the past, derivative instruments tended to be restricted only to those products which could be derived from spot markets. However, today the term seems to be used for  any product that can be derived from any other. |
| **Duration** | 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. 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. |
| **Foreign Institutional Investor** | An institution established or incorporated outside India which proposes to make investment in India insecurities; provided that a domestic asset management company or domestic portfolio manager who manages funds raised or collected or brought from outside India for investment in India on behalf of a sub-account, shall be deemed to be a Foreign Institutional  Investor. |
| **Forward Contract** | A forward contract is an agreement between two parties to buy or sell an agreed amount of a commodity or financial instrument at an agreed price, for delivery on an agreed future date. In contrast to a futures contract, a forward contract is not transferable or exchange tradable, its terms are not standardized and no margin is exchanged. The buyer of the forward contract  is said to be long the contract and the seller is said to be short the contract. |
| **Gamma(Г)** | The gamma of an option portfolio of options is the rate of change of the  option’s portfolio’s delta with respect to the change in the price of the asset(s) underlying the option (s). |
| **General provisions & loss**  **reserves** | Such reserves, if 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, can be included in Tier II capital. |
| **General market risk** | Risk that relates to overall market conditions while specific risk is risk that relates to the issuer of a particular security |
| **Hedging** | Taking action to eliminate or reduce exposure to risk |
| **Held for Trading** | Securities where the intention is to trade by taking advantage of short-term price interest rate movements. |
| **Horizontal Disallowance** | A disallowance of [offsets](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#offsets%23offsets) to required capital used the BIS Method for  assessing market risk for [regulatory capital.](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#regulatory%20capital%23regulatory%20capital) In order to calculate the capital required for [interest rate risk](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#interest%20rate%20risk%23interest%20rate%20risk) of a trading portfolio, the BIS Method allows |

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|  | offsets of [long](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#long%23long) and [short](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#short%23short) positions. Yet interest rate risk of instruments at different horizontal points of the [yield curve](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#yield%20curve%23yield%20curve) are not perfectly correlated. Hence, the BIS Method requires that a portion of these offsets be disallowed. |
| **Interest rate risk** | Risk that the financial value of assets or liabilities (or inflows/outflows) will be altered because of fluctuations in interest rates. For example, the risk that future investment may have to be made at lower rates and future borrowings  at higher rates. |
| **Long Position** | A long position refers to a position where gains arise from a rise in the value of the underlying. |
| **Market risk** | Risk of loss arising from movements in market prices or rates away from the rates or prices set out in a transaction or agreement. |
| **Modified Duration** | The 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 the percentage change in a securities' price for a 100 basis points change in yield. It is generally accurate for only small changes in the yield.  ￼  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. |
| **Mortgage-backed security** | 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. |
| **Mutual Fund** | Mutual Fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. A fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market  instruments. |
| **Net Interest Margin** | Net interest margin is the net interest income divided by average interest earning assets |
| **Net NPA** | Net NPA = Gross NPA – (Balance in Interest Suspense account +  DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held)‘ |
| **Nostro accounts** | Foreign currency settlement accounts that a bank maintains with its overseas correspondent banks. These accounts are assets of the domestic bank. |
| **Off-Balance Sheet expos-ures** | Off-Balance Sheet exposures refer to the business activities of a bank that generally do not involve booking assets (loans) and taking deposits. Off- balance sheet activities normally generate fees, but produce liabilities or assets that are deferred or contingent and thus, do not appear on the institution's balance sheet until or unless they become actual assets or  liabilities. |
| **Open position** | It 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. |

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| **Option** | An option is a contract which grants the buyer the right, but not the obligation, to buy (call option) or sell (put option) an asset, commodity, currency or financial instrument at an agreed rate (exercise price) on or before an agreed date (expiry or settlement date). The buyer pays the seller an amount called the premium in exchange for this right. This premium is the price of the  option. |
| **Rho(ρ)** | Rho of an option a portfolio of options is the rate of change in the value of an option portfolio with respect to change in the level of interest rates. |
| **Risk** | The possibility of an outcome not occurring as expected. It can be measured and is not the same as uncertainty, which is not measurable. In financial  terms, risk refers to the possibility of financial loss. It can be classified as credit risk, market risk and operational risk. |
| **Risk Asset Ratio** | A bank's risk asset ratio is the ratio of a bank's risk assets to its capital funds. Risk assets include assets other than highly rated government and government agency obligations and cash, for example, corporate bonds and loans. The capital funds include capital and undistributed reserves. The lower  the risk asset ratio the better the bank's 'capital cushion' |
| **Risk Weights** | Basel II sets out a risk-weighting schedule for measuring the credit risk of obligors. The risk weights are linked to ratings given to sovereigns, financial  institutions and corporations by external credit rating agencies. |
| **Securitis-ation** | The process whereby similar debt instruments assets are pooled together and repackaged into marketable securities which can be sold to investors. The process of loan securitisation is used by banks to move their assets off  the balance sheet in order to improve their capital asset ratios. |
| **Short position** | A 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. |
| **Specific risk** | Within the framework of the BIS proposals on market risk, specific risk refers to the risk associated with a specific security, issuer or company, as opposed to the risk associated with a market or market sector (general risk). |
| **Subordinated debt** | Refers to the status of the debt. In the event of the bankruptcy or liquidation of the debtor, subordinated debt only has a secondary claim on repayments,  after other debt has been repaid. |
| **Theta(θ)** | The theta of an option a portfolio of options is the rate of change in the value of the option portfolio with respect to passage of time, with all else remaining  the same. It is also called the “time decay” of the option. |
| **Trading Book** | A trading book or portfolio refers to the book of financial instruments held for the purpose of short-term trading, as opposed to securities that would be held as a long-term investment. The trading book refers to the assets that are held primarily for generating profit on short-term differences in prices/yields. The  price risk is the prime concern of banks in trading book. |
| **Underwrite** | Generally, to underwrite means to assume a risk for a fee. Its two most common contexts are:  a) Securities: a dealer or investment bank agrees to purchase a new issue of securities from the issuer and distribute these securities to investors. The underwriter may be one person or part of an underwriting syndicate. Thus the issuer faces no risk of being left with unsold securities.  b) Insurance: a person or company agrees to provide financial compensation against the risk of fire, theft, death, disability, etc., for a fee called a premium. |
| **Value at risk (VAR)** | It is a method for calculating and controlling exposure to market risk. VAR is a single number (currency amount) which estimates the maximum expected |

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|  | loss of a portfolio over a given time horizon (the holding period) and at a given confidence level. |
| **Vega (ν)** | The Vega of an option a portfolio of options is the rate of change in the value  of the option portfolio with respect to volatility of the asset(s) underlying the option(s). |
| **Venture capital Fund** | A fund with the purpose of investing in start-up businesses that is perceived  to have excellent growth prospects but does not have access to capital markets. |
| **Vertical Disallowance** | In the [BIS](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#BIS%23BIS) Method for determining regulatory capital necessary to cushion [market risk,](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#market%20risk%23market%20risk) a reversal of the [offsets](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#offsets%23offsets) of a [general risk charge](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#general%20risk%20charge%23general%20risk%20charge) of a long position  by a short position in two or more securities in the same time band in the [yield](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#yield%20curve%23yield%20curve) [curve](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#yield%20curve%23yield%20curve) where the securities have differing [credit risks.](http://ihome.cuhk.edu.hk/~b100534/glossary/glossary.htm#credit%20risk%23credit%20risk) |