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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
ई-मेल/email : helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001
Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort, Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

October 07, 2025

RBI issues Draft Directions pursuant to Policy Announcement

In pursuance of the announcement made in the Statement on Developmental and Regulatory Policies dated October 01, 2025, the Reserve Bank of India (RBI) has today issued the following draft Directions:

A. Draft Reserve Bank of India (Scheduled Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2025

The proposed Directions seek to implement one of the key elements of the global reforms implemented by the Basel Committee on Banking Supervision (BCBS), suitably tailored to the Indian context. The Directions amend the existing standardised approach framework for calculating the capital charge for credit risk with the objective of enhancing its robustness, granularity, and risk sensitivity.

The major revisions include:

i) nuanced and granular risk weight treatment for exposures to corporates, MSMEs and real estate;

ii) inclusion of ‘transactors’ under regulatory retail category, where transactors are credit cards with timely repayments during the previous 12 months;

iii) revision in the credit conversion factors for reckoning the exposure for off-balance sheet exposures;

iv) suitable adjustments to the risk weights applied to loans rated by credit rating agencies, depending on the default history of such loans for each rating agency, and due diligence by banks.

Overall, the proposed changes are estimated to have a positive impact on the minimum regulatory capital requirements of banks, with certain segments such as MSMEs, real estate and credit cards exposures being particularly benefited.

B. Draft Reserve Bank of India (Scheduled Commercial Banks & All India Financial Institutions - Asset Classification, Provisioning and Income Recognition) Directions, 2025

The proposed Directions seek to replace the incurred-loss-based provisioning framework with an ECL based provisioning, subject to prudential floors. These are expected to further strengthen credit risk management practices, promote greater comparability across financial institutions, and align regulatory norms with internationally accepted regulatory and accounting standards.

The key elements of the proposed framework include:

(i) introduction of staging criteria for asset classification under Expected Credit Loss (ECL) approach, while retaining the extant norms for Non-performing Asset (NPA) classification;

(ii) specification of suitably calibrated prudential floors for broad exposure classes, separately under Stage-1, Stage-2 and Stage-3;

(iii) alignment of the income recognition norms based on Effective Interest Rate (EIR) method;

(iv) broad principles on model risk management for implementing ECL models.

While the above Directions are estimated to result in an additional one-time provisioning, the overall impact on the minimum regulatory capital requirements of banks is expected to be minimal, with all banks continuing to meet the requirements comfortably. The proposed 5-year glide-path will further facilitate the transition in a non-disruptive manner.

The comments on the draft guidelines are invited from public/stakeholders by November 30, 2025. The comments/ feedback may be submitted through the link under the 'Connect2Regulate' Section available on the Reserve Bank's website. Comments may alternatively be forwarded to The Chief General Manager, Credit Risk Group, Department of Regulation, Central Office Reserve Bank of India, 12th/ 13th Floor Shahid Bhagat Singh Marg, Fort Mumbai – 400 001 or by email.

(Brij Raj)
Chief General Manager

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Reserve Bank of India (Scheduled Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2025 – Draft for Comments

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CHAPTER I – PRELIMINARY

1 Introduction

The Basel Committee on Banking Supervision in its final 'Basel III framework (Basel III: Finalising post-crisis reforms in December 2017)', permits two broad methodologies for calculating risk-based capital requirements for credit risk, viz., the Standardised Approach (SA) and the Internal Ratings Based approach (IRB). The key intention of the revised framework is to ensure prudent and credible calculation of risk-weighted assets that would facilitate arriving at capital ratios for banks in a comparable and risk-sensitive manner. Reserve Bank has decided to implement the Standardised Approach (SA) for credit risk for banks under its jurisdiction.

2 Powers Exercised and Commencement

2.1 In exercise of the powers conferred by the Sections 21 and 35A of the Banking Regulation Act, 1949, the Reserve Bank of India (hereinafter called the 'Reserve Bank' or RBI) being satisfied that it is necessary and expedient in the public interest and in the interest of depositors to do so, hereby, issues these instructions hereinafter specified.

2.2 These instructions shall come into effect from April 01, 2027.

3 Scope

These instructions shall apply, unless specified otherwise, to the banking book exposures of all Scheduled Commercial Banks (excluding Small Finance Banks, Payments Banks and Regional Rural Banks), hereinafter called banks.

4 Definitions

4.1 In these instructions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:

a) "Capital market exposure" shall be as defined in 'Master Circular – Exposure Norms' dated July 1, 2015, as amended from time to time.

b) "Commercial Real Estate exposure" means an exposure that is not a residential real estate exposure.

c) "Commitment" with reference to a bank's off-balance sheet items means any contractual arrangement that has been offered by the bank and accepted by its counterparty to extend credit, purchase assets or issue credit substitutes. It includes any such arrangement that can be unconditionally cancelled by the bank at any time without prior notice to the obligor. It also includes any such arrangement that can be cancelled by the bank if the obligor fails to meet conditions set out in the facility documentation, including conditions that must be met by the obligor prior to any initial or subsequent drawdown under the arrangement.

d) "Commodities finance" means short-term lending to finance reserves, inventories, or receivables of exchange-traded commodities (eg crude oil, metals, or crops), where the loan shall be repaid from the proceeds of the sale of the commodity and the borrower has no independent capacity to repay the loan.

e) “Consumer Credit” is as defined in Banking Statistics I (Harmonised Definitions) on the RBI’s website.

f) ‘Counterparty banks’ mean other Commercial banks, Urban Co-operative banks, Rural Co-operative banks and All India Financial Institutions (AIFIs) on which a bank takes exposures.

g) “Equity exposures” mean equity of the issuer and exposures as defined in Appendix 1 to this circular.

h) “General Preferential treatment” means exposures to banks with an original maturity of three months or less, as well as exposures to banks that arise from the movement of goods across national borders with an original maturity of six months or less (this may include on-balance sheet exposures such as loans and off-balance sheet exposures such as self-liquidating trade-related contingent items).

i) “Loan to Value (LTV)” ratio means the ratio of the outstanding loan amount, including any accrued and unrealised interest, to the value of the collateral security calculated in terms of paragraphs 16.1.2 and 16.1.3 of these guidelines.

j) “Local Government Bodies” mean institutions of the local self-governance, which look after the local planning, development and administration of a specified area or community such as villages, towns, or cities.

k) “Member lending Institutions (MLIs)” shall have the same meaning as defined in relevant credit guarantee schemes of the Government of India.

l) “Micro, Small and Medium Enterprises” (MSMEs) mean the enterprises as defined in the MSMED Act, 2006 and the amendments, if any, carried out therein by the Government of India from time to time.

m) “Multilateral Development Bank (MDB)” means an institution, created by a group of countries that provides financing and professional advice for economic and social development projects. MDBs have large sovereign memberships and may include both developed countries and/or developing countries. Each MDB has its own independent legal and operational status, but with a similar mandate and a considerable number of joint owners.

n) “Non-performing assets (NPAs)” shall be as defined in ‘Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances’ dated April 01, 2025, as amended from time to time.

o) “Object finance” means the method of funding the acquisition of equipment (eg ships, aircraft, satellites, railcars, and fleets) where the repayment of the loan is dependent on the cash flows generated by the specific assets that have been financed and pledged or assigned to the lender

p) “Operational phase” means the phase in which the project has attained date of commencement of commercial operation (DCCO), and the borrower entity has (i) a positive net cash flow that is sufficient to cover any remaining contractual obligation, and (ii) started repayment of principal dues.

q) “Other Capital Instruments” mean capital instruments issued by the investee entity which are not included in Equity exposures as defined in sl. no. (g) above.

r) “Personal loans” is as defined in Banking Statistics I (Harmonised Definitions) on the RBI’s website.

s) “Pre-operational phase” of a project means the phase before the operational phase.

t) “Project finance” means the method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the loan. This type of financing is usually for large, complex and expensive installations. Project finance may take the form of financing the construction of a new capital installation, or refinancing of an existing installation, with or without improvements.

u) “Real Estate” means an immovable property that is land, including agricultural land and forest, or anything treated as attached to land, in particular buildings, in contrast to being treated as movable property.

v) “Residential Real Estate exposure” means an exposure that is secured by a property that has the nature of a dwelling and satisfies all applicable laws and regulations enabling the property to be occupied for housing purposes. Indicative examples of such exposures are exposures secured by houses, apartments, etc.

w) “Specialised lending exposure” for the purpose of risk weights means a lending which possesses some or all of the following characteristics, either in legal form or economic substance:

i) The exposure is not related to real estate and is within the definition of project finance or object finance or commodity finance.
ii) The exposure is typically to an entity (often a special purpose vehicle (SPV)) that was created specifically to finance and/or operate physical assets;
iii) The borrowing entity has few or no other significant assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed. The primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of the borrowing entity; and
iv) The terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates.

x) “Speculative unlisted equity exposures” mean equity investments in unlisted companies that are invested for short-term resale purposes or are considered venture capital or similar investments which are subject to price volatility and are acquired in anticipation of significant future capital gains. However, banks investment in unlisted equities of corporate clients with which the bank has or intends to establish a long-term business relationship and debt-equity swaps for restructuring purpose would not be treated as speculative unlisted equity exposures.

y) “Subordinate Debt” means debt instruments of the issuer which are subordinate in claim to the senior debt.

z) “Transactors” mean obligors in relation to facilities such as credit cards and charge cards where the balance has been repaid in full at each scheduled repayment date for the previous 12 months. Obligors in relation to overdraft facilities would also be considered as transactors if there have been no drawdowns over the previous 12 months.

4.2 All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Banking Regulation Act,1949 or the Reserve Bank of India Act, 1934 or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

CHAPTER II – GENERAL INSTRUCTIONS

5 General

5.1 Under the standardised approach (SA), credit exposures shall be risk weighted either as per the risk weights prescribed for specific categories of exposures or as per the ratings assigned by eligible credit rating agencies (ECRAs[1]), as stipulated in this circular. Risk weighted assets are calculated as the product of the standardised risk weights and the exposure amount. The exposures shall be risk-weighted net of specific provisions (including partial write-offs). The requirements covering the use of external ratings are set out in chapter IV of these guidelines. The credit risk mitigation techniques that are permitted to be recognised under the standardised approach are set out in chapter V of these guidelines. Various facets of the computation of capital charge for credit risk under SA are given in this circular.

5.2 Risk weights prescribed under this regulation shall be without prejudice to any action that the Reserve Bank may take relating to specific exposures on account of macroprudential considerations, if any.

6 Due diligence requirements

6.1 Banks shall perform due diligence to ensure that they have an adequate understanding, at origination and thereafter on a regular basis (at least annually), of the risk profile and characteristics of their counterparties. For exposures to entities belonging to consolidated groups, due diligence shall be performed at the solo level to which there is a credit exposure. In evaluating the repayment capacity of the solo entity, banks shall take into account the support of the group and the potential for it to be adversely impacted by problems in the group.

6.2 Banks shall perform due diligence to ensure that the external ratings appropriately and conservatively reflect the creditworthiness of the counterparties. The sophistication of the due diligence shall be appropriate to the size and complexity of banks' activities. If the due diligence analysis carried out by the bank reflects higher risk characteristics than that implied by the external rating bucket of the exposure, bank may assign a risk weight at least one bucket higher than the "base" risk weight determined by the external rating.

Exemption: The due diligence requirements do not apply to exposures to Sovereigns/ Central Banks covered under paragraphs 7 and 8 below.

6.3 Due diligence analysis must never result in the application of a risk weight lower than the applicable base risk weight as per the external credit rating agencies.

6.4 In order to reduce subjectivity in decision making on due diligence criteria, banks

[1] Refer section 24 in Chapter IV

shall put in place an internal Standard Operating Procedure (SOP) comprising internal policies, processes, systems and controls to ensure that the appropriate risk weights are assigned to counterparties. Banks shall demonstrate to the supervisor that due diligence has been performed as per the internal SOP approved by the Board. As part of the supervisory review, RBI may take supervisory measures where such due diligence analyses have not been done appropriately.

6.5 Probability of Default (PD) may serve as an appropriate reference to align the assigned risk weights with the underlying credit risk. Comparison of the internally assessed PD for the exposure and the PD of the bank loan rating assigned by the credit rating agency which is used for risk weighting may serve as an objective parameter to assess the appropriateness of risk weight. Further, banks may give proper consideration to the climate-related financial risks as part of the counterparty due diligence.

CHAPTER III – EXPOSURE CLASSES AND RISK WEIGHTS

7 Exposures to Domestic Sovereigns

7.1 Both fund based and non-fund-based claims on the central government shall attract a zero per cent (0%) risk weight. Central Government guaranteed claims shall also attract a zero per cent (0%) risk weight.

7.2 Direct loan / credit / overdraft exposure, if any, of banks to the State Governments and investments in State Government securities shall attract zero per cent (0%) risk weight. However, claims guaranteed by the State Governments shall attract 20 per cent risk weight.

7.3 The risk weight applicable to claims on central government exposures shall also apply to the claims on the Reserve Bank of India and DICGC.

7.4 For credit facilities extended under schemes guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd. (NCGTC) which are backed by an unconditional and irrevocable guarantee provided by Government of India, a zero percent (0%) risk weight shall be applicable to the extent of guarantee coverage subject to the following conditions[2]:

i) **Prudential Aspects:** The guarantees provided under the respective schemes should comply with the requirements for credit risk mitigation framework covered under chapter V of these guidelines.

ii) **Restrictions on permissible claims:** Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by member lending institutions (MLI), payout cap, etc., the zero per cent (0%) risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of this circular.

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

[2] Please refer to the circular on 'Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)' dated September 7, 2022.

7.5 Further, subject to the aforementioned prescriptions at paragraph 7.4 (i) to (iii) above, any future scheme launched under any of the aforementioned Trust Funds, in order to be eligible for zero percent (0%) risk weight, shall provide for settlement of the eligible guaranteed claims within thirty days from the date of lodgment, and the lodgment shall be permitted within sixty days from the date of default.

7.6 The claims on Export Credit Guarantee Corporation of India (ECGC) shall attract a risk weight of 20 per cent.

7.7 The above risk weights for both direct claims and guaranteed claims shall be applicable as long as they are classified as 'standard' / performing assets. Where such Central Government guaranteed exposures are classified as non-performing, they shall attract risk weights as applicable to NPAs[3], which are detailed in paragraph 17.

7.8 The risk weights prescribed under paragraphs 7.1 to 7.6 shall be applied if such exposures are denominated in Indian Rupees and also funded in Indian Rupees.

8 Exposures to Foreign Sovereigns and Foreign Central Banks

8.1 Exposures to foreign sovereigns and foreign central banks shall attract risk weights as per the ratings assigned[4] to those sovereigns / sovereign claims and Central Bank/ Central Bank claims by international rating agencies as follows:

Table 1: Risk weight table for sovereigns and central banks

S&P*/ Fitch ratings	**AAA to AA**	**A**	**BBB**	**BB to B**	**Below B**	**Unrated**
Moody's ratings	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Below B3**	**Unrated**
Risk weight (%)	0	20	50	100	150	100

* Standard & Poor's;

Note: The modifiers "+" or "-" have been subsumed with the main rating category

[3] NPA classification shall be as per extant 'Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances' dated April 1, 2025, as amended from time to time

[4] For example: The risk weight assigned to an investment in US Treasury Bills by overseas branch of an Indian bank in Paris, irrespective of the currency of funding, shall be determined by the rating assigned to the Treasury Bills, as indicated in Table 1 above.

8.2 If a foreign jurisdiction has exercised its national discretion to allow its banks to risk weight their domestic currency exposures to their sovereign and central bank lower than what is accorded as per the external ratings in Table 1, provided that such exposures are funded in the same currency, then Indian banks can also use the same risk weight for similar exposures in those jurisdictions. However, in case a Host Supervisor requires a more conservative treatment to such claims in the books of the Indian banks, they shall adopt the requirements prescribed by the Host Country supervisors for computing capital adequacy.

9 Exposures to Public Sector Entities (PSEs)

9.1 Exposures to domestic public sector entities and local government bodies shall be risk weighted in a manner similar to claims on Corporates as per section 12. Such exposure shall, however, be subject to the restrictions on bank lending to Government owned entities prescribed in 'Master Circular- Loans and Advances – Statutory and Other Restrictions' dated July 1, 2015, as amended from time to time.

9.2 Exposures to foreign PSEs shall be risk weighted as per the rating assigned by the international rating agencies as under:

Table 2: Exposures to Foreign PSEs – Risk Weights

S&P/ Fitch ratings	**AAA to AA**	**A**	**BBB**	**BB to B**	**Below B**	**Unrated**
Moody's ratings	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Below B3**	**Unrated**
Risk weight (%)	20	50	50	100	150	100

10 Exposures to MDBs, BIS and IMF

10.1 Exposures to the Bank for International Settlements (BIS), the International Monetary Fund (IMF) and the following eligible Multilateral Development Banks (MDBs) evaluated by the Basel Committee on Banking Supervision (BCBS) shall be assigned a uniform zero percent (0%) risk weight:

i) World Bank Group: IBRD and IFC, MIGA and IDA
ii) Asian Development Bank,
iii) African Development Bank,
iv) European Bank for Reconstruction and Development,
v) Inter-American Development Bank,
vi) European Investment Bank,
vii) European Investment Fund,
viii) Nordic Investment Bank,
ix) Caribbean Development Bank,
x) Islamic Development Bank and
xi) Council of Europe Development Bank.

xii) International Finance Facility for Immunization (IFFIm)
xiii) Asian Infrastructure Investment Bank (AIIB)

10.2 The BCBS shall continue to evaluate the eligibility of the above listed MDBs on a case-by-case basis. The list of eligible MDBs is given in paragraph 10.1 above. RBI shall update the list of eligible MDBs, as and when required. MDBs not covered in the list will be subject to treatment prescribed in paragraph 10.3 i.e., risk weights shall be assigned based on their rating.

10.3 Exposures to all other MDBs shall be risk weighted as per the rating assigned by the international rating agencies as under:

Table 3: Exposures to other MDBs

S&P/ Fitch ratings	**AAA to AA**	**A**	**BBB**	**BB to B**	**Below B**	**Unrated**
Moody's ratings	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Below B3**	**Unrated**
Risk weight (%)	20	30	50	100	150	50

11 Exposures to Banks

Exposures under this section includes all exposures of banks to their counterparty banks, excluding exposures in equity, capital instruments and subordinated debt instruments which are covered in section 13 of these guidelines. Exposures to counterparty banks shall be risk weighted as per the following approaches:

i) External Credit Risk Assessment Approach (ECRA): It applies to all exposures that are rated by external credit rating agency.
ii) Standardised Credit Risk Assessment Approach (SCRA): It applies to exposures that are unrated.

11.1 External Credit Risk Assessment Approach (ECRA)

11.1.1 Banks shall assign to their rated bank exposures, the "base" risk weights based on the external ratings according to Table 4. Banks must apply Standardised Credit Risk Assessment Approach (SCRA) for their unrated bank exposures, in accordance with paragraph 11.2.

11.1.2 Banks must perform due diligence to ensure that the external ratings appropriately and conservatively reflect the creditworthiness of the counterparty banks. If due diligence analysis carried out by the bank reflects higher risk characteristics than that implied by the external rating bucket, then the bank may assign a risk weight at least one bucket higher than the "base" risk weight determined by the external rating. Due diligence analysis must never result in the application of a lower risk weight than that determined by the external rating.

Table 4: Exposures to Banks[5] (Incorporated in India or outside), Foreign Bank branches in India and WOS of foreign banks in India

External rating of counterparty	AAA to AA	A	BBB	BB to B	Below B
"Base" risk weight (%)	20	30	50	100	150
Risk weight for short-term exposures (%)	20	20	20	50	150

11.1.3 Exposures to banks with an original maturity of three months or less, as well as exposures to banks that arise from the movement of goods across national borders with an original maturity of six months or less[6], can be assigned a risk weight that correspond to the risk weights for short term exposures in Table 4. Other short term claims shall be risk weighted as given in Table 15**.**

11.2 Standardised Credit Risk Assessment Approach (SCRA)

11.2.1 Under SCRA, a bank is required to classify unrated exposures, other than those deducted from its capital, to banks incorporated in India or outside and the branches of foreign banks in India, into one of the three risk weight buckets viz., Grade A, Grade B and Grade C as per the following criteria:

i) **Grade A** refers to exposures to counterparty bank, where the counterparty has adequate capacity to meet their financial commitments (including repayments of principal and interest) in a timely manner, for the projected life of the assets or exposures and irrespective of the economic cycles and business conditions. The counterparty banks classified under Grade A must meet the applicable minimum CET1, applicable capital conservation buffer (CCB) ratio and the minimum leverage ratio. If the minimum regulatory requirements satisfying the definitions of Grades under SCRA are not publicly disclosed or otherwise made available by the counterparty bank, then such claims to banks which were classified as Grade A shall attract the risk weight of Grade B or lower.

[5] For claims held in Trading book, please see the paragraph 8.3.4 under 'capital charge for market risk' of 'Master Circular – Basel III Capital Regulations' dated April 1, 2025

[6] This may include on-balance sheet exposures such as loans and off-balance sheet exposures such as self-liquidating trade-related contingent items.

ii) **Grade B** refers to exposures to counterparty bank, where the counterparty is subject to substantial credit risk, such as repayment capacities that are dependent on stable or favourable economic or business conditions. The counterparty banks classified under Grade B must meet the applicable minimum CET1 and minimum leverage ratio but may not meet the applicable CCB ratio. If the minimum regulatory requirements satisfying the definitions of Grades under SCRA are not publicly disclosed or otherwise made available by the counterparty bank, then such claims to banks which were classified as Grade B shall be classified as Grade C.

iii) **Grade C** refers to higher credit risk exposures to counterparty bank, where the counterparty has material default risks and limited margins of safety. For these counterparties, adverse business, financial, or economic conditions are very likely to lead, or have led, to an inability to meet their financial commitments. The counterparty banks that do not meet the applicable minimum CET1 and/or minimum leverage ratio shall also be classified under Grade C. In addition, the counterparty bank shall be classified as Grade C if the external auditor has issued an adverse audit opinion or has expressed substantial doubt about the counterparty bank's ability to continue as a going concern in its financial statements or audited reports within the previous 12 months.

11.2.2 The bucketing criteria for Regional Rural Banks, Local Area Banks and Co-operative Banks (UCBs and RCBs) shall be based on the level of CRAR, as CCB and leverage ratio are not applicable for such banks. If the minimum CRAR level is met, the bank shall be bucketed under Grade A, banks which have negative CRAR and/or adverse audit opinion shall be bucketed in Grade C and all other banks shall be bucketed in Grade B.

11.2.3 The bucketing criteria for AIFIs shall be based on level of CRAR, leverage ratio and audit opinion as CCB is not applicable for such entities. If the minimum CRAR level and leverage ratio are met and the AIFI does not have adverse audit opinion in relation to its financial statements, it shall be bucketed under Grade A, else under Grade C.

11.2.4 The risk weights for claims on unrated banks as per SCRA are as under:

Table 5: Exposures to unrated Banks[7] (Incorporated in India or outside), Foreign Bank Branches in India and WOS of foreign banks

Credit Risk assessment grade	Grade A	Grade B	Grade C
"Base" Risk Weight	40%	75%	150%

[7] For claims held in Trading book, please see the paragraph 8.3.4 under 'capital charge for market risk' of 'Master Circular – Basel III Capital Regulations' dated April 1, 2025.

Credit Risk assessment grade	Grade A	Grade B	Grade C
Risk weight for short-term exposures	20%	50%	150%

Provided that if a counterparty bank classified as Grade 'A' has a CET 1 ratio equal to or greater than 14 per cent and a Tier 1 leverage ratio which is equal to or greater than 5 per cent, then exposures to such banks shall attract a "base" risk weight of 30 per cent.

11.2.5 Exposures to banks with an original maturity of three months or less, as well as exposures to banks that arise from the movement of goods across national borders with an original maturity of six months or less[8], can be assigned a risk weight that correspond to the risk weights for short term exposures in Table 5.

11.2.6 In the case of banks where no capital adequacy norms have been prescribed, the lending / investing bank may calculate the CRAR of the bank concerned, notionally, by obtaining necessary information from the investee bank, using the capital adequacy norms as applicable to the commercial banks. If it is not found feasible to compute CRAR on such notional basis, the risk weight of 350 per cent should be applied uniformly to the investing bank's entire exposure, unless the exposure falls under speculative unlisted equity which shall attract risk weight of 400 per cent.

11.2.7 The exposures of the Indian branches of foreign banks, guaranteed / counter-guaranteed by the overseas Head Offices or the bank's branch in another country, shall amount to a claim on the parent foreign bank, and shall also attract the risk weights as per Table 4 and Table 5. However, if bank reckons the exposure on the original counterparty instead of on its HO, then the exposure shall attract the risk weight of the counterparty as per Section 12 of these Guidelines.

11.2.8 To reflect transfer and convertibility risk under the SCRA, a risk-weight floor based on the risk weight applicable to exposures to the sovereign of the country where the bank counterparty is incorporated shall be applied to the risk weight assigned to bank exposures. The sovereign floor applies when the exposure is not in the local currency of the jurisdiction of incorporation of the debtor bank and for a borrowing booked in a branch of the debtor bank in a foreign jurisdiction, when the exposure is not in the local currency of the jurisdiction in which the branch operates. The sovereign floor shall not apply to short-term (i.e. with a maturity below one year) self-liquidating, trade-related contingent items that arise from the movement of goods.[9]

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[8] This may include on-balance sheet exposures such as loans and off-balance sheet exposures such as self-liquidating trade-related contingent items

[9] Basel Committee on Banking Supervision, 'Treatment of trade finance under the Basel capital framework', October 2011.

12 Exposures to Corporates

12.1 Scope:

12.1.1 Exposures to corporates[10] include exposures (loans, bonds, receivables, etc.) to incorporated entities, associations, partnerships, Limited Liability Partnerships (LLPs), proprietorships, trusts, funds and other entities with similar characteristics, except those which qualify for one of the other exposure classes. Exposures to Subordinate debt, equity and other capital instruments of corporates are covered under section 13 of these guidelines.

12.1.2 The corporate exposure class includes exposures to securities firms, primary dealers, NBFCs, insurance companies and other financial institutions not covered under section 11. The corporate exposure class shall not include exposures to individuals and micro, small and medium enterprises (MSMEs) meeting the criteria prescribed under section 15.

12.2 The corporate exposure class differentiates between the following subcategories:

(i) General Corporate Exposures
(ii) Specialised Lending Exposures

12.3 General Corporate Exposures

12.3.1 Exposures to corporates shall be assigned risk weights as per the "base" risk weights in Tables 6-7 below, adjusted for the one-year probability of default for each rating category published by the respective ECRAs, as specified in Chapter IV of these guidelines, and the due diligence carried out by the banks.

12.3.2 If due diligence analysis carried out by the bank reflects higher risk characteristics than that implied by the external rating bucket, the bank may assign a risk weight at least one bucket higher than the risk weight determined by the external rating. Due diligence analysis must never result in the application of a risk weight lower than the applicable risk weight as per the external credit rating agencies.

Table 6: Long Term Claims on Corporates – Base Risk Weights

External rating of counterparty	AAA and AA	A	BBB	BB	Below BB	Unrated
Base risk weight (%)	20	50	75	100	150	100

[10]Exposures include all fund based and non-fund based exposures other than those which qualify for inclusion under 'sovereign', 'bank/AIFIs', 'regulatory retail', 'residential mortgage', 'non performing assets', or any other specified category addressed separately in these guidelines.

Table 7: Short Term Claims on Corporates/short term facilities of corporates - Risk Weights

Domestic ratings	A1+	A1	A2	A3	A4 & D	Unrated
Base risk weight (%)	20	20	50	100	150	100

Note:-

i. No claim on an unrated corporate may be given a risk weight preferential to that assigned to its sovereign of incorporation.

ii. Claims on corporates and NBFCs, except Core Investment Companies (CICs), having aggregate exposure from banking system of more than ₹100 crore rated earlier and which subsequently have become unrated[11] will attract a risk weight of 150 per cent.

iii. All unrated claims on corporates and NBFCs, except CICs, having aggregate exposure from banking system of more than ₹200 crore will attract a risk weight of 150 per cent.

iv. CICs shall be risk weighted at 100 per cent.

12.3.3 Exposures to Corporates secured by real estate shall be risk weighted as prescribed for real estate exposure class in section 16.

12.4 **Specialised Lending Exposures**

Corporate exposures which fall under the category of Specialised Lending (not related to real estate) will be classified in one of the three subcategories, viz., (i) Object finance; (ii) Commodities finance; and (iii) Project finance.

12.4.1 Specialised lending exposures, where issue-specific external ratings are available, shall be assigned risk weights according to paragraph 12.3.

12.4.2 Specialised lending exposures for which an issue-specific external rating is not available shall be risk weighted as per the Table below:

Table 8: Corporate exposures classified as Specialised Lending (not related to real estate) – Risk Weights

Specialised lending subcategory →	Object and commodities finance	Project Finance		
		Pre-operational phase	Operational phase	
			Non-High Quality Projects	High Quality Projects
Risk weight (%)	100	130	100	80

[11] For validity of ratings, please refer paragraph 25.4 of these guidelines.

Note:-

i) Issuer ratings shall not be used in the case of specialised lending exposures.
ii) Specialised lending exposures whose activity is related to real estate shall be treated like a real estate exposure class for the purpose of risk weights.

12.4.3 **Project Finance:** For the purpose of risk-weighting, projects shall be classified under: (i) Pre-operational phase, or (ii) Operational phase. During the operational phase, a project that is able to meet its financial commitments in a timely manner and its ability to do so is assessed to be robust against adverse changes in the economic cycle and business conditions will be classified as **High Quality Projects.** Such projects must also meet the following criteria, and shall attract a favourable risk weight of 80 per cent as per Table 8**:**

i) The infrastructure project has completed at least one year of satisfactory operations post achievement of the date of completion of commercial operations;
ii) The borrower entity is restricted from acting to the detriment of the creditors through suitable covenants, e.g., being restricted from issuing additional debt without the consent of existing creditors;
iii) The borrower entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project;
iv) The revenues are availability-based or subject to a rate-of-return regulation or take-or-pay contract. For instance, annuities under build-operate-transfer (BOT) model in respect of road/ highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, and banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable;
v) The borrower entity's revenue depends on one main counterparty and this main counterparty is a central government, PSE or a corporate entity with a risk weight of 80 per cent or lower;
vi) The contractual provisions governing the exposure to the borrower entity provide for a high degree of protection for creditors in case of a default of the borrower entity, such as escrow of cash flows and legal first claim for the bank, in case of a default of the borrower entity;
vii) The main counterparty or other counterparties which similarly comply with the eligibility criteria for the main counterparty will protect the creditors from the losses resulting from a termination of the project;
viii) All assets and contracts necessary to operate the project have been charged in favor of the creditors to the extent permitted by applicable law; and
ix) Creditors may assume control of the borrower entity in case of its default.

Explanation:

I. Availability-based revenues mean that once construction is completed, the project finance entity is entitled to payments from its contractual counterparties (eg the government), as long as contract conditions are fulfilled.
II. Rate of return regulation is a form of price setting regulation where government or an authority determines the fair price allowed to be charged by a public utility.
III. Take or pay contracts between a buyer and a seller of good and/or services mandate buyers to either accept the pre-determined quantity of goods/services at a pre-determined price or pay a penalty, ensuring risk-sharing between suppliers and buyers.

13 Exposures to Subordinated debt, equity and other capital instruments

13.1 **Scope:** Exposures for this section shall include subordinate debt, equity and other regulatory capital instrument issued by counterparty banks and corporates. Corporates for this purpose are as defined in section 12. Exposures shall exclude instruments deducted from the regulatory capital of the investing bank or investments which are required to be risk weighted at 250 per cent as per paragraph 4.4.9 of the 'Master Circular – Basel III Capital Regulations' dated April 1, 2025, as amended from time to time, and banks' equity investment in funds as prescribed in section 18 of this circular.

13.2 The following risk weights shall be applicable for such exposures:

Table 9 - Exposures to Subordinated debt, equity and other capital instruments – Risk Wights

Exposure Type →	**Equity Exposures**	**Speculative Unlisted Equity**	**Subordinate debt and other Capital Instruments**
Risk Weight (%)	250	400	150

14 Retail Exposures

14.1 Claims (including both fund-based and non-fund based) that meet all the four criteria listed below in paragraph 14.2 shall be considered as retail claims for regulatory capital purposes and included in a regulatory retail portfolio. Claims included in this portfolio shall be assigned a **risk weight of 75 per cent**.

14.2 Qualifying Criteria for regulatory retail portfolio

i) Orientation Criterion: The exposure (both fund based and non-fund based) is to an individual person or persons or to MSMEs. Person under this clause shall mean any legal person capable of entering into contracts and shall include but not be restricted to individual and HUF. However, in case the MSME is part of a group, the reported annual sales of the consolidated group of which the

MSME is a part shall be less than or equal to ₹500 crores for the most recent financial year.

ii) Product criterion: The exposure (both fund and non-fund based) takes the form of any of the following: revolving credits and lines of credit (including credit cards and overdrafts – which qualify as transactors), term loans and leases (e.g. instalment loans and leases), commitments and facilities for MSMEs and student and educational loans.

iii) Low value of individual exposures: The maximum aggregated exposure to one counterparty cannot exceed an absolute threshold of ₹7.5 crore.

iv) Granularity criterion: Banks must ensure that the regulatory retail portfolio is sufficiently diversified to a degree that reduces the risks in the portfolio, warranting the 75 per cent risk weight. No aggregated exposure to one counterparty can exceed 0.2 per cent[12] of the overall regulatory retail portfolio. '***Aggregated exposure***' means gross amount (i.e. not taking any benefit for credit risk mitigation into account) of all forms of retail exposures excluding residential real estate exposures. In addition, '*one counterpart*' means one or several entities that may be considered as a single beneficiary (e.g. in the case of a MSME that is affiliated to another MSME, the limit shall apply to the bank's aggregated exposure on both businesses). While banks may appropriately use the group exposure concept for computing aggregated exposures, they should evolve adequate systems to ensure strict adherence with this criterion. NPAs under retail loans are to be excluded from the overall regulatory retail portfolio when assessing the granularity criterion for risk weighting purposes.

14.3 The following claims, both fund-based and non-fund-based, shall be excluded from the regulatory retail portfolio:

i) Personal Loans (excluding education loans meeting regulatory retail criteria);
ii) Credit card receivables other than those which qualify as transactors;
iii) Capital Market Exposures;
iv) Real Estate Exposures as per section 16 of these guidelines;
v) Loans and Advances to bank's own staff which are fully covered by superannuation benefits and / or mortgage of flat/ house.

14.4 For the purpose of ascertaining compliance with the absolute threshold, exposure shall mean sanctioned limit or the actual outstanding, whichever is higher, for all fund based and non-fund based facilities, including all forms of off-balance sheet exposures. In the case of term loans and EMI based facilities, where there is no scope for redrawing any portion of the repaid amount, exposure shall mean the actual

[12] To apply the 0.2 per cent threshold of the granularity criterion, banks must: first, identify the full set of exposures in the retail exposure class (as defined by paragraph 14.2(i)); second, identify the subset of exposure that meet product criterion and do not exceed the threshold for the value of aggregated exposures to one counterparty (as defined by paragraphs 14.2(ii) and 14.2(iii) respectively); and third, exclude any exposures that have a value greater than 0.2 per cent of the subset before exclusions.

outstanding.

14.5 The risk weight assigned to the retail portfolio would be evaluated with reference to the default experience for these exposures. As part of the supervisory review process, an assessment would be made on whether the credit quality of regulatory retail claims held by individual banks should warrant a standard risk weight higher than 75 per cent.

14.6 “Other retail” exposures not meeting the criteria of regulatory retail portfolio in paragraph 14.2 shall be risk-weighted as prescribed in section 19 under Specified Categories.

15 Exposure to Micro, Small and Medium Enterprises (MSMEs)

15.1 For the purpose of these guidelines, exposures to corporate that are classified as MSME shall be risk weighted as per paragraph 15.2. If the MSME is part of a group and if the reported annual sales for the consolidated group of which the MSME is a part, is greater than ₹500 crore for the most recent financial year then it shall attract the risk weight which is applicable on corporate exposures.

15.2 Risk weight for exposures to MSMEs shall be as follows:

i) Rated exposures to MSMEs shall be risk weighted as per paragraph 12.3 of these guidelines.
ii) Exposure to MSMEs that meet the criteria of regulatory retail portfolio given in paragraph 14.2 shall be risk weighted at 75 per cent.
iii) Unrated MSME not meeting the regulatory retail criteria exposures shall be risk weighted at 85 per cent.
iv) Exposures to MSMEs secured by real estate shall be risk weighted as prescribed in real estate asset class under section 16.

15.3 The Reserve Bank may increase the standard risk weight for unrated MSME claims where a higher risk weight is warranted by the overall default experience. As part of the supervisory review process, the Reserve Bank would also consider whether the credit quality of unrated MSME claims held by individual banks should warrant a standard risk weight higher than 85 per cent.

16 Real Estate Exposures

16.1 **General Conditions:** Real estate exposures of a bank shall be subject to the following general conditions:

16.1.1 **Underwriting Policies**: For exposures that qualify for real estate exposure asset class, banks shall put in place underwriting policies with respect to the granting of mortgage loans that include the assessment of the ability of the borrower to repay. Underwriting policies must define metric(s) (such as the loan’s debt service coverage ratio, debt service-to-income ratio) and specify its (their) corresponding relevant level(s) to conduct such assessment. Underwriting policies must also be appropriate when the repayment of the mortgage loan depends materially on the cash flows generated by the property, including relevant metrics (such as an occupancy rate of the property and likely income).

16.1.2 **LTV ratio**: LTV ratio shall be computed as a percentage of 'total loan outstanding' in the numerator and the 'realisable value' of the residential property mortgaged to the bank in the denominator. For this purpose, the 'total loan outstanding' shall include the funded outstanding and any undrawn committed amount in the account (viz. "principal + accrued interest + other charges pertaining to the loan") gross of any provisions and other risk mitigants, except for pledged deposit accounts with the lending bank that meet all requirements for on-balance sheet netting and have been unconditionally and irrevocably lien-marked for the sole purposes of redemption of the mortgage loan.

16.1.3 For computing loan to value (LTV) ratio, the value of the property shall be reckoned at the value measured at origination unless the value of the property has been revised downwards (as per the bank's policy on periodic valuation of the property). These downward valuations need to be considered for LTV computation. If the value has been adjusted downwards, a subsequent upwards adjustment can be made but not to a higher value than the value at origination. The value of the property should be adjusted if an extraordinary event occurs resulting in permanent reduction of the property value. Modifications made to the property that unequivocally increase its value could also be considered in the LTV. Moreover, the value of the property must not depend materially on the performance of the borrower.

16.1.4 **Value of the property:** Banks shall put in place a policy for valuation of properties accepted as security for their exposures. The valuation shall be appraised independently[13] using prudently conservative valuation criteria. To ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations on price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that shall be sustainable over the life of the loan. Valuations shall be made as specified in circular '[Valuation of Properties - Empanelment of Valuers]' dated January 04, 2007 or any relevant regulation issued after that, taking into account *inter alia* the valuation standards notified by Central Government[14]. If a market value can be determined, the valuation should not be higher than the market value[15].

16.1.5 The bank is expected to monitor the value of the collateral at least once in three years as per its policy. More frequent monitoring is suggested where the market

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[13] The valuation must be done independently from the bank's mortgage acquisition, loan processing and loan decision process.

[14] Companies (Registered Valuers and Valuation) Rules, 2017

[15] In the case where the mortgage loan is financing the purchase of the property, the value of the property for LTV purposes shall not be higher than the effective purchase price.

is subject to significant changes in conditions. Statistical methods of evaluation may be used to update estimates or to identify collateral that may have declined in value and that may need re-appraisal. A qualified professional valuer must evaluate the property when information indicates that the value of the collateral may have declined materially relative to general market prices or when a credit event, such as default, occurs.

16.1.6 **Application of credit risk mitigation**: A guarantee or financial collateral may be recognised as a credit risk mitigant in relation to exposures secured by real estate if it qualifies as eligible collateral under the credit risk mitigation framework as detailed in Chapter V of these guidelines. This may include mortgage insurance [16] if it meets the operational requirements of the credit risk mitigation framework for a guarantee. Banks may recognise these risk mitigants in calculating the exposure amount; however, the LTV bucket and risk weight to be applied to the exposure amount must be determined before the application of the appropriate credit risk mitigation technique.

Categories of Real Estate Exposures

16.2 The real estate exposure asset class shall consist of:

i) Housing Loans to Individuals
ii) Commercial Real Estate – Acquisition, Development and Construction Exposures - CRE(ADC)
iii) Other Claims secured by Real Estate

Housing Loans to Individuals

16.3 Housing loans to individuals shall be for construction or acquisition of housing units and shall consist of the following exposures:

a) loans to individuals for purchase of land for construction of residential property;
b) loans to individuals secured by under-construction residential property on their existing plot of land;
c) loans to the individual members of registered associations or co-operative housing societies for construction of residential houses for the members as per the bye-laws of the society under the relevant Act;
d) loans to individuals for purchase of under-construction dwelling units in: (i) projects registered with a relevant Real Estate Regulatory Authority (RERA) under the Real Estate (Regulation and Development) Act 2016, or (ii) other projects where registration with a RERA is not mandatory under the Act.
e) loans to individuals for acquisition of ready-built dwelling units.

Provided that in above cases (a) to (c), the construction shall start within a year and shall finish in maximum five years from the date of first disbursement as per

[16] A bank's use of mortgage insurance should mirror the FSB Principles for sound residential mortgage underwriting (April 2012).

the loan agreement with the bank, and bye-laws of the Society. In case of (d), the construction shall be completed as per the terms and conditions of registration granted by the RERA. In all the above cases, the property shall satisfy all the applicable laws and regulations enabling the property to be occupied for housing purposes upon completion.

16.3.1 Real estate exposure shall also meet the following criteria:

i) **Legal enforceability:** Bank's claim on the mortgaged property must be legally enforceable. The loan agreement and the legal process underpinning it must be such that they provide for the bank to realise the value of the property within a reasonable time frame.

ii) **Claims over the property:** A single bank has an absolute claim or multiple banks have *pari-passu* claims over the property, subject to the condition that: (a) there is an inter-creditor agreement among the banks, (b) each bank's loan should be fully secured by the current value of the property for being eligible for regulatory real estate exposures.

iii) **Ability of the borrower to repay:** Repayment capacity of the borrower shall invariably be assessed irrespective of the value of the property and the borrower must meet the requirements set according to paragraph 16.1.1.

iv) **Prudent value of property:** the property must be valued according to the criteria in paragraphs 16.1.2 and 16.1.4 for determining the value in the loan-to-value ratio (LTV). Moreover, the valuation of the property must not depend on the credit worthiness of the borrower.

v) **Required documentation:** all the information required at loan origination and for monitoring purposes must be properly documented, including information on the ability of the borrower to repay and on the valuation of the property.

16.3.2 **Risk weights**

i) Housing loans to individuals for up to two housing loans (shall include all existing as well as fresh loans), which shall be treated as their primary residences, shall attract the following risk weights as per the ceilings of LTV ratio prescribed:

Table 10.1 - Housing Loans to Individuals – Up to two loans

LTV	≤ 50%	>50% to ≤ 60%	> 60% to ≤ 80%	> 80% to ≤ 90%
RW	20	25	30	40

ii) Risk weights on the third housing loan onward to individuals (excluding fully repaid loans) shall be as per the ceilings of LTV ratios given in the following Table:

Table 10.2 - Housing Loans to Individuals – Third loan onward

LTV	≤ 50%	>50% to ≤ 60%	> 60% to ≤ 80%	> 80% to ≤ 90%
RW	30	35	45	60

iii) In both the above cases, an additional five percentage points of risk weight would be applicable if loan amount is of ₹ 3 crore or above.

Commercial Real Estate Exposures – Acquisition, Development and Construction – CRE (ADC)

16.4 Loans to commercial entities (including proprietorship firms and HUFs) for acquisition (wherever permitted) and development of land, and/or construction of commercial or residential real estate projects where the repayment is dependent on the underlying property such as renting, leasing the units or; selling the units of the project; selling the complete, or part of, the project, etc. shall be classified as CRE(ADC) exposures.

16.4.1 Such loans for construction of residential complexes or integrated projects (residential plus commercial) having at least 90 per cent Floor Space Index for residential real estate, and which meet the following criteria, shall be sub-classified as CRE-RH (ADC) (Commercial Real Estate – Residential Housing (ADC)):

i) All conditions stipulated in paragraph 16.3.1

ii) Project should be registered with the relevant RERA, wherever the registration is mandatory under the Real Estate (Regulation and Development) Act.

iii) The borrower has invested at least 33 per cent of the total cost of the finished project as equity; **or,**
At least 50 per cent of the approved project has been sold or leased through pre-sale or pre-lease contracts, where such contracts are legally binding written contracts, and the purchaser/renter must have paid at least 10 per cent of the agreement value which is subject to forfeiture if the contract is terminated; and borrower has invested at least 15 per cent of the project cost as its equity.

16.4.2 **Risk Weights**: The following RWs shall be applicable on CRE(ADC) exposures:

Table 10.3 – Commercial Real Estate Exposures (ADC)

Category	CRE-RH (ADC)	Other CRE (ADC)
Risk weight (%)	100	150

Other Claims secured by Real Estate

16.5 All other loans not categories as either housing loans to individuals or CRE-ADC shall be classified under this category, including loans to commercial entities (including proprietorship firms and HUFs) against the security of existing real estate assets or for acquisition of real estate properties for business and other permissible purposes; loans against semi-finished or unfinished properties; and personal loans to individuals against their existing properties. Further, exposures classified under Capital Market Exposure but secured by existing real estate assets shall attract a risk weight treatment provided under paragraph 19.3.

16.5.1 Apart from qualifying for General Conditions for real estate exposures, such loans shall also be underwritten for the purposes for which they are granted.

16.5.2 **Risk weights:** The following RWs shall be applicable on such loans:

(i) Loans against and for acquisition of finished residential properties which qualify the conditions given in paragraph 16.3.1, and where the repayment is envisaged from the cash flow generated from the economic activity for which loan is taken, shall qualify for the following RWs:

Table 10.4 - Claims secured by residential properties – Repayment from economic activity

LTV	≤ 50%	>50% to ≤ 60%	> 60% to ≤ 80%	> 80% to ≤ 90%
RW	20	25	30	40

(ii) Loans against and for acquisition of finished residential properties which qualify the conditions given in paragraph 16.3.1, and where the repayment is primarily [17] envisaged from the rent/lease/prospective sale of the underlying property and not from cash flow generated from the economic activity for which the loan is taken, shall qualify for the following RWs:

Table 10.5 - Claims secured by residential properties – Repayment primarily from underlying property

LTV	≤ 50%	>50% to ≤ 60%	> 60% to ≤ 80%	> 80% to ≤ 90%	> 90% to ≤ 100%
RW	30	35	45	60	75

(iii) Loans against and for finished commercial properties which qualify the conditions given in paragraph 16.3.1, and where the repayment is

[17] Cash flows from the property securing the loan is more than 50 per cent of the periodic loan servicing amount

envisaged from the cash flow generated from the economic activity for which the loan is taken, shall qualify for the following RWs:

Table 10.6 - Claims secured by commercial properties – Repayment from economic activity

LTV	≤ 60%	> 60%
RW	Lower of 60% or RW for the Counterparty	RW for the Counterparty

(iv) Loans against and for finished commercial properties which qualify the conditions given in paragraph 16.3.1, and where the repayment is primarily[18] envisaged from the rent/lease/prospective sale of the underlying property and not from the cash flow generated from the economic activity for which the loan is taken, shall qualify for the following RWs:

Table 10.7 - Claims secured by commercial properties – Repayment primarily from underlying property

LTV	≤ 60%	> 60% to ≤ 80%	> 80% to ≤ 100%
RW	70	90	110

(v) Loans against semi-finished/unfinished residential or commercial properties, plots of land, and/or which do not qualify all the conditions given in paragraph 16.3.1, and where the repayment is envisaged from the cash flow generated from the economic activity for which loan is taken, shall qualify for the following RWs:

Table 10.8 – Claims secured by Other Real Estate – Repayment from economic activity

Counterparty Type →	Individuals	MSME	Others
RW	75	85	RW applicable to the Counterparty

(vi) Loans against semi-finished residential or commercial properties, plots of land, and/or properties which do not qualify all the conditions given in paragraph 16.3.1, and where the repayment is primarily[19] envisaged from the rent/lease/prospective sale of the underlying property and not from cash

[18] Cash flows from the property securing the loan is more than 50 per cent of the periodic loan servicing amount
[19] Cash flows from the property securing the loan is more than 50 per cent of the periodic loan servicing amount

flow generated from the economic activity for which the loan is taken, shall qualify for the following RWs:

Table 10.9 - Claims secured by Other Real Estate – Repayment primarily from underlying property

RW	150

(vii) The above categories will also include personal loans to individuals against their existing properties. In cases of personal loans where repayment is not envisaged from the rent/lease/prospective sale of the underlying property but from other sources, shall attract the RWs as per Table 10.4, Table 10.6 and Table 10.8 as the case may be. In cases where repayment of such personal loans would depend on rent/lease/prospective sale of the underlying property, RWs would be as per Table 10.5, Table 10.7 and Table 10.9 as the case may be.

(viii) Loans for construction on existing land for business purposes, where the repayment arises from cash flows of the business, shall attract risk weights as per Table 10.8.

16.6 Investments in mortgage backed securities (MBS) backed by exposures secured by residential property or commercial real estate shall be governed by 'Master Direction– Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021' dated September 24, 2021.

17 Non-Performing Assets (NPAs)

17.1 The unsecured portion of NPA (other than qualifying residential real estate exposure which is addressed in paragraph 17.4), net of specific provisions (including partial write-offs), shall be risk-weighted as follows:

i) 150 per cent risk weight when specific provisions are less than 20 per cent of the outstanding amount of the NPA

ii) 100 per cent risk weight when specific provisions are at least 20 per cent of the outstanding amount of the NPA

iii) 50 per cent risk weight when specific provisions are at least 50 per cent of the outstanding amount of the NPA

17.2 For the purpose of computing the level of specific provisions in NPAs for deciding the risk-weighting, all funded NPA exposures of a single counterparty (without netting the value of the eligible collateral) should be reckoned in the denominator.

17.3 For the purpose of defining the secured portion of the NPA, eligible collateral shall be the same as recognised for credit risk mitigation purposes (paragraph 36.6). Hence, other forms of collateral like land, buildings, plant, machinery, current assets, etc. shall not be reckoned while computing the secured portion of NPAs for calculating risk weighted assets.

17.4 Residential real estate exposures where repayments do not materially depend on cash flows generated by the property securing the loan which are NPA shall be risk weighted at 100 per cent net of specific provisions and partial write-offs.

18 Equity Investments in Funds

18.1 This section prescribes computation of risk weighted assets (RWAs) for a bank's investments in pooled funds such as Alternative Equity Fund (AIF), Hedge Fund, Fund of Funds, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), etc., where such investments are allowed to be held in the banking book of the investing bank. RWAs for such exposures shall be computed under one or more of the following three approaches, which vary in their risk sensitivity and conservatism: the "look-through approach" (LTA), the "mandate-based approach" (MBA), and the "fall-back approach" (FBA). The requirements set out in this section shall also apply to banks' off-balance sheet exposures (e.g., unfunded commitments to subscribe to a fund's future capital calls) in such funds. However, such exposures of banks, including underlying exposures held by the investee funds, that are required to be deducted from capital of investing banks are excluded from provisions contained in paragraphs 18.2 to 18.7.

18.2 **The look-through approach (LTA)**

18.2.1 This is the most granular and risk-sensitive approach. It requires a bank to identify the underlying exposures of the investee fund and risk weight those exposures by notionally treating them in its own books. This approach must be used when the following conditions are met:

i) The investee fund is registered with and regulated by a financial sector regulator.
ii) The investee fund makes adequate and frequent disclosures about its underlying exposures; and
iii) Such disclosures are verified by an independent third party.

18.2.2 To satisfy condition (ii) above, the investee fund must report its financials and make necessary disclosures about its underlying assets at equal or higher periodicity than the investing bank, and such disclosures must be granular enough to enable the investing bank to identify each distinct underlying exposure and calculate the corresponding risk weights. To satisfy condition (iii) above, there must be verification and certification of the underlying exposures by an independent third party, such as the depository or the custodian bank or an external auditor.

18.2.3 Under the LTA, investing banks must risk weight all underlying exposures of the investee fund as if those exposures were directly held by it in its own books. This prescription shall be applicable, *inter alia,* on any underlying exposure of the investee fund, such as its derivative activities, which require risk weighting treatment for the underlying asset of the derivative under minimum risk-based capital requirements as well as the associated counterparty credit risk (CCR) exposure. In such cases, instead of determining a credit valuation adjustment (CVA) charge associated with the fund's derivatives exposures in accordance with the CVA framework (as per paragraph 5.15.3 of 'Master Circular – Basel III Capital Regulations' dated April 1, 2025, as amended from time to time), banks shall multiply the CCR exposure by a factor of 1.5 before applying the risk weight associated with the counterparty[20].

18.2.4 Banks may rely on third-party calculations for determining the risk weights associated with their equity investments in funds (ie. the underlying risk weights of the exposures of the fund) if they do not have adequate data or information to perform the calculations themselves. In such cases, the applicable risk weight shall be 1.2 times higher than the one that would be applicable if the exposure were held directly by the bank[21].

18.3 The mandate-based approach (MBA)

18.3.1 The second approach, the MBA, provides a method for calculating regulatory capital that can be used when the conditions (ii) and (iii) of paragraph 18.2.1 for applying the LTA are not met.

18.3.2 Under the MBA, investing banks may use the information contained in a investee fund's mandate or in the regulations issued by the concerned financial sector regulator governing such investment funds.[22] To ensure that all underlying risks are taken into account (including CCR) and that the MBA renders capital requirements no less than the LTA, the risk-weighted assets for the fund's exposures are calculated as the sum of the following three items:

i) Balance sheet exposures (ie the funds' assets) shall be risk weighted assuming the underlying portfolios are invested to the maximum extent allowed under the fund's mandate in those assets attracting the highest capital requirements, and then progressively in those other assets implying lower capital requirements. If more than one risk weight can be applied to a given exposure, the maximum risk weight applicable must be used[23].

ii) Whenever the underlying risk of a derivative exposure or an off-balance-sheet item receives a risk weighting treatment under the risk based capital

[20] A bank is only required to apply the 1.5 factor for transactions that are within the scope of the CVA framework.

[21] For instance, any exposure that is subject to a 20 per cent risk weight under the standardized approach would be weighted at 24 per cent (1.2 * 20%) when the look through is performed by a third party.

[22] Information used for this purpose is not strictly limited to a fund's mandate or national regulations governing like funds. It may also be drawn from other disclosures of the fund.

[23] For instance, for investments in corporate bonds with no ratings restrictions, a risk weight of 150 per cent must be applied.

requirements standard, the notional amount of the derivative position or of the off-balance sheet exposure is risk weighted accordingly.[24] [25]

iii) In cases of funds having derivative exposures as underlying, MBA can be used by banks in India only when the standardised approach to counterparty credit risk (SA-CCR) becomes applicable.

iv) The CCR associated with the fund's derivative exposures is calculated using the standardised approach to counterparty credit risk (SA-CCR). SA-CCR calculates the counterparty credit risk exposure of a netting set of derivatives by multiplying (i) the sum of the replacement cost and potential future exposure; by (ii) an alpha factor set at 1.4. Whenever the replacement cost is unknown, the exposure measure for CCR shall be calculated in a conservative manner by using the sum of the notional amounts of the derivatives in the netting set as a proxy for the replacement cost, and the multiplier used in the calculation of the potential future exposure shall be equal to 1. Whenever potential future exposure is unknown, it shall be calculated as 15 per cent of the sum of the notional values of the derivatives in the netting set.[26] The risk weight associated with the counterparty is applied to the counterparty credit risk exposure. Instead of determining a CVA charge associated with the fund's derivative exposures in accordance with the CVA framework (as per paragraph 5.15.3 of 'Master Circular – Basel III Capital Regulations' dated April 1, 2025, as amended from time to time), banks must multiply the CCR exposure by a factor of 1.5 before applying the risk weight associated with the counterparty.[27] See **Appendix 2** for an example of how to calculate risk-weighted assets using the MBA.

18.4 **The fall-back approach (FBA)**

Where neither the LTA nor the MBA is feasible, banks shall apply the FBA. Under FBA the bank's equity investment in the investee fund shall be subject to full capital deduction from CET1 capital.

18.5 **Equity exposure to funds that invest in other funds (Fund of Funds)**

When a bank has equity exposure to Fund of Funds (FoF), then it shall first identify the underlying exposures of its own investee fund to different other funds, either using the LTA or the MBA. In the second step, it can determine the risk weights for the investee fund's exposures by using any of the three approaches prescribed above. However, if the investee fund's investee(s) have further investments in other funds,

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[24]If the underlying is unknown, the full notional amount of derivative positions must be used for the calculation.

[25] If the notional amount of derivatives is unknown, it shall be estimated conservatively using the maximum notional amount of derivatives allowed under the mandate.

[26] For instance, if both the replacement cost and add-on components are unknown, the CCR exposure shall be calculated as: 1.4 * (sum of notionals in netting set +0.15*sum of notionals in netting set) under SACCR.

[27] A bank is only required to apply the 1.5 factor for transactions that are within the scope of the CVA framework. The transactions excluded are: (i) transactions with a central counterparty and (ii) securities financing transactions (SFTs).

i.e., the investee fund has also invested in a FoF, then it shall apply only the LTA for determining the risk weighted assets. If the necessary conditions for applying LTA are not met, then the bank must apply FBA.

18.6 Computation of RWA for Equity Exposures in Fund

18.6.1 For determining the capital requirement for its equity exposures in funds under the LTA and MBA, a bank shall apply a leverage adjustment to the average risk weight of the fund (Avg RWfund). In this context, Leverage (Lvg) is defined as the ratio of total assets of the investee fund to its total equity, and Avg RWfund is obtained by dividing the total risk-weighted assets of the fund as calculated under either LTA or MBA by the total assets of the fund. In cases where the bank uses MBA, Leverage shall be the maximum financial leverage permitted in the fund's mandate or in the SEBI regulations or regulations of the relevant financial sector regulator governing the fund.

18.6.2 The leverage adjustment, i.e., the product of Lvg and Avg RWfund, is subject to a cap of risk weight equivalent to full capital deduction.

18.6.3 Using Avg RWfund and taking into account the leverage of a fund (Lvg), the risk-weighted assets for a bank's equity investment in a fund can be represented as follows:

*RWAinvestment = Avg RWfund * Lvg * equity investment of the bank in the investee fund*

18.7 Partial use of an approach

A bank may use a combination of the three approaches when determining the capital requirements for an equity investment in an individual fund, provided that the conditions set out in paragraphs 18.1 to 18.6 are met.

19 Specified Categories

19.1 Personal loans (excluding education loans meeting the regulatory retail criteria and transactor credit card receivables, housing loans, vehicle loans, microfinance loans), shall attract a risk weight of 125 per cent. Credit card receivables other than those which qualify as transactors under regulatory retail portfolio asset class shall attract a risk weight of 125 per cent. All other consumer credit exposure shall attract a risk weight of 100 per cent, unless specified otherwise. Microfinance loans that are in the nature of consumer credit and are not eligible for classification under 'regulatory retail' shall attract a risk weight of 100 per cent.

19.2 As gold and gold jewellery are eligible financial collateral, the exposure in respect of personal loans secured by gold and gold jewellery shall be worked out under the comprehensive approach as per chapter V. The 'exposure value after risk mitigation' shall attract the risk weight of 125 per cent.

19.3 Advances classified as 'Capital market exposures' other than direct equity exposures as specified under section 13 above, shall attract a 125 per cent risk weight or risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher.

20 Unhedged Foreign Currency Exposure

20.1 Unhedged foreign currency exposures of entities[28] shall attract incremental capital requirements for bank exposures to entities with unhedged foreign currency exposures (i.e. over and above the present capital requirements) as per the instructions contained in 'Reserve Bank of India (Unhedged Foreign Currency Exposure) Directions, 2022', as under:

Table 8: Incremental capital for unhedged exposure[29]

Potential Loss/EBID[30] (%)	Incremental Capital Requirement
Upto to 75 per cent	0
More than 75 per cent	25 per cent increase in the risk weight

20.2 For unhedged 'retail and residential real estate exposures' to individuals where the lending currency differs from the currency of the borrower's source of income, banks shall apply a 1.5 times multiplier to the applicable risk weight, subject to a maximum risk weight of 150 per cent. Natural[31] and financial hedges[32] are considered sufficient only if they cover at least 90 per cent of the loan instalment.

21 Other Assets

21.1 Loans and advances to bank's own staff which are fully covered by superannuation benefits and/or mortgage of flat/ house shall attract a 20 per cent risk weight. Since flat / house is not an eligible collateral and since banks normally recover

[28] In this context, 'entities' means Corporates and MSMEs which have borrowed from banks in INR and other currencies.

[29] Incremental provisioning requirement on the total credit exposures over and above extant standard asset provisioning shall apply based on the level of likely loss/EBID ratio:-

Potential Loss / EBID (%)	Upto 15%	>15% and <=30%	>30% and <=50%	>50% and <=75%	>75%
Incremental Provisioning Requirement	No provision	20 bps	40 bps	60 bps	80 bps

[30] EBID is defined for computation of DSCR = Profit after Tax + Depreciation + Interest on debt + Lease Rentals, if any.

[31] Natural Hedge: An exposure shall be considered as naturally hedged only if the offsetting exposure has the maturity / cash flow within the same accounting year. For instance, export revenues (booked as receivable) may offset the exchange risk arising out of repayment obligations of an external commercial borrowing if both the exposures have cash flows / maturity within the same accounting year.

[32] Financial hedge shall be considered only where the entity/individual has documented the purpose and the strategy for hedging at inception of the derivative contract and assessed its effectiveness as a hedging instrument at periodic intervals. For the purpose of assessing the effectiveness of hedge, guidance may be taken from the applicable accounting standards and the relevant guidance notes of the Institute of Chartered Accountants of India on the matter.

the dues by adjusting the superannuation benefits only at the time of cessation from service, the concessional risk weight shall be applied without any adjustment of the outstanding amount. In case a bank is holding eligible collateral in respect of amounts due from a staff member, the outstanding amount in respect of that staff member may be adjusted to the extent permissible under CRM mechanism.

21.2 Other loans and advances to bank's own staff shall be eligible for inclusion under regulatory retail portfolio and shall therefore attract a 75 per cent risk weight.

21.3 A 20 per cent risk weight shall apply to cash items in the process of collection.

21.4 A zero per cent risk weight shall apply to

i) Cash owned and held at the bank or in transit; and
ii) Gold bullion, held if any, at the bank or held in another bank on an allocated basis, to the extent the gold bullion assets are backed by the gold bullion liabilities.

21.5 All other assets shall attract a uniform risk weight of 100 per cent.

22 Off-Balance Sheet Items

22.1 General

i) The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure is generally calculated by means of a two-step process:
   a) the notional amount of the transaction is converted into a credit equivalent amount (CEA), by multiplying the amount with the specified credit conversion factor (CCF); and
   b) the resulting CEA is multiplied by the risk weight applicable to the counterparty or to the purpose for which the bank has extended finance or the type of asset, whichever is higher.
ii) Where the off-balance sheet item is secured by eligible collateral or guarantee, the credit risk mitigation (CRM) as detailed in chapter V may be applied.
iii) Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility[33], the amount of undrawn commitment to be

[33] For example: (a) In the case of a cash credit facility for ₹100 lakh (which is not unconditionally cancellable) where the drawn portion is ₹60 lakh, the undrawn portion of ₹40 lakh shall attract a CCF of 40 per cent. The credit equivalent amount of ₹16 lakh (40 per cent of ₹40 lakh) will be assigned the appropriate risk weight as applicable to the counterparty / rating to arrive at the risk weighted asset for the undrawn portion. The drawn portion (₹60 lakh) will attract a risk weight as applicable to the counterparty / rating.
(b) A TL of ₹700 cr is sanctioned for a large project which can be drawn down in stages over a three year period. The terms of sanction allow draw down in three stages – ₹150 cr in Stage I, ₹200 cr in Stage II and ₹350 cr in Stage III, where the borrower needs the bank's explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already ₹50 cr under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be ₹100 cr. The CCF on ₹100 cr undrawn portion shall attract a CCF of 100 per cent (Commitments where drawdown is certain) .

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. Any drawn portion of a commitment forms a part of bank's on-balance sheet credit exposure.

iv) Irrevocable commitments to provide off-balance sheet facilities should be assigned the lower of the CCFs as applicable on either the irrevocable commitment or the off-balance sheet facility as stipulated in Table 12 below. For example, an irrevocable commitment with an original maturity of 15 months (40 per cent - CCF) to issue a six month documentary letter of credit (20 per cent - CCF) shall attract the lower of the CCF i.e., the CCF applicable to the documentary letter of credit viz. 20 per cent.

22.2 The credit conversion factors for non-market related off-balance sheet transactions are as under:

Table 9: 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[34], 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.	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

[34] The aggregate capital required to be maintained by the banks providing Partial Credit Enhancement will be computed as provided in circular 'Partial Credit Enhancement to Corporate Bonds' dated September 24, 2015, as amended from time to time.

Sr. No.	Instruments	Credit Conversion Factor (%)
3.	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
4.	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
5.	Commitments where drawdown is certain	100
6.	Note issuance facilities and revolving / non-revolving underwriting facilities.	50
7.	Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties, indemnities and standby letters of credit related to particular transaction).	50
8.	Short-term[35] 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
9.	Take-out Finance in the books of taking-over institution	
	(i) Unconditional take-out finance	100
	(ii) Conditional take-out finance	50
10.	Other commitments (e.g., formal standby facilities and credit lines) regardless of the maturity of the underlying facility, unless they qualify for a lower CCF. **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	40 10

[35] With maturity below one year

Sr. No.	Instruments	Credit Conversion Factor (%)
	worthiness[36]	

Note:

i) The risk-weighting treatment for counterparty credit risk must be applied in addition to the credit risk charge on the securities or posted collateral (sl. no. 4 in Table 12). This provision does not apply to posted collateral related to derivative transactions that is treated in accordance with the counterparty credit risk standards.

ii) CCF at sl. no. 10 in Table 12 above shall be staggered in two stages, as follows:

Instruments	CCF (till 3 years from the date of implementation of this circular)	CCF (after 3 years from the date of implementation of this circular)
Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of up to one year	30%	40%
Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of over one year	40%	40%
Unconditionally Cancellable Commitments (UCC)	5%	10%

22.3 In cases of non-market related off-balance sheet items, the following transactions with non-bank counterparties shall be treated as claims on banks:

i) Guarantees issued by banks against the counter guarantees of other banks.

ii) Rediscounting of documentary bills discounted by other banks and bills discounted by banks which have been accepted by another bank shall be treated as a funded claim on a bank.

[36] However, this shall be subject to banks demonstrating that they are actually able to cancel any undrawn commitments in case of deterioration in a borrower's credit worthiness failing which the credit conversion factor applicable to such facilities which are not cancellable shall apply. Banks' compliance to these guidelines shall be assessed under Annual Financial Inspection / Supervisory Review and Evaluation Process under Pillar 2 of RBI.

22.4 In all the above cases banks should be fully satisfied that the risk exposure is in fact on the other bank. If they are satisfied that the exposure is on the other bank they may assign these exposures the risk weight applicable to banks as detailed in section 11. It is clarified that any CRM instrument issued by a bank (e.g. SBLC/BG from Head Office/other overseas branch) from which CRM benefits like shifting of exposure/ risk weights etc are not derived, may not be counted as an exposure on the CRM provider. In such cases, risk weight of the counterparty shall apply.

22.5 Issue of Irrevocable Payment Commitment by banks to various Stock Exchanges on behalf of Mutual Funds and FPIs is a financial guarantee with a Credit Conversion Factor (CCF) of 100 per cent. However, under T+2[37] settlement cycle (T being the trade day), capital shall have to be maintained only on exposure which is reckoned as capital market exposure (CME), i.e. 50 per cent of the settlement amount because the rest of the exposure is deemed to have been covered by cash/securities which are admissible risk mitigants as per capital adequacy framework. Thus, capital is to be maintained on the amount taken for CME and the risk weight shall be 125 per cent thereon.

22.6 For classification of bank guarantees viz. direct credit substitutes and transaction-related contingent items etc. (sl. no. 1 and 7 of Table 12 above), the following principles should be kept in view for the application of CCFs:

i) Financial guarantees are direct credit substitutes wherein a bank irrevocably undertakes to guarantee the repayment of a contractual financial obligation. Financial guarantees essentially carry the same credit risk as a direct extension of credit i.e., the risk of loss is directly linked to the creditworthiness of the counterparty against whom a potential claim is acquired. An indicative list of financial guarantees, attracting a CCF of 100 per cent is as under:
   a) Guarantees for credit facilities;
   b) Guarantees in lieu of repayment of financial securities;
   c) Guarantees in lieu of margin requirements of exchanges;
   d) Guarantees for mobilisation advance, advance money before the commencement of a project and for money to be received in various stages of project implementation;
   e) Guarantees towards revenue dues, taxes, duties, levies etc. in favour of Tax/ Customs / Port / Excise Authorities and for disputed liabilities for litigation pending at courts;
   f) Credit Enhancements;
   g) Liquidity facilities for securitisation transactions;
   h) Acceptances (including endorsements with the character of acceptance);
   i) Deferred payment guarantees.

[37] Under T+1 settlement cycle, the exposure shall normally be for intraday. However, in case any exposure remains outstanding at the end of T+1 Indian Standard Time, the same shall be risk weighted at 125 per cent.

ii) Performance guarantees are essentially transaction-related contingencies that involve an irrevocable undertaking to pay a third party in the event the counterparty fails to fulfil or perform a contractual non-financial obligation. In such transactions, the risk of loss depends on the event which need not necessarily be related to the creditworthiness of the counterparty involved. An indicative list of performance guarantees, attracting a CCF of 50 per cent is as under:

a) Bid bonds;
b) Performance bonds and export performance guarantees;
c) Guarantees in lieu of security deposits / earnest money deposits (EMD) for participating in tenders;
d) Retention money guarantees;
e) Warranties, indemnities and standby letters of credit related to particular transaction.

23 Capital Adequacy Requirement for Securitisation Exposures

23.1 The treatment of securitisation exposures for capital adequacy has been specified in the 'Master Direction– Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021' dated September 24, 2021. As specified under clause 4 of Master Direction *ibid*, these directions, including those under Chapter VI *ibid*, will be applicable to securitisation transactions undertaken subsequent to the issue of these directions.

23.2 For transactions undertaken before issuance of the afore mentioned directions, i.e., prior to September 24, 2021, the treatment of securitisation exposures for capital adequacy would be as per the guidelines issued vide circular 'Guidelines on Securitisation of Standard Assets' dated February 1, 2006, as amended from time to time, and as consolidated in paragraph 5.16 of 'Master Circular – Basel III Capital Regulations' dated July 1, 2015.

CHAPTER IV – EXTERNAL CREDIT ASSESSMENTS

24 Eligible Credit Rating Agencies (ECRA)

24.1 Reserve Bank undertakes annual accreditation for identifying the eligible credit rating agencies, whose ratings shall be used by banks for assigning risk weights for credit risk. Wherever the facility provided by the bank possesses rating assigned by an eligible credit rating agency, the risk weight of the claim shall be based on this rating.

24.2 Banks are permitted to use the ratings of the following domestic credit rating agencies (arranged in alphabetical order), subject to periodic review by the Reserve Bank, for the purposes of risk weighting their claims for capital adequacy purposes:

i) Acuité Ratings and Research Limited (Acuite)
ii) Brickwork Ratings India Private Limited[38]
iii) CARE Ratings Limited;
iv) CRISIL Ratings Limited;
v) ICRA Limited;
vi) India Ratings and Research Private Limited (India Ratings); and
vii) INFOMERICS Valuation and Rating Pvt Ltd. (INFOMERICS)

24.3 The banks shall use the ratings of the following international credit rating agencies (arranged in alphabetical order) for the purposes of risk weighting their claims on non-resident entities for capital adequacy purposes:

i) Fitch;
ii) Moody's; and
iii) Standard & Poor's
iv) CareEdge Global IFSC Limited (for risk weighting their claims on non-resident corporates originating at International Financial Services Centre (IFSC))

25 Scope of Application of External Ratings

25.1 Banks should use the chosen credit rating agencies and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Banks will not be allowed to "cherry pick" the assessments provided by different credit rating agencies and to arbitrarily change the use of credit rating agencies. If a bank has decided to use the ratings of some of the chosen credit rating agencies for a given type of claim, it can use only the ratings of those credit rating agencies, despite the fact that some of these claims may be rated by other chosen credit rating agencies whose ratings the bank has decided not to use. Banks shall not

[38] Please refer to circular 'Basel III Capital Regulations - Eligible Credit Rating Agencies (ECAI)' dated July 10, 2024.

use one agency's rating for one corporate bond, while using another agency's rating for another exposure to the same counterparty, unless the respective exposures are rated by only one of the chosen credit rating agencies, whose ratings the bank has decided to use.

25.2 Banks must disclose the names of the credit rating agencies that they use for the risk weighting of their assets, the risk weights associated with the particular rating grades as determined by Reserve Bank through the mapping process for each eligible credit rating agency as well as the aggregated risk weighted assets as required vide Table DF-4 of Annex 17 of 'Master Circular – Basel III Capital Regulations' dated April 01, 2025, as updated from time to time.

25.3 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. For example, if a bank is owed both principal and interest, the assessment must fully take into account and reflect the credit risk associated with timely repayment of both principal and interest.

25.4 To be eligible for risk weighting purposes, 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.

25.5 An eligible credit assessment must be publicly available. In other words, a rating must be published in an accessible form and included in the external credit rating agency's transition matrix. Consequently, ratings that are made available only to the parties to a transaction do not satisfy this requirement.

25.6 For assets in the bank's portfolio that have contractual maturity of less than or equal to one year, short term ratings accorded by the chosen credit rating agencies would be relevant. For other assets which have a contractual maturity of more than one year, long term ratings accorded by the chosen credit rating agencies would be relevant.

25.7 Cash credit exposures tend to be generally rolled over and also tend to be drawn on an average for a major portion of the sanctioned limits. Hence, even though a cash credit exposure may be sanctioned for a period of one year or less, these exposures should be reckoned as long term exposures and accordingly the long term ratings accorded by the chosen credit rating agencies will be relevant. Similarly, banks may use long-term ratings of a counterparty as a proxy for an unrated short- term exposure on the same counterparty subject to strict compliance with the requirements for use of multiple rating assessments and applicability of issue rating to issuer / other claims as indicated in sections 27 to 31 below.

25.8 External ratings for one entity within a corporate group cannot be used to risk-weight other entities within the same group.

26 Mapping Process

Basel III Framework recommends development of a mapping process to assign the ratings issued by eligible credit rating agencies to the risk weights available under the Standardised 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 below in sections 27 and 28, which should be used by banks in assigning risk weights to the various exposures. Banks must assign differential risk weights to specific rating categories of any ECRA based on the Probability of Default (PD) criterion given in paragraph 27.4 below.

27 Long Term Ratings

27.1 On the basis of the above factors as well as 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 Standardised approach under the Revised Framework. The rating-risk weight mapping furnished in the Table below shall be adopted by all banks in India.

Table 10: Base Risk Weight Mapping of Long Term Ratings of the chosen Domestic Rating Agencies

CARE	CRISIL	India Ratings and Research Private Limited	ICRA	Brickwork[39]	Acuité Ratings & Research Ltd.	Infomerics	Standardised approach risk weights (in per cent)
CARE AAA	CRISIL AAA	IND AAA	ICRA AAA	Brickwork AAA	Acuité AAA	IVR AAA	20
CARE AA	CRISIL AA	IND AA	ICRA AA	Brickwork AA	Acuité AA	IVR AA	20
CARE A	CRISIL A	IND A	ICRA A	Brickwork A	Acuité A	IVR A	50
CARE BBB	CRISIL BBB	IND BBB	ICRA BBB	Brickwork BBB	Acuité BBB	IVR BBB	75
CARE BB	CRISIL BB	IND BB	ICRA BB	Brickwork BB	Acuité BB	IVR BB	100
CARE B,	CRISIL B,	IND B,	ICRA B,	Brickwork B,	Acuité B,	IVR B,	150

[39] Please refer to circular 'Basel III Capital Regulations - Eligible Credit Rating Agencies (ECAI)' dated July 10, 2024.

CARE	CRISIL	India Ratings and Research Private Limited	ICRA	Brickwork[39]	Acuité Ratings & Research Ltd.	Infomerics	Standardised approach risk weights (in per cent)
CARE C & CARE D	CRISIL C & CRISIL D	IND C & IND D	ICRA C & ICRA D	Brickwork C & Brickwork D	Acuité C & Acuité D	IVR C & IVR D	150
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	100$
$ The risk weight is 150 per cent in the following two cases: • if the aggregate exposure from banking system is more than INR 200 crore • if the aggregate exposure from banking system is more than INR 100 crore for exposures which were rated earlier and subsequently have become unrated[40]							

27.2 Where "+" or "-" notation is attached to the rating, the corresponding main rating category risk weight should be used. For example, A+ or A- shall be considered to be in the A rating category and assigned 50 per cent risk weight

27.3 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 recognised credit risk mitigation techniques for such claims.

27.4 Domestic CRAs shall publish a one-year PD for each rating category. If the reported PD by the CRA for a rating category is **within or below** the range specified in Table 14 below, the rating category may be assigned the Base RW provided in Table 13. However, if the reported PD for a rating category is **above** the range in Table 14, a RW of one bucket higher than the Base RW must be applied.

Table 14: Reference PD Range for Rating Categories

External Rating by Domestic CRA	AAA	AA	A	BBB	BB	B and Below
PD range	PD ≤ 0.10	PD ≤ 0.10	0.10%< PD ≤ 0.20%	0.20%< PD ≤ 0.40%	0.40%< PD ≤ 1%	PD >1%

[40] paragraph 25.4 of these guidelines

28 Short Term Ratings

28.1 For risk-weighting purposes, short-term ratings are deemed to be issue-specific. They can only be used to derive risk weights for exposures arising from the rated facility. They cannot be generalised to other short-term exposures, except under the conditions prescribed in paragraph 28.5. In no event can a short-term rating be used to support a risk weight for an unrated long-term claim. Short-term assessments may only be used for short-term claims against banks and corporates.

28.2 Notwithstanding the above restriction on using an issue specific short term rating for other short term exposures, the following broad principles shall apply:

28.2.1 If a short-term rated facility to counterparty attracts a 20 per cent or a 50 per cent risk-weight, unrated short-term claims to the same counter-party cannot attract a risk weight lower than 30 per cent or 100 per cent respectively.

28.2.2 Similarly, if an issuer has a short-term exposure with an external short term rating that warrants a risk weight of 150 per cent, all unrated claims on the same counter-party, whether long-term or short-term, should also receive a 150 per cent risk weight, unless the bank uses recognised credit risk mitigation techniques for such claims.

28.3 In respect of the issue specific short term ratings the following risk weight mapping shall be adopted by banks:

Table 15: Risk Weight Mapping of Specific Short Term Ratings of Domestic Rating Agencies

CARE	CRISIL	India Ratings and Research Private Limited (India Ratings)	ICRA	Brickwork[41]	Acuité Ratings & Research Ltd. Ratings Ltd.	Infomerics	Standardised approach risk weights (in per cent)
CARE A1+	CRISIL A1+	IND A1+	ICRA A1+	Brickwork A1+	Acuité A1+	IVR A1+	20
CARE A1	CRISIL A1	IND A1	ICRA A1	Brickwork A1	Acuité A1	IVR A1	20
CARE A2	CRISIL A2	IND A2	ICRA A2	Brickwork A2	Acuité A2	IVR A2	50
CARE A3	CRISIL A3	IND A3	ICRA A3	Brickwork A3	Acuité A3	IVR A3	100
CARE A4 & D	CRISIL A4 & D	IND A4 & D	ICRA A4 & D	Brickwork A4 & D	Acuité A4 & D	IVR A4 and D	150
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	Unrated	100 $

[41] Please refer to circular Please refer to circular 'Basel III Capital Regulations - Eligible Credit Rating Agencies (ECAI)' dated July 10, 2024.

$ the risk weight is 150 per cent in the following two cases:

- if the aggregate exposure from banking system is more than INR 200 crore
- if the aggregate exposure from banking system is more than INR 100 crore for exposures which were rated earlier and subsequently have become unrated[42]

If an issuer has a short-term facility with an external rating that warrants a risk weight of 150 per cent, all unrated exposures, whether long-term or short-term, should also receive a 150 per cent risk weight, unless the bank uses recognised credit risk mitigation techniques for such exposures.

28.4 Where "+" or "-" notation is attached to the rating, the corresponding main rating category risk weight should be used for A2 and below, unless specified otherwise. For example, A2+ or A2- shall be considered to be in the A2 rating category and assigned 50 per cent risk weight

28.5 In cases where short-term ratings are available, the following interaction with the general preferential treatment for short-term exposures to banks as described in paragraph 11.1.3 shall apply:

i) The general preferential treatment for short-term exposures applies to all exposures to banks of up to three months original maturity when there is no specific short-term claim assessment.
ii) When there is a short-term rating and such a rating maps into a risk weight that is more favourable (ie lower) or identical to that derived from the general preferential treatment, the short-term rating should be used for the specific exposure only. Other short-term exposures shall benefit from the general preferential treatment.
iii) When a specific short-term rating for a short term exposure to a bank maps into a less favourable (higher) risk weight, the general short-term preferential treatment for interbank exposures cannot be used. All unrated short-term exposures should receive the same risk weighting as that implied by the specific short-term rating.

28.6 The above risk weight mapping of both long term and short term ratings of the chosen domestic rating agencies shall be reviewed annually by the Reserve Bank.

29 Use of Unsolicited Ratings

A rating would be treated as solicited only if the issuer of the instrument has requested the credit rating agency for the rating and has accepted the rating assigned by the agency. As a general rule, banks should use only solicited rating from the chosen credit rating agencies. No ratings issued by the credit rating agencies on an unsolicited

[42] paragraph 25.4 of these guidelines

basis should be considered for risk weight calculation as per the Standardised Approach.

30 Use of Multiple Rating Assessments

Banks shall be guided by the following in respect of exposures / obligors having multiple ratings from the credit rating agencies chosen by the bank for the purpose of risk weight calculation:

i) If there is only one rating by a chosen credit rating agency for a particular claim, that rating would be used to determine the risk weight of the claim.
ii) If there are two ratings accorded by chosen credit rating agencies that map into different risk weights, the higher risk weight should be applied.
iii) If there are three or more ratings accorded by 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.

31 Applicability of 'Issue Rating' to issuer/ other claims

31.1 Where a bank invests in a particular issue that has an issue specific rating by a chosen credit rating agency the risk weight of the exposure shall be based on this assessment. Where the bank's exposure is not an investment in a specific rated issue, the following general principles shall apply subject to instructions contained in circular 'Review of Prudential Norms – Risk Weights for Exposures to Corporates and NBFCs' dated October 10, 2022:

i) In circumstances where the borrower has a specific rating for an issued debt - but the bank's exposure is not an investment in this particular debt - the rating applicable to the specific debt (where the rating maps into a risk weight lower than that which applies to an unrated claim) may be applied to the bank's unassessed claim only if this claim ranks pari passu or senior to the specific rated claim in all respects and the maturity of the unassessed claim is not later than the maturity of the rated claim[43], except where the rated claim is a short term obligation as specified in paragraph 28.2. If not, the rating applicable to the specific debt cannot be used and the unassessed claim shall receive the risk weight for unrated claims.

ii) In circumstances where the borrower has an issuer rating, this rating typically applies to senior unsecured claims on that issuer. Consequently, only senior

[43] In a case where a short term claim on a counterparty is rated as A1+ and a long term claim on the same counterparty is rated as AAA, then a bank may assign a 30 per cent risk weight to an unrated short term claim and 20 per cent risk weight to an unrated long term claim on that counterparty where the seniority of the claim ranks pari-passu with the rated claims and the maturity of the unrated claim is not later than the rated claim. In a similar case where a short term claim is rated A1+ and a long term claim is rated A, the bank may assign 50 per cent risk weight to an unrated short term or long term claim

claims on that issuer shall benefit from a high-quality issuer rating. Other unassessed claims of a highly assessed issuer shall 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 shall be assigned the same risk weight as is applicable to the low quality assessment.

iii) In circumstances where the issuer has a specific high-quality rating (one which maps into a lower risk weight) that only applies to a limited class of liabilities (such as a deposit assessment or a counterparty risk assessment), this may only be used in respect of exposures that fall within that class.

iv) Where 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.

v) With a view to avoiding any 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.

31.2 If the conditions indicated in paragraph 31.1 above are not satisfied, the rating applicable to the specific debt cannot be used. This also applies to the claims on NABARD/SIDBI/NHB/MUDRA on account of deposits placed in lieu of shortfall in achievement of priority sector lending targets/sub-targets. All such claims shall be risk weighted as applicable for unrated claims.

31.3 Where unrated exposures are risk weighted based on the rating of an equivalent exposure to that borrower, the general rule is that foreign currency ratings shall be used only for exposures in foreign currency. Domestic currency ratings, if separate, shall only be used to risk weight exposures denominated in the domestic currency[44].

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[44] However, when an exposure arises through a bank's participation in a loan that has been extended, or has been guaranteed against convertibility and transfer risk, by certain MDBs, its convertibility and transfer risk is considered to be effectively mitigated. To qualify, MDBs must have preferred creditor status recognised in the market and be included in paragraph 10.1. In such cases, for risk-weighting purposes, the borrower's domestic currency rating may be used instead of its foreign currency rating. In the case of a guarantee against convertibility and transfer risk, the local currency rating can be used only for the portion that has been guaranteed. The portion of the loan not benefiting from such a guarantee shall be risk-weighted based on the foreign currency rating

CHAPTER V - CREDIT RISK MITIGATION

32 General Principles

32.1 Banks use a number of techniques to mitigate the credit risks to which they are exposed. For example, exposures may be collateralised in whole or in part by cash or securities, deposits from the same counterparty, guarantee of a third party, etc. For credit risk mitigants to be recognised for regulatory capital purposes these techniques should meet the requirements for legal certainty as described in paragraph 33 below. Credit risk mitigation approach as detailed in this section is applicable to the banking book exposures.

32.2 The general principles applicable to use of credit risk mitigation techniques are as under:

i) No transaction in which Credit Risk Mitigation (CRM) techniques are used should receive a higher capital requirement than an otherwise identical transaction where such techniques are not used.

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

iii) Principal-only ratings shall not be allowed within the CRM framework.

iv) While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy; consideration of the underlying credit; valuation; policies and procedures; systems; control of roll-off risks; and management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile. Where these risks are not adequately controlled, Reserve Bank may impose additional capital charges or take other supervisory actions.

v) The disclosure requirements prescribed in Table DF-5 of Annex 17 of 'Master Circular – Basel III Capital Regulations' dated April 01, 2025, as amended from time to time, shall be adhered to.

vi) In order for CRM techniques to provide protection, the credit quality of the counterparty must not have a material positive correlation with the employed CRM technique or with the resulting residual risks mentioned above.

vii) In the case where a bank has multiple CRM techniques covering a single exposure (eg a bank has both collateral and a guarantee partially covering an exposure), the bank must subdivide the exposure into portions covered by each type of CRM technique (eg portion covered by collateral, portion covered by guarantee) and the risk-weighted assets of each portion must be calculated separately. When credit protection provided by a single protection provider has differing maturities, they must be subdivided into separate protection as well.

33 Legal Certainty

In order for banks to obtain capital relief for any use of CRM techniques, the following minimum standards for legal documentation must be met. All documentation used in collateralised transactions, on-balance sheet netting agreements 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.

34 Maturity Mismatch

34.1 For the purpose of calculating risk-weighted assets, a maturity mismatch occurs when the residual maturity of collateral is less than that of the underlying exposure. Where there is a maturity mismatch and the CRM has an original maturity of less than one year, the CRM is not recognised for capital purposes. In other cases where there is a maturity mismatch, partial recognition is given to the CRM for regulatory capital purposes as detailed below in paragraphs 34.3, 34.4 and 34.5.

34.2 In case of loans collateralised by the bank's own deposits, even if the tenor of such deposits is less than three months or deposits have maturity mismatch vis-à-vis the tenor of the loan, the provisions of paragraph 34.1 regarding derecognition of collateral would not be attracted provided an explicit consent has been obtained from the depositor (i.e. borrower) for adjusting the maturity proceeds of such deposits against the outstanding loan or for renewal of such deposits till the full repayment of the underlying loan.

34.3 **Definition of Maturity**

The maturity of the underlying exposure and the maturity of the collateral should both be defined conservatively. The effective maturity of the underlying should be gauged as the longest possible remaining time before the counterparty is scheduled to fulfil its obligation, taking into account any applicable grace period. For the collateral, embedded options which may reduce the term of the collateral should be taken into account so that the shortest possible effective maturity is used. The maturity relevant here is the residual maturity.

34.4 **Risk Weights for Maturity Mismatches**

As outlined in paragraph 34.1, collateral with maturity mismatches are only recognised when their original maturities are greater than or equal to one year. As a result, the maturity of collateral for exposures with original maturities of less than one year must be matched to be recognised. In all cases, collateral with maturity mismatches will no longer be recognised when they have a residual maturity of three months or less.

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

$$\mathbf{Pa = P \times (t - 0.25) \div (T - 0.25)}$$

where:

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

35 Currency Mismatches

35.1 Where the credit protection is denominated in a currency different from that in which the exposure is denominated – i.e., there is a currency mismatch – the amount of the exposure deemed to be protected will be reduced by the application of a haircut H_{FX} using the following formula:

$$\mathbf{G_A = G \times (1 - H_{FX})}$$

Where;

G = nominal amount of the credit protection

H_{FX} = haircut appropriate for currency mismatch between the credit protection and underlying obligation.

35.2 Banks using the supervisory haircuts will apply a haircut for a 10-business day holding period (assuming daily marking to market) of eight per cent for currency mismatch. This haircut must be scaled up using the square root of time formula, depending on the frequency of revaluation of the credit protection as described in paragraph 36.8 (xii).

Overview of Credit Risk Mitigation Techniques

36 Collateralised Transactions

36.1 A Collateralised Transaction is one in which:

i) 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.

ii) banks have a specific lien on the collateral and the requirements of legal certainty are met.

36.2 Overall framework and minimum conditions

36.2.1 The framework allows banks to adopt either the simple approach, which substitutes the risk weighting of the collateral for the risk weighting of the counterparty for the collateralised portion of the exposure (generally subject to a 20 per cent floor), or the comprehensive approach, which allows precise offset of collateral against exposures, by effectively reducing the exposure amount by a volatility-adjusted value ascribed to the collateral. **Banks in India shall adopt the Comprehensive Approach**. Under this approach, banks, which 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 into account of the risk mitigating effect of the collateral. Credit risk mitigation is allowed only on an account- by-account basis, even within regulatory retail portfolio. However, before capital relief shall be granted the standards set out below must be met:

i) Banks that lend securities or post collateral must calculate capital requirements for both of the following: (i) the credit risk or market risk of the securities, if this remains with the bank; and (ii) the counterparty credit risk arising from the risk that the borrower of the securities may default.

ii) In addition to the general requirements for legal certainty, the legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it, in a timely manner, in the event of the default, insolvency or bankruptcy (or one or more otherwise-defined credit events set out in the transaction documentation) of the counterparty (and, where applicable, of the custodian holding the collateral). Furthermore banks must take all steps necessary to fulfil those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest, e.g. by registering it with a registrar, or for exercising a right to net or set off in relation to the title transfer of the collateral.

iii) Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.

iv) Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

v) Banks must ensure that sufficient resources are devoted to the orderly operation of margin agreements with OTC derivative and securities- financing counterparties banks, as measured by the timeliness and accuracy of its outgoing calls and response time to incoming calls. Banks must have collateral management policies in place to control, monitor and report the following to the Board or one of its Committees:

a) the risk to which margin agreements expose them (such as the volatility and liquidity of the securities exchanged as collateral),

b) the concentration risk to particular types of collateral,

c) the reuse of collateral (both cash and non-cash) including the potential liquidity shortfalls resulting from the reuse of collateral received from counterparties, and

d) the surrender of rights on collateral posted to counterparties.

36.3 A capital requirement shall be applied to a bank on either side of the collateralised transaction: for example, both repos and reverse repos shall be subject to capital requirements. Likewise, both sides of securities lending and borrowing transactions shall be subject to explicit capital charges, as shall the posting of securities in connection with a derivative exposure or other borrowing.

36.4 Where a bank, acting as an agent, arranges, a SFT (ie., repurchase/ reverse repurchase and securities lending/ borrowing transactions) between a customer and a third party and provides a guarantee to the customer that the third party shall perform on its obligations, then the risk to the bank is the same as if the bank hand entered into the transaction as a principal. In such circumstances, a bank must calculate capital requirements as if it were itself the principal.

36.5 **The Comprehensive Approach**

36.5.1 In the comprehensive approach, when taking collateral, banks will need to calculate their adjusted exposure to a counterparty for capital adequacy purposes in order to take account of the risk mitigating effects of that collateral. Banks are required to adjust both the amount of the exposure to the counterparty and the value of any collateral received in support of that counterparty to take account of possible future fluctuations in the value of either, occasioned by market movements. These adjustments are referred to as 'haircuts'. The application of haircuts will produce volatility adjusted amounts for both exposure and collateral. The volatility adjusted amount for the exposure will be higher than the exposure amount and the volatility adjusted amount for the collateral will be lower than the collateral amount, unless either side of the transaction is cash. In other words, the 'haircut' for the exposure will be a premium factor and the 'haircut' for the collateral will be a discount factor. It may be noted that the purpose underlying the application of haircut is to capture the market-related volatility inherent in the value of exposures as well as of the eligible financial collaterals. Since the value of credit exposures acquired by banks in the course of their banking operations, would not be subject to market volatility, (since the loan disbursal / investment would be a “cash” transaction) though the value of eligible financial collateral would be, the haircut stipulated in paragraph 36.8 would apply in respect of credit transactions only to the eligible collateral but not to the credit exposure of the bank. On the other hand, exposures of banks, arising out of repo-style transactions would require upward adjustment for volatility, as the value of security sold/lent/pledged in the repo transaction, would be subject to market volatility. Hence, such exposures shall attract haircut.

36.5.2 Additionally, where the exposure and collateral are held in different currencies an additional downwards adjustment must be made to the volatility adjusted collateral amount to take account of possible future fluctuations in exchange rates.

36.5.3 Where the volatility-adjusted exposure amount is greater than the volatility-adjusted collateral amount (including any further adjustment for foreign exchange risk), banks shall calculate their risk-weighted assets as the difference between the two multiplied by the risk weight of the counterparty. The framework for performing calculations of capital requirement is indicated in paragraph 36.7.

36.6 **Eligible Financial Collateral**

The following collateral instruments are eligible for recognition in the comprehensive approach:

i) Cash (as well as certificates of deposit or comparable instruments, including fixed deposit receipts issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure.

ii) Gold: Gold shall include both bullion and jewellery. However, the value of the collateralised jewellery should be arrived at after notionally converting these to 99.99 purity.

iii) Securities issued by Central and State Governments

iv) Kisan Vikas Patra and National Savings Certificates provided no lock-in period is operational and if they can be encashed within the holding period.

v) Life insurance policies with a declared surrender value of an insurance company which is regulated by an insurance sector regulator.

vi) Debt securities rated by a chosen Credit Rating Agency in respect of which banks should be sufficiently confident about the market liquidity[45] where these are either:

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[45] A debenture would meet the test of liquidity if it is traded on a recognised stock exchange(s) on at least 90 per cent of the trading days during the preceding 365 days. Further, liquidity can be evidenced in the trading during the previous one month in the recognised stock exchange if there are a minimum of 25 trades of marketable lots in securities of each issuer.

(a) Rated at least BB (-) when issued by foreign sovereigns

(b) Rated at least BBB (-) when issued by public sector entities and other entities (including banks and Primary Dealers); or

(c) Rated at least A3 for short-term debt instruments.

vii) Debt Securities not rated by a chosen Credit Rating Agency in respect of which banks should be sufficiently confident about the market liquidity where these are:

(a) issued by a bank; and

(b) listed on a recognised exchange; and

(c) classified as senior debt; and

(d) all rated issues of the same seniority by the issuing bank are rated at least BBB- or A3 by a chosen Credit Rating Agency; and

(e) the bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB- or A3 (as applicable) and;

(f) Banks should be sufficiently confident about the market liquidity of the security.

viii) Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the bank's operation mutual funds where:

(a) a price for the units is publicly quoted daily i.e., where the daily NAV is available in public domain; and

(b) Mutual fund is limited to investing in the instruments listed in this paragraph.

ix) Re-securitisations, irrespective of any credit ratings, are not eligible financial collateral.

x) For foreign bank branches, cash/unencumbered approved securities, the source of which is interest-free funds from Head Office or remittable surplus retained in Indian books, held with RBI under section 11(2)(b)(i) of the Banking Regulation Act,1949 may be reckoned as CRM, for offsetting the gross exposure of the foreign bank branches in India to the Head Office (including overseas branches), subject to the conditions prescribed in the circular on 'Large Exposures Framework – Credit Risk Mitigation (CRM) for offsetting – non-centrally cleared derivative transactions of foreign bank branches in India with their Head Office' dated September 09, 2021.[46]

[46] As mentioned in the referenced circular, the amount so held shall not be included in regulatory capital. (i.e., no double counting of the fund placed under Section 11(2) as both capital and CRM). Accordingly, while assessing the capital adequacy of a bank, the amount shall form part of regulatory adjustments made to Common Equity Tier 1 Capital.

36.7 **Calculation of capital requirement:**

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

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

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

36.7.2 In the case of maturity mismatches, the value of the collateral received (collateral amount) must be adjusted in accordance with section 34.

36.7.3 The exposure amount after risk mitigation (i.e., E*) will be multiplied by the risk weight of the counterparty to obtain the risk-weighted asset amount for the collateralised transaction. Illustrative examples calculating the effect of Credit Risk Mitigation is furnished in Annex 8 of the 'Master Circular – Basel III Capital Regulations' dated April 01, 2025, as amended from time to time.

36.8 **Haircuts**

i) In principle, banks have two ways of calculating the haircuts: (i) standard supervisory haircuts, using parameters set by the Basel Committee, and (ii) own-estimate haircuts, using banks' own internal estimates of market price volatility. Banks in India **shall use only the standard supervisory haircuts for both the exposure as well as the collateral**.

ii) The Standard Supervisory Haircuts (assuming daily mark-to-market, daily re-margining and a 10 business-day holding period)[47], expressed as percentages, shall be as furnished in Tables below.

iii) The ratings indicated in Table 16 represent the ratings assigned by the domestic rating agencies. In the case of exposures toward debt securities issued by foreign Central Governments and foreign corporates, the haircut may be based on ratings of the international rating agencies, as indicated in Table 17.

[47] Holding period shall be the time normally required by the bank to realise the value of the collateral

iv) Sovereign shall include Reserve Bank of India and DICGC which are eligible for zero per cent risk weight.

v) Guarantees issued by CGTMSE, CRGFTLIH and NCGTC (which are backed by an unconditional and irrevocable guarantee provided by Government of India which are eligible for zero percent risk to the extent of guarantee coverage) shall be included under Sovereign.

vi) Banks may apply a zero haircut for eligible collateral where it is a National Savings Certificate, Kisan Vikas Patras, surrender value of insurance policies and banks' own deposits.

vii) The standard supervisory haircut for currency risk where exposure and collateral are denominated in different currencies is eight per cent (also based on a 10-business day holding period and daily mark-to-market).

Table 16: 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 ≤ 3 years	2
			> 3 year and ≤ 5 years	
			> 5 year and ≤ 10 years	4
			> 10 years	
	Domestic debt securities other than those indicated at Item No. A(i) above including the securities guaranteed by Indian State Governments			
	II	AAA to AA-/A1	≤ 1 year	1
			> 1 year and ≤ 3 years	3
			> 3 year and ≤ 5 years	4
			> 5 year and ≤ 10 years	6
			> 10 years	12
	III	A+ to BBB-/ A2, A3 and P3	≤ 1 year	2
			> 1 year and ≤ 3 years	4

Sl. No.		Issue Rating for Debt securities	Residual Maturity (in years)	Haircut (in percentage)
		and unrated bank securities as specified in paragraph 36.6 vii) of the circular	> 3 year and ≤ 5 years	6
			> 5 year and ≤ 10 years	12
			> 10 years	20
	IV	Units of Mutual Funds		Highest haircut applicable to any of the above securities, in which the eligible mutual fund {cf. paragraph 36.6 viii)} can invest, unless the bank can apply the look-through approach (LTA) for equity investments in funds in which case the bank may use a weighted average of haircuts applicable to instruments held by the fund.
C	**Cash in the same currency**			0
D	**Gold**			**20**
	Securitisation Exposures[48]			
	V	AAA to AA	≤ 1 year	2
			> 1 year and ≤ 3 years	8
			> 3 year and ≤ 5 years	
			> 5 year and ≤ 10 years	16
			> 10 years	
	VI	A to BBB and	≤ 1 year	4
			> 1 year and ≤ 3	12

[48] Including those backed by securities issued by foreign sovereigns and foreign corporates

Sl. No.		Issue Rating for Debt securities	Residual Maturity (in years)	Haircut (in percentage)
		unrated bank securities as specified in paragraph 36.6 vii) of the circular	years	
			> 3 year and ≤ 5 years	
			> 5 years, <=10years	24
			>10 years	

Table 17: 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 ≤ 3 years	2	3
	> 3 year and ≤ 5 years		4
	> 5 year and ≤ 10 years	4	6
	> 10 years		12
A to BBB / A2 / A3 and Unrated Bank Securities	< = 1 year	1	2
	> 1 year and ≤ 3 years	3	4
	> 3 years, ≤5 years		6
	> 5 years, ≤10 years	6	12
	>10 years		20
BB+ to BB-	All	15	Not eligible

viii) For transactions in which banks' exposures are unrated or bank lends non-eligible instruments (i.e. non-investment grade corporate securities), the haircut to be applied on an exposure shall be 30 per cent. For transactions in which bank borrows non-eligible instruments, credit risk mitigation shall not be applied.

ix) Where the collateral is a basket of assets, the haircut on the basket shall be,

$$H = \sum_i a_i H_i$$

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

x) Adjustment for different holding periods:

For some transactions, depending on the nature and frequency of the revaluation and remargining provisions, different holding periods (other than 10 business-days) are appropriate. The framework for collateral haircuts distinguishes between repo-style transactions (i.e. repo/reverse repos and securities lending/borrowing), “other capital-market-driven transactions” (i.e. OTC derivatives transactions and margin lending) and secured lending. In capital-market-driven transactions and repo-style transactions, the documentation contains remargining clauses; in secured lending transactions, it generally does not. In view of different holding periods, in the case of these transactions, the minimum holding period shall be taken as indicated below:

Table 18: Minimum Holding Period

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

The haircut for the transactions with other than 10 business-days minimum holding period, as indicated above, shall have to be adjusted by scaling up/down the haircut for 10 business–days indicated in the Table 18 above, as per the formula given in paragraph 36.8 xii) below.

xi) Adjustment for non-daily mark-to-market or remargining:

In case a transaction has margining frequency different from daily margining assumed, the applicable haircut for the transaction shall also need to be adjusted by using the formula given in paragraph 36.8 xii) below.

xii) 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, as indicated in paragraph x) and xi) above shall be done as per the following formula:

$$H = H_{10} \sqrt{\frac{(N_R + (T_M - 1)}{10}}$$

Where;

H = haircut

H_{10} = 10-business-day standard supervisory haircut for instrument
N_R= actual number of business days between remargining for capital market transactions or revaluation for secured transactions.
T_M= minimum holding period for the type of transaction

37 Credit Risk Mitigation Techniques – On-Balance Sheet Netting

On-balance sheet netting is confined to loans/advances and deposits, where banks have legally enforceable netting arrangements, involving specific lien with proof of documentation. They may calculate capital requirements on the basis of net credit exposures subject to the following conditions:

Where a bank,

i) has a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterparty is insolvent or bankrupt;

ii) is able at any time to determine the loans/advances and deposits with the same counterparty that are subject to the netting agreement;

iii) monitors and controls the relevant exposures on a net basis; and

iv) monitors and controls its roll-off risks.

it may use the net exposure of loans/advances and deposits as the basis for its capital adequacy calculation in accordance with the formula in paragraph 36.7. Loans/advances are treated as exposure and deposits as collateral. The haircuts will be zero except when a currency mismatch exists. All the requirements contained in paragraph 36.7 and section 34 will also apply.

38 Credit Risk Mitigation Techniques – Guarantees

38.1 Where guarantees are direct, explicit, irrevocable and unconditional banks may take account of such credit protection in calculating capital requirements.

38.2 A range of guarantors are recognised and a substitution approach will be applied. Thus, only guarantees issued by entities with a lower risk weight than the counterparty will lead to reduced capital charges since the protected portion of the counterparty exposure is assigned the risk weight of the guarantor, whereas the uncovered portion retains the risk weight of the underlying counterparty.

38.3 Detailed operational requirements for guarantees eligible for being treated as a CRM are as under:

38.4 **Operational requirements for Guarantees**

38.4.1 If conditions set below are met, banks can substitute the risk weight of the counterparty with the risk weight of the guarantor.

38.4.2 A guarantee (counter-guarantee) must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible. The guarantee must be irrevocable; there must be no clause in the contract that would allow the protection provider to unilaterally cancel the cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the guaranteed exposure. The guarantee must also be unconditional; there should be no clause in the guarantee outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due.

38.4.3 In the case of maturity mismatches, the amount of credit protection that is provided must be adjusted in accordance with section 34.

38.4.4 All exposures will be risk weighted after taking into account risk mitigation available in the form of guarantees. When a guaranteed exposure is classified as non-performing, the guarantee will cease to be a credit risk mitigant and no adjustment would be permissible on account of credit risk mitigation in the form of guarantees. The entire outstanding, net of specific provision and net of realisable value of eligible collaterals / credit risk mitigants, will attract the appropriate risk weight.

38.4.5 **Additional operational requirements for guarantees**

In addition to the legal certainty requirements in paragraph 33 above, in order for a guarantee to be recognised, the following conditions must be satisfied:

i) On the qualifying default/non-payment of the counterparty, the bank is able in a timely manner to pursue the guarantor for any monies outstanding under the documentation governing the transaction. The guarantor shall make one lump sum payment of all monies under such documentation to the bank, or the guarantor shall assume the future payment obligations of the counterparty covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterparty for payment.

ii) The guarantee is an explicitly documented obligation assumed by the guarantor.

iii) Except as noted in the following sentence, the guarantee covers all types of payments the underlying obligor is expected to make under the documentation governing the transaction, for example notional amount, margin payments etc. Where a guarantee covers payment of principal only, interests and other uncovered payments should be treated as an unsecured amount in accordance with paragraph 38.7.

38.5 **Range of Eligible Guarantors (Counter-Guarantors)**

Credit protection given by the following entities will be recognised:

i) Sovereigns, sovereign entities (including BIS, IMF, European Central Bank and European Community as well as those MDBs referred to in section 10, ECGC and CGTMSE, CRGFTLIH, individual schemes under NCGTC which are backed by explicit Central Government Guarantee), banks and primary dealers with a lower risk weight than the counterparty.

ii) Other entities that are externally rated except when credit protection is provided to a securitisation exposure. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

iii) When credit protection is provided to a securitisation exposure, other entities that currently are externally rated BBB- or better and that were externally rated A- or better at the time the credit protection was provided. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

iv) In case of securitisation transactions, SPEs cannot be recognised as eligible guarantors.

38.6 **Risk Weights**

38.6.1 The protected portion is assigned the risk weight of the protection provider. Exposures covered by State Government guarantees shall attract a risk weight of 20 per cent. The uncovered portion of the exposure is assigned the risk weight of the underlying counterparty.

38.6.2 Materiality thresholds on payments below which the protection provider is exempt from payment in the event of loss are equivalent to retained first-loss positions. The portion of the exposure that is below a materiality threshold shall be subject to full capital deduction by the bank purchasing the credit protection.

38.6.3 As per paragraph 7.13 of 'Large Exposures Framework' dated June 03, 2019, any CRM instrument from which CRM benefits like shifting of exposure/ risk weights etc. are not derived may not be counted as an exposure on the CRM provider. In case of non-fund based credit facilities provided to a person resident outside India where CRM benefits are not derived and the exposure is shifted to the non-resident person, such exposures to the non-resident person shall attract a minimum risk weight of 150 per cent.

38.7 **Proportional Cover**

Where the amount guaranteed, or against which credit protection is held, is less than the amount of the exposure, and the secured and unsecured portions are of equal seniority, i.e. the bank and the guarantor share losses pari passu on a pro-rata basis capital relief will be afforded on a proportional basis: i.e. the protected portion of the exposure will receive the treatment applicable to eligible guarantees, with the remainder treated as unsecured.

38.8 **Tranched Cover**

Where the bank transfers a portion of the risk of an exposure in one or more tranches to a protection seller or sellers and retains some level of the risk of the loan, and the risk transferred and the risk retained are of different seniority, banks may obtain credit protection for either the senior tranches (eg the second-loss portion) or the junior tranche (eg the first-loss portion). In this case the rules as set out in the securitization standard apply.

38.9 **Sovereign Guarantees and Counter-Guarantees**

A claim may be covered by a guarantee that is indirectly counter-guaranteed by a sovereign. Such a claim shall be treated as covered by a sovereign guarantee provided that:

i) the sovereign counter-guarantee covers all credit risk elements of the claim;

ii) both the original guarantee and the counter-guarantee meet all operational requirements for guarantees, except that the counter-guarantee need not be direct and explicit to the original claim; and

iii) the cover should be robust and no historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct sovereign guarantee.

38.10 **ECGC Guaranteed Exposures:**

Under the Export Credit insurance[49] for banks on Whole Turnover Basis, the guarantee/insurance cover given by ECGC for export credit exposures of the banks ranges between 50 per cent and 75 per cent for pre-shipment credit and 50 per cent to 85 per cent in case of post-shipment credit. However, the ECGC's total liability on account of default by the exporters is capped by an amount specified as Maximum Liability (ML). In this context, it is clarified that risk weight (as given in paragraph 7.6 of these guidelines) applicable to the claims on ECGC should be capped to the ML amount specified in the whole turnover policy of the ECGC. The banks are required to

[49] DBOD Mailbox Clarification dated October 18, 2013.

proportionately distribute the ECGC maximum liability amount to all individual export credits that are covered by the ECGC Policy. For the covered portion of individual export credits, the banks shall apply the risk weight applicable to claims on ECGC. For the remaining portion of individual export credit, the banks shall apply the risk weight as per the rating of the counter-party. The Risk Weighted Assets computation can be mathematically represented as under:

Size of individual export credit exposure i	Ai
Size of individual covered export credit exposure i	Bi
Sum of individual covered export credit exposures	$\sum \mathrm{Bi}$
Where:	
i = 1 to n, if total number of exposures is n	
Maximum Liability Amount	*ML*
Risk Weight of counter party for exposure i	RWi
RWA for ECGC Guaranteed Export Credit:	

$$\sum \left[\left(\frac{\mathrm{Bi}}{\sum \mathrm{Bi}} * \mathrm{ML} * 20\% \right) + \left\{ \mathrm{Ai} - \left(\frac{\mathrm{Bi}}{\sum \mathrm{Bi}} * \mathrm{ML} \right) \right\} * \mathrm{RWi} \right]$$

Appendix 1

Determination of equity exposure

1. Equity exposures are defined on the basis of the economic substance of the instrument. They include both direct and indirect ownership interests[50], whether voting or non-voting, in the assets and income of a commercial enterprise or of a financial institution that is not consolidated or deducted. An instrument is considered to be an equity exposure if it meets all of the following requirements:

i) It is irredeemable in the sense that the return of invested funds can be achieved only by the sale of the investment or sale of the rights to the investment or by the liquidation of the issuer;

ii) It does not embody an obligation on the part of the issuer; and

iii) It conveys a residual claim on the assets or income of the issuer.

2. Additionally any of the following instruments must be categorised as an equity exposure:

i) An instrument with the same structure as those permitted as Tier 1 capital for banking organisations.

ii) An instrument that embodies an obligation on the part of the issuer and meets any of the following conditions:

   a) The issuer may defer indefinitely the settlement of the obligation;

   b) The obligation requires (or permits at the issuer's discretion) settlement by issuance of a fixed number of the issuer's equity shares;

   c) The obligation requires (or permits at the issuer's discretion) settlement by issuance of a variable number of the issuer's equity shares and (ceteris paribus) any change in the value of the obligation is attributable to, comparable to, and in the same direction as, the change in the value of a fixed number of the issuer's equity shares[51]; or,

   d) The holder has the option to require that the obligation be settled in equity shares, unless either (i) in the case of a traded instrument, the supervisor is content that the bank has demonstrated that the instrument trades more like the debt of the issuer than like its equity, or (ii) in the case of non-traded instruments, the supervisor is content that the bank has demonstrated that the instrument should be treated as a debt position.

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[50] Indirect equity interests include holdings of derivative instruments tied to equity interests, and holdings in corporations, partnerships, limited liability companies or other types of enterprises that issue ownership interests and are engaged principally in the business of investing in equity instruments.

[51] For certain obligations that require or permit settlement by issuance of a variable number of the issuer's equity shares, the change in the monetary value of the obligation is equal to the change in the fair value of a fixed number of equity shares multiplied by a specified factor. Those obligations meet the conditions of item 3 if both the factor and the referenced number of shares are fixed. For example, an issuer may be required to settle an obligation by issuing shares with a value equal to three times the appreciation in the fair value of 1,000 equity shares. That obligation is considered to be the same as an obligation that requires settlement by issuance of shares equal to the appreciation in the fair value of 3,000 equity shares.

In cases (i) and (ii), the bank may decompose the risks for regulatory purposes, with the consent of the supervisor.

3. Debt obligations and other securities, partnerships, derivatives or other vehicles structured with the intent of conveying the economic substance of equity ownership are considered an equity holding.[52] This includes liabilities from which the return is linked to that of equities.[53] Conversely, equity investments that are structured with the intent of conveying the economic substance of debt holdings or securitisation exposures shall not be considered an equity holding.[54]

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[52] Equities that are recorded as a loan but arise from a debt/equity swap made as part of the orderly realisation or restructuring of the debt are included in the definition of equity holdings. However, these instruments may not attract a lower capital charge than would apply if the holdings remained in the debt portfolio.

[53] Supervisors may decide not to require that such liabilities be included where they are directly hedged by an equity holding, such that the net position does not involve material risk.

[54] The national supervisor has the discretion to re-characterise debt holdings as equites for regulatory purposes and to otherwise ensure the proper treatment of holdings under Pillar 2.

Appendix 2

1. Calculation of risk-weighted assets using the LTA

Consider a fund that replicates an equity index. Moreover, assume the following:

- Bank uses the Standardised Approach for credit risk (SACCR or CEM as applicable) when calculating its capital requirements;
- Bank owns 20% of the shares of the fund;
- The fund holds short term (less than one year) forward contracts that are cleared through a qualifying central counterparty (with a notional amount of ₹100); and
- The fund presents the following balance sheet:

Assets
Cash ₹ 20
Government bonds (AAA rated) ₹ 30
Variation margin receivable – forward contracts ₹ 50

Liabilities
Notes payable ₹ 5

Equity
Shares ₹ 95

Balance sheet exposures of ₹100 shall be risk weighted according to the risk weights applied for cash (RW=0%), government bonds (RW=0%), and centrally-cleared equity forward positions (RW=2%). The underlying risk weight for equity exposures (RW=250%) is applied to the notional amount of the forward contracts and there is a charge for counterparty credit risk. There is no CVA charge assessed since the forward contracts are cleared through a central counterparty.

The leverage of the fund is 100/95≈1.05.

Therefore, the risk-weighted assets for the bank's equity investment in the fund are calculated as follows:

$$Avg\ RWfund * Leverage * Equity\ investment =$$

$$\frac{(RWA_{cash} + RWA_{bonds} + RWA_{underlying} + RWA_{forward} + RWA_{CCR})}{Total\ Assetsfund} * Leverage * Equity\ investment =$$

= ((₹20*0% + ₹30*0% + ₹100*250% + ₹50*2% + ₹100*6%*2%)/100) * 1.05 * (20%*95) = ₹50.10

2. Calculation of risk-weighted assets using the MBA

Consider a fund with assets of ₹100, where it is stated in the mandate that the fund replicates an equity index. In addition to being permitted to invest its assets in either cash or equities, the mandate allows the fund to take long positions in equity index futures up to a maximum nominal amount equivalent to the size of the fund's balance sheet (₹100). This means that the total on balance sheet and off balance sheet exposures of the fund can reach ₹200. Consider also that a maximum financial leverage of 1.1 applies according to the mandate. The bank holds 20% of the shares of the fund, which represents an investment of ₹18.18.

First, the on-balance sheet exposures of ₹100 shall be risk weighted according to the risk weights applied for equity exposures (RW=250%), ie $RWA_{on\text{-}balance}$ = ₹100 * 250% = ₹250.

Second, we assume that the fund has exhausted its limit on derivative positions, ie ₹100 notional amount, which would be weighted with the risk weight associated with the underlying of the derivative position, which in this example is 100% for publicly-traded equity holdings. The total risk-weighted assets related to the maximum notional amount underlying the derivative positions are hence $RWA_{underlying}$ = ₹100 * 250% = ₹250.

Third, we would calculate the counterparty credit risk associated with the derivative contract. If we do not know the replacement cost related to the futures contract, we would approximate it by the maximum notional amount, ie ₹100 and also calculate the add-on by applying a 15% conversion factor, resulting in an exposure amount of ₹115. Assuming the futures contract is cleared through a qualifying CCP, a risk weight of 2% applies, so that RWA_{CCR} = ₹115 * 2% = ₹2.3. There is no CVA charge assessed since the futures contract is cleared through a central counterparty.

The RWA of the fund is hence obtained by adding $RWA_{on\text{-}balance}$, $RWA_{underlying}$ and RWA_{CCR}, ie ₹502.3.

Leverage adjustment

The RWA (₹502.3) shall be divided by the total assets of the fund (₹100) resulting in an average risk weight of 502.3%. The average risk-weight is then scaled up by a factor of 1.1 to reflect financial leverage = 502.3%*1.1 = 552.53%. Finally, as the bank invested ₹18.18 in the equity of the fund, its total RWAs associated with its equity investment amount to ₹18.18 * 552.53% = ₹100.45

3. Calculation of the leverage adjustment

Consider a fund with assets of ₹100 that invests in corporate debt. Assume that the fund is highly levered with equity of ₹5 and debt of ₹95. Such a fund would have financial leverage of 100/5=20.

Consider the following two cases:
Case 1: Fund specialises in low-rated corporate debt
Assets

Cash	₹ 10
A+ to A- bonds	₹ 20
BBB+ to BBB- bonds	₹ 30
Below BBB- bonds	₹ 40

The average risk weight of the fund is (₹10*0% + ₹20*50% + ₹30*100% + ₹40*150%)/₹100 = 100%. The financial leverage of 20 would result in a risk weight of 2000% for the banks' investment in this highly levered fund, however, this is capped at a conservative risk weight of 1111% (equivalent to full capital deduction).

Case 2: Fund specialises in high-rated corporate debt
Assets

Cash	₹ 5
AAA to AAA- bonds	₹ 75
A+ to A- bonds	₹ 20

The average risk weight of the fund is (₹5*0% + ₹75*20% + ₹20*50%)/₹100 = 25%. The financial leverage of 20 results in a risk weight of 500%. The above example illustrates that the rate at which the 1111% cap is reached depends on the underlying riskiness of the portfolio (as judged by the average risk weight) as captured by Basel II Standardised Approach risk weights or the IRB methods. Therefore, for a "risky" portfolio (100% average risk weight), the 1111% limit is reached fairly quickly with a leverage of 11.1x, while for a "low risk" portfolio (25% average risk weight) this limit is reached at a leverage of 44.44x

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Reserve Bank of India (Scheduled Commercial Banks-Asset Classification, Provisioning and Income Recognition) Directions, 2025 – Draft for Comments

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Chapter I: Preliminary

Preamble

Banks in India are presently operating under the Income Recognition, Asset Classification and Provisioning (IRACP) norms prescribed by the Reserve Bank of India (RBI). These norms constitute the cornerstone of extant prudential regulation and govern income recognition, classification of loans and advances, and provisioning. In line with global developments and with a view to strengthen the resilience and transparency of the banking sector, the Reserve Bank has decided to revise the extant framework comprehensively. Accordingly, draft "Reserve Bank of India (Scheduled Commercial Banks - Asset Classification, Provisioning and Income Recognition) Directions, 2025" are being issued, which seek to:

a. introduce staging criteria for asset classification under Expected Credit Loss (ECL) approach, while retaining the extant norms for Non Performing Asset (NPA) classification;

b. replace the incurred-loss-based provisioning framework with an Expected Credit Loss approach; and,

c. update the principles of income recognition, including aspects relating to the Effective Interest Rate (EIR) method.

These Directions are expected to further strengthen credit risk management practices, promote greater comparability across financial institutions, and align regulatory norms with internationally accepted financial reporting norms. These Directions have been formulated taking into account the feedback received on the earlier Discussion Paper issued on ECL based provisioning and the recommendations of the External Working Group constituted for this purpose. These Directions subsume the relevant extant provisions and are now being placed in the public domain for wider consultation.

Short title and commencement

1. These Directions shall be known as the **Reserve Bank of India (Scheduled Commercial Banks- Asset Classification, Provisioning and Income Recognition) Directions, 2025.**

Applicability

2. These Directions shall be applicable to Scheduled Commercial Banks (except Regional Rural Banks, Small Finance Banks, and Payments Banks)

Effective Date

3. These Directions shall come into effect from April 1, 2027.

Definitions

4. For the purpose of these directions, the following definitions shall apply:

   i) “Amortised cost” of a financial instrument is the cost measured on a reporting date subsequent to the initial recognition, and is equal to the amount measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, adjusted for any loss allowance.

   ii) “Cash Credit” means a facility, under which a borrower is allowed an advance up to the credit limit against the security by way of hypothecation/ pledge of goods, book debts, standing crops, etc. The facility is a revolving account and 'Drawing Power (DP)' is periodically determined with reference to the value of the eligible current assets. The outstanding amount is repayable on demand.

   iii) “Credit-impaired financial asset” refers to a financial asset characterized by objective evidence of impairment, resulting from events that materially reduce the likelihood of recovering the asset’s contractual cash flows in full and/or on time. Such events may include, but are not limited to:

      a. **Non-Performing Status**: It shall mean a financial asset, which has ceased to generate income. The detailed criteria for classification of a financial asset as non-performing is provided in Chapter II of these Directions.

      b. **Out of order status**: A cash credit/ overdraft (CC/ OD) account classified as ‘out of order’ as defined in Para 4(xvii).

c. **Borrower's Financial Distress:** The issuer or borrower experiences substantial financial difficulties, leading to inability to service debt obligations.

d. **Lender Concessions:** The lender grants concessions - such as reduced interest rates, extended repayment terms, or debt restructuring - due to the borrower's financial hardship, which would not have been offered under normal circumstances.

e. **High Probability of Insolvency:** There is a significant likelihood that the borrower will enter bankruptcy, undergo financial reorganization, or face similar proceedings that could jeopardize repayment.

f. **Acquisition at Significant Discount:** The asset is purchased or originated at a deep discount, reflecting inherent credit losses due to the borrower's deteriorated credit quality.

iv) "Credit-adjusted effective interest rate" is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is purchased or originated credit-impaired financial asset (POCI).

v) "Default" means the financial asset that has been classified as a Non-Performing Asset as defined under Chapter II of these Directions.

vi) "Effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument to the gross carrying amount of a financial asset.

vii) "Expected credit loss" means the weighted average of credit losses under different scenarios with the respective probability of the various scenarios as the weights.

viii) "12-month ECL" means the portion of lifetime ECL that represent the expected credit losses that result from default events on a financial instrument that are possible within 12 months after the reporting date.

ix) "Fair Value through Profit and Loss (FVTPL)" means those financial assets classified as such in terms of the '*Master Direction - Classification, Valuation and*

Operation of Investment Portfolio of Commercial Banks (Directions), 2023', as amended from time to time.

x) "Financial asset" means any asset that is:

a. cash;
b. an equity instrument of another entity;
c. contractual right to receive cash, or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

xi) "Financial instrument" means any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

xii) "Gross carrying amount of a financial asset" is the amortised cost of a financial asset, before adjusting for any loss allowance.

xiii) "Lifetime ECL" is the ECL that result from all possible default events over the expected life of a financial instrument.

xiv) "Long duration" crops mean crops which are not short duration crops. The crop season for long duration crops i.e., anticipated period from sowing to marketing is more than twelve months and up to eighteen months.

xv) "Loss allowance" means an accounting provision for ECL on financial instruments, which come under the purview of these Directions.

xvi) "Micro Enterprises, Small Enterprises, and Medium Enterprises" shall be in terms of the Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector dated July 24, 2017, as amended from time to time.

xvii) "Out of order status" – a cash credit / overdraft (CC / OD) loan shall be treated as 'out of order' if any of the following conditions get satisfied:

a. the outstanding balance remains continuously in excess of the sanctioned limit/ drawing power for ninety days;

b. there are no credits continuously for ninety days;

c. credits are not enough to cover the interest debited during the previous ninety days period.

Explanation 1: 'Previous ninety days period' referred to in Sl. No. (iii) above shall be inclusive of the day for which the day-end process is being run.

Explanation 2: The definition of "out of order" shall be applicable to all loan products being offered as a cash credit/ overdraft facility, including those not meant for business purpose and/ or which entail interest repayments as the only credits.

xviii) **"**Overdraft**"** means a credit facility, under which a borrower is allowed to drawdown an agreed sum (credit limit) in excess of credit balance in their account. The overdraft facility may be secured (against fixed/ term deposits and other securities, like small saving instruments, surrender value of insurance policies, etc.) or clean (i.e., without any security). The overdraft facility might be granted on the borrower's current account, savings deposits account or temporary overdraft on credit accounts.

xix) "overdue status" means any amount due to a bank including principal or interest shall be treated as 'overdue' if it is not paid on the due date fixed by the bank.

xx) "Purchased or originated credit-impaired financial asset" (POCI) means financial assets that are credit-impaired on initial recognition.

xxi) "Review" of a financial asset shall refer to the process undertaken by the bank to evaluate the performance of the financial asset *vis-à-vis* the sanction terms to identify any SICR.

xxii) "Renewal" of a financial asset which is a revolving credit facility (cash credit, overdraft), shall refer to the process by which a bank undertakes a fresh assessment of the existing revolving credit facility whose sanctioned term has lapsed or is due to lapse, for continuation of the facility on the same or revised terms and conditions.

xxiii) "Reporting date" is the end of period on which a bank is required to prepare its books of accounts under statute or under a regulation.

xxiv) "Secured portion of a financial instrument" is the extent to which the financial instrument is covered by the realisable value of the tangible security to which the bank has a valid recourse, and the realisable value is estimated on a realistic basis.

xxv) "short duration crops" shall mean crops with anticipated duration from sowing to marketing up to twelve months.

xxvi) "Significant Increase in Credit Risk" (SICR) is a significant or material change in the estimated "Default" Risk over the remaining expected life of the financial instrument.

xxvii) "Term Loan" shall refer to a loan which has a specified maturity and is repayable in instalments or in bullet form.

xxviii) "Transaction cost" means the incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

xxix) The terms, "Date of Commencement of Commercial Operations (DCCO)", and "financial closure" shall have the same meaning given in the Reserve Bank of India (Project Finance) Directions dated June 19, 2025.

xxx) "Commercial Real Estate (CRE)" – shall have the meaning given in the circular DBOD.BP.BC.No.42/08.12.015/2009-10 dated September 9, 2009 on 'Guidelines on Classification of Exposures as Commercial Real Estate (CRE) Exposures', as updated from time to time.

xxxi) "Commercial Real Estate-Residential Housing (CRE-RH)" – shall have the meaning given in the circular DBOD.BP.BC.No.104/08.12.015/2012-13 dated June 21, 2013 on 'Housing Sector: New sub-sector CRE (Residential Housing) within CRE & Rationalisation of provisioning, risk-weight and LTV ratios', as updated from time to time.

Chapter II: Classification as Non-Performing Asset

5. A bank shall classify a financial asset as NPA if any of the following conditions are satisfied:

   a. If interest and/ or principal remains continuously overdue for a period of more than ninety days in respect of a term loan, bills purchased and discounted;

b. If it is classified as 'out of order' in respect of an Overdraft/ Cash Credit (OD/ CC);

c. If drawings are permitted for a continuous period of 90 days, in case of OD/ CC account where drawing power is sanctioned on the basis of stock statements/ receivable statements older than three months;

d. If it remains overdue for two crop seasons (rabi – rabi – rabi or kharif – kharif – kharif as the case may be) in the case of short duration crops and one crop season in the case of long duration crops;

e. If the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction;

f. If the overdue receivables representing positive mark-to-market value of a derivative contract remains unpaid for a period of ninety days from the specified due date for payment. In cases where the contract provides for settlement of the current mark-to-market value before maturity, only the current credit exposure (not the potential future exposure) shall be classified as a non-performing asset after an overdue period of ninety days;

g. A credit card account where the minimum amount due, as mentioned in the statement, is not paid fully within ninety days from the payment due date mentioned in the statement[1];

h. In cases where a bank has more than one exposure to a borrower, and any one of the exposures is classified as NPA in terms of extant prudential norms, then the bank shall consider all exposures to that borrower as NPA. In other words, NPA classification shall be applied at the level of the borrower;

i. The financial assets classified as NPA may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. In case of borrowers having more than one credit facility from a bank, loan

[1] A bank shall report a credit card account as 'past due' to credit information companies (CICs) or levy penal charges, viz. late payment charges, etc., if any, only when a credit card account remains 'past due' for more than three days. The number of 'days past due' and late payment charges shall, however, be computed from the payment due date mentioned in the credit card statement. Further, in cases of corporate credit cards issued under the joint liability structure, overdue reporting and asset classification actions shall be applicable only for the corporate.

accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities. For the purpose of this sub-para, the borrower and the co-borrower shall be treated as jointly and severally liable for repayment of the credit facility.

6. Special cases of asset classification

   a. The bills discounted under Letter of Credit (LC) favouring a borrower may not be classified as NPA, when any other credit facility granted to the borrower is classified as NPA. Notwithstanding the above clause, in case documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, the outstanding bills discounted will immediately be classified as NPA with effect from the date when the other facilities had been classified as NPA.

   b. Co-Lending Arrangements (CLA)

      Regulated Entities (REs) shall apply a borrower-level asset classification for their respective exposures to a borrower under CLA, implying that if either of the RE involved in the arrangement classifies its exposure to a borrower under CLA as SMA/ NPA on account of overdue in the CLA exposure, the same classification shall be applicable to the exposure of the other RE to the borrower under CLA. REs shall put in place a robust mechanism for sharing relevant information in this regard on a near-real time basis, and in any case latest by end of the next working day.

   c. Derivative Contracts

      (i) In case the overdues arising from forward contracts and plain vanilla swaps and options become NPAs, all other funded facilities granted to the client shall also be classified as NPA following the principle of borrower-wise classification.

      (ii) If the client concerned is also enjoying a CC/ OD facility from the bank, the receivables from the derivative contract may be debited to that account on the due date and the impact of its non-payment shall be reflected in the CC/ OD facility account. The principle of borrower-wise asset classification would be applicable here also, as per these Directions.

d. Advances under consortium arrangements

(i) Asset classification of financial assets accounts under consortium shall be based on the record of recovery of the individual member bank and other aspects having a bearing on the recoverability of the financial asset advances.

(ii) Where the remittances by the borrower under consortium lending arrangements are pooled with one RE and/ or where the RE receiving remittances is not parting with the share of other members, the financial asset account shall be treated as not serviced in the books of the other members and therefore, be treated as NPA.

(iii) The bank participating in the consortium shall, therefore, arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

e. Advances against Term Deposits

Financial assets secured by term deposits placed with the same bank, need not be treated as NPAs, provided margin[2] is available. However, this exemption from NPA classification is not available in cases where NPA classification is on account of application of para 5.h above.

f. Loans with moratorium for payment of interest

(i) In the case of financial assets where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Such amounts of interest do not become overdue and hence do not become NPA, with reference to

[2] Margin here refers to value of term deposits as a percentage of the loan outstanding (inclusive of accrued interest), which shall not fall below 100% at any point of time.

the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

(ii) In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/ advances shall be classified as NPA only when there is a non-repayment of instalment of principal or payment of interest on the respective due dates.

g. Agricultural advances

(i) Depending upon the duration of crops raised by an agriculturist, the crop season based asset classification norms shall also be made applicable to agricultural term loans availed of by them.

(ii) The crop season based asset classification norms shall be made applicable only to the following credit facilities extended for agricultural activities:

(a) Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided a bank maintains disaggregated data of such loans], directly engaged in Agriculture only. This shall include:

i. crop loans to farmers, which shall include traditional / non-traditional plantations, and horticulture;

ii. medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery and other developmental activities undertaken in the farm);

iii. loans to farmers for pre and post-harvest activities, *viz*., spraying, harvesting, grading and transporting of their own farm produce;

iv. loans to farmers up to ₹60 lakh against pledge/ hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding twelve months;

v. loans to distressed farmers indebted to non-institutional lenders;

vi. loans to farmers under the Kisan Credit Card Scheme; and,

vii. loans to small and marginal farmers (SMFs) for purchase of land for agricultural purposes.

(b) Loans to corporate farmers, farmers' producer organizations/ companies (FPOs)/ (FPCs) of individual farmers, partnership firms and co-operatives of farmers directly engaged in agriculture only up to an aggregate limit of ₹4 crore per borrower. This will include:

i. crop loans to farmers which shall include traditional/ non-traditional plantations and horticulture;

ii. medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements, technological solutions, machinery and developmental activities undertaken in the farm);

iii. loans to farmers for pre and post-harvest activities, viz., spraying, harvesting, sorting, and transporting of their own farm produce;

iv. loans up to ₹2.5 crore against pledge/ hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding twelve months.

(c) Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.

(iii) In respect of agricultural loans, other than those specified in Sl. No. (ii) above, identification of NPAs shall be done on the same basis as non-agricultural advances, which at present is the ninety days delinquency norm.

(iv) Where natural calamities impair the repaying capacity of agricultural borrowers for the purposes specified in Sl. No. (ii), a bank may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to Master Direction – Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 – SCBs dated October 17, 2018, as updated from time to time.

(v) In such cases of conversion or re-schedulement, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA.

(vi) The asset classification of these loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and/ or instalment of principal remains overdue for two crop seasons for short duration crops and for one crop season for long duration crops.

(vii) While fixing the repayment schedule in case of rural housing advances granted to agriculturists under Indira Awas Yojana/ Pradhan Mantri Gram Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, a bank shall ensure that the interest/ instalment payable on such advances are linked to crop cycles.

h. Government guaranteed advances

(i) The financial assets backed by guarantee of the Central Government, though overdue, shall be treated as NPA only when the Government repudiates its guarantee when invoked.

(ii) The exemption in Sl. No. (i) above is not for the purpose of recognition of income.

(iii) In case of restructuring of an exposure guaranteed by Central Government, the account shall be retained as standard, subject to Government reaffirming the guarantee and restructuring terms and conditions.

i. Export Project Finance

(i) In respect of export project finance, there could be instances where the actual importer has paid the dues to the commercial bank abroad but the commercial bank in turn is unable to remit the amount due to political developments such as war, strife, UN embargo, etc.

In such cases, where the lending bank is able to establish through documentary evidence that the importer has cleared the dues in full by depositing the amount in the commercial bank abroad before it turned into NPA in the books of the bank, but the importer's country is not allowing the funds to be remitted due to political or other reasons, the asset classification may be made after a period of one year from the date the amount was deposited by the importer in the commercial bank abroad.

7. A bank shall further classify non-performing assets into the following categories based on the period for which the asset has remained non-performing and the realizability of the dues.

(i) **Sub-standard asset**: An asset, which has remained NPA for a period less than or equal to twelve months. A Sub-standard asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and is characterised by the distinct possibility that the bank will sustain some loss, if deficiencies are not corrected.

(ii) **Doubtful asset***:* An asset, which has remained in the substandard category for a period of twelve months. A doubtful asset has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full – on the basis of currently known facts, conditions and values – highly questionable and improbable.

(iii) **Loss asset**: An asset, where loss has been identified by a bank or internal or external auditors or the inspection conducted by the Reserve Bank of India, but the amount has not been written off wholly by the bank. A loss asset is considered uncollectible and of such little value that its continuance as a financial asset is not warranted although there may be some salvage or recovery value.

Other Prudential Norms applicable to a bank

8. The asset classification norms under these Directions shall be without prejudice to the requirements as laid down under Transfer of Loan Exposures - Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021, as updated from time to time.

9. A bank shall ensure that while granting credit facilities, realistic repayment schedules are fixed on the basis of borrower's cash flows. This would go a long way in facilitating prompt repayment and improving the record of recovery.

10. In order to enhance transparency, lenders shall ensure that the loan contract provides for, *inter alia*, exact due dates for repayment of loan, breakup between principal and interest, schedule of other charges, illustration of SMA/ NPA classification and its impact on credit profile of the borrower, schema for appropriation of repayments[3] etc. The borrower shall be apprised of the same at the time of loan sanction and also at the time of any subsequent changes to the sanction terms/ loan agreement till full repayment of the loan.

11. A bank shall flag a borrower account as overdue, if so, as part of their day-end processes for the due date, irrespective of the time of running such processes.

12. Similarly, bank shall establish appropriate internal systems (including technology enabled processes) for proper, timely identification and classification of assets, on the basis of objective criteria of record of recovery. Classification of borrower accounts as NPA shall be done as part of day-end process for the relevant date and the NPA classification date shall be the calendar date for which the day-end process is run. Thus, the date of NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

[3] It shall be applied across all loan accounts in a uniform and consistent manner. In the case of non-performing assets, appropriation sequence shall also consider any legal requirement for accounts under insolvency/ recovery proceedings.

Illustration: If due date of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021.

If the account continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

13. A bank shall compute their Gross Advances, Net Advances, Gross NPAs and Net NPAs as per the format specified under ***Annex 4*** of these Directions.

Chapter III: Expected Credit Loss (ECL) – based Provisioning

The Methodological Framework for calculating ECL

14. The following financial instruments shall be under the scope of this Chapter:

  i) Loans;

  ii) Debt securities not measured at Fair Value Through Profit or Loss (FVTPL);

  iii) Trade receivables;

  iv) Lease receivables;

  v) Loan commitments/ undrawn commitments;

  vi) Off-balance-sheet credit exposures; and,

  vii) Any other financial assets having contractual right to receive cash.

15. Determining ECL requires a bank to make an assessment, at each reporting date, if the credit risk on a financial instrument has increased significantly since initial recognition. If so, the bank is required to make a loss allowance, estimated based on lifetime expected credit losses.

16. While there may be various approaches to the calculation of ECL, a bank shall use a general approach consisting of three key functions i.e. Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), conforming to the instructions and principles outlined in these Directions. Chapter-V of these Directions contain certain broad principles to be followed by a bank for ensuring prudence and robustness while using models in the process of ECL computation.

Initial Recognition

17. A bank shall initially measure and recognise financial assets such as loans in their books at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, such assets shall be measured at amortised cost.

18. Initial recognition of investments such as debt securities, which come under the purview of these Directions shall be as per the *MD on Classification, Valuation and Operation of Investments Portfolio of Commercial Banks, 2023* as amended from time to time.

19. For loan commitments and guarantees, the date that the bank becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the requirements of impairment under ECL.

20. POCI may be considered in Stage-1 at the time of initial recognition.

Determination of Significant Increase in Credit Risk (SICR)

21. A bank shall recognise lifetime ECL for all financial instruments evidencing SICR since initial recognition. For this purpose, a bank shall adopt a “three-stage” approach, based on the credit quality of the financial instrument at the time of initial recognition, or on any subsequent reporting date:

    i) **Stage 1:** A financial instrument is said to be under Stage 1, when it has not had a SICR since initial recognition or has low credit risk as determined in terms of Para 29 of these Directions. For these instruments, 12-month ECL shall be recognized.

    ii) **Stage 2:** A financial instrument is said to be under Stage 2, when it has had a SICR since initial recognition but is not considered to be ‘credit impaired’. For such financial instruments, lifetime ECL shall be recognised.

    iii) **Stage 3:** A financial instrument is said to be under Stage 3, when it is considered to be ‘credit impaired’ at the reporting date. For such instruments, lifetime ECL shall be recognised.

22. At each reporting date, bank shall assess whether the credit risk on the financial instrument has increased significantly since initial recognition. When making the assessment, bank shall use the change in the probability of “default” occurring over

the expected life of the financial instrument, instead of the change in the amount of ECL. To make that assessment, a bank shall compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Provided that, in case of financial instruments having a high likelihood of default within 12 months, and where default is not envisaged at a specific point beyond 12 months, a 12-month period can be taken as a good approximation for assessment of life time probability of default.

23. When information that is more forward looking than overdue status (either on an individual or a collective basis) is not available without undue cost or effort, bank may use overdue information to determine whether there have been significant increases in credit risk since initial recognition.

24. The criteria adopted for determining SICR in all cases must be duly documented. ***Annex 1*** *of these Directions contains an illustrative list of information that may be relevant in assessing changes in credit risk.*

25. The parameters that may be used by bank to determine SICR shall be used consistently. Some of the indicators of consistency may be as under:

    i) If the bank uses "downgrade of a borrower by a recognised credit rating agency/ bank's internal credit rating system" as a parameter for determining SICR for certain instrument/ portfolio, the internal policy of the bank shall clearly define the number of notches an instrument/ portfolio shall move down to be considered for having SICR. This shall be used consistently for each instrument/portfolio.

    ii) If the bank uses "increase in pricing of a loan" as a parameter for determining SICR for certain instrument/ portfolio, the quantum of increase in pricing that will result in SICR shall be part of the internal policy. This must be used consistently for each instrument/portfolio.

    iii) If the bank uses "deterioration of the macroeconomic outlook relevant to a particular instrument/ portfolio" as a parameter for determining SICR for certain instrument/ portfolio, the macroeconomic parameters and the quantum of deterioration shall be part of the internal policy.

26. A bank may, at its discretion, adopt an approach to recognise SICR and compute ECL for specific segments on a collective basis, subject to the underlying individual instruments satisfying certain shared credit risk characteristics. Examples of shared credit risk characteristics may include, but are not limited to:

    i) instrument type;

    ii) credit risk ratings;

    iii) collateral type;

    iv) remaining term to maturity;

    v) industry;

    vi) geographical location of the borrower; and,

    vii) the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring etc.

27. Further, even where a bank has identified such segments, recognition of SICR and lifetime ECL can be undertaken on a portion of the segment, i.e. it is not necessary that the entire segment is subject to lifetime ECL, when it is demonstrably evident that only a part of the segment has seen SICR.

28. Regardless of the way in which a bank assesses SICR, there shall be a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than “30 days past due” and the bank shall make lifetime ECL in respect of such facility. A bank may rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since initial recognition, even though the contractual payments are more than 30 days past due.

29. A bank may not be required to test these instruments for SICR:

    i) SLR eligible investments;

ii) direct claims on central government (i.e., excluding claims that arise from exposures that are guaranteed by the central government); and,

iii) exposures to the extent guaranteed by the central government[4], provided that the guarantee contains suitable clauses mandating invocation within a specified period (say, 60 days) from the due date and payment of the guarantee amount within a reasonable period (say, 30 days) after the invocation.

30. A bank is not required to maintain Stage 1 ECL for the exposures mentioned in para 29 above.

Measurement of Credit losses – Treatment of different Financial Instruments

31. "Credit loss" for different types of financial instruments can be calculated as below:

i) For loans and similar financial assets, a credit loss is the difference between the present values of:

a. the contractual cash flows that are due to the bank under the contract; and,

b. the cash flows that the bank expects to receive.

ii) For undrawn loan commitments, a credit loss is the difference between the present values of:

a. the contractual cash flows that are due to the bank if the borrower draws down the loan; and

b. the cash flows that the bank expects to receive if the loan is drawn down.

iii) For a guarantee, cashflow shortfalls are the expected payments to reimburse the beneficiary of the guarantee for a credit loss that the issuing bank incurs, less any amount that the bank expects to receive from the beneficiary, the debtor or any other party.

[4] Including Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC), subject to compliance to conditions stipulated in circular DOR.STR.REC.67/21.06.201/2022-23 dated September 07, 2022

iv) For lease receivables and trade receivables, loss allowances shall always be measured at an amount equal to lifetime ECL irrespective of the stage of the instrument. A bank may use “Simplified Approach” for the same. The details of the Simplified approach are contained in ***Annex 2*** of these Directions.

32. A bank’s estimate of ECL on loan commitments shall be consistent with its expectations of drawdowns on that loan commitment, i.e. it shall consider the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month ECL, and the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment when estimating lifetime ECL.

33. It may be noted that since ECL considers the amount and timing of payments, a credit loss arises even if the bank expects to be paid in full but later than when contractually due.

Determination of Lifetime ECL

34. The periods which are considered as the lifetime for estimating the ECL may vary for different types of financial instruments. In order to maintain consistency in the definition of lifetime, a bank shall be guided by the following for assessment of lifetime for different financial instruments:

i) **Financial instruments without undrawn component:** The maximum period to consider when measuring the lifetime ECL is the maximum contractual period (including extension options) over which the bank is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

ii) **Loan commitments with undrawn components/ revolving facilities:**

a. **Financial instruments having both loan and an undrawn commitment:** In cases of such financial instruments, a bank’s contractual ability to demand repayment and cancel the undrawn commitment does not limit its exposure to credit losses to the contractual notice period. For such financial instruments the bank shall measure ECL over the period that the bank is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

b. **Revolving loan commitments without auto renewal** (working capital demand loans, cash credit, overdraft facilities etc): The maximum period to consider when measuring ECL is the maximum contractual period (including extension options) over which the bank is exposed to credit risk. The contractual maturity may be considered as the point of renewal for working capital facilities if the bank can evidence that the review mechanism at renewal is significant and there are instances of significant changes to terms and conditions such as change in limits, change in security, revised pricing, rating review etc. at the time of renewal, depending on the changes in financial and other conditions of the account, as applicable. This assessment may be undertaken at individual/ portfolio level to verify if sufficient instances of such changes have been observed thus demonstrating the strength of the credit review or renewal process.

c. **Revolving facilities with auto renewal as per contract** (Example: credit cards): In the case of such instruments such as credit card, behavioural data on default for cohorts sourced at different time points may need to be analysed by the bank.

iii) **Guarantee**: The period over which ECL shall be measured is the maximum contractual period over which the bank has a present contractual obligation to pay or perform as per the terms of the contract.

Probability-weighted outcome

35. The purpose of estimating ECL is neither to estimate a worst-case scenario nor to estimate the best-case scenario. The estimate of ECL shall reflect an unbiased and probability-weighted amount of loss allowance by evaluating a range of possible outcomes.

36. For the above purpose, a bank shall use multiple scenarios with each scenario representing relationship between key components of ECL and the relevant macroeconomic variable.

37. The weightage of each estimate of "credit losses" shall be determined by the bank after extensive deliberation by its Top Management on the basis of inputs provided by data analysis and domain experts.

Effective Interest Rate

38. ECL for a financial instrument shall be computed using the EIR determined at initial recognition.

39. The determination of EIR on a financial instrument shall include all payments made or received under the loan agreement between parties to the contract, and shall include all fees, commissions etc besides the loan disbursals, interest payments and loan repayments.

40. ECL on guarantee contracts or on loan commitments for which the EIR cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Collateral

41. For computation of ECL, the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from sale of the collateral less the costs of obtaining and selling the collateral. In respect of Stage 3 financial instruments, for exposures beyond ₹5 crore, the collateral charged in favour of the bank shall be valued compulsorily once upon classification and thereafter every two years or lesser by the valuers appointed as per the bank's internal policy. In case of stock, such valuation shall be on an annual or a lesser frequency. Frequency of valuation of other exposures may be determined as per the internal policy of the bank in this regard

Building Blocks for Computing ECL

Governance Framework

42. The credit policy of a bank shall cover all aspects relating to the ECL lifecycle. A bank's board of directors shall be responsible for implementation and functioning of the ECL Framework on an ongoing basis.

43. A subcommittee of the board/ board approved committee consisting of Chief Financial Officer (CFO) and Chief Risk officer (CRO), specifically formed for ECL purposes, shall monitor the effectiveness of bank's internal control and ensure robust implementation of approach towards ECL. The focus area of the subcommittee shall inter alia include:

    i) reviewing and challenging ECL implementation strategy by the management team.

    ii) Checking whether the ECL computation methodologies and assumptions used are consistent and aligns with the risk management practices.

    iii) Ensuring data integrity throughout the entire lifecycle of ECL computation.

    iv) Ensuring effective and robust governance and controls framework over ECL estimation.

    v) Ensuring complete independence of internal model validation function and suitability of the coverage.

    vi) Establishing key performance indicators (KPIs) relating to ECL estimation and processes for regular reporting of those KPIs.

    vii) Ensuring high-quality disclosures before, during and after transition.

    viii) Ensuring compliance with applicable regulations, internal policies and procedures.

Credit Risk Drivers

44. A bank shall have a sound credit risk assessment and measurement process. The same systems, tools and data, which are used by the bank to assess credit risk of their financial instruments, shall be used to provide inputs for computation of ECL

i.e., there shall be commonality in the processes, systems, tools and data used for assessment of credit risk and measurement of ECL.

45. A bank shall have an effective credit risk rating system where each "credit risk grade" is clearly defined and consistently applied, and which accurately grades differing credit risk characteristics, identifies changes in credit risk on a timely basis, and prompts appropriate action.

46. An effective "credit risk rating system" shall comprehensively capture the varying level, nature and drivers of credit risk that may manifest themselves over time in a financial instrument, in order to reasonably ensure that all lending exposures are properly monitored and that ECL allowances are appropriately measured.

Data Aggregation and Management

47. The credit risk data collected by the bank shall be granular enough to provide deeper insights into the borrowers' credit profile so that borrowers of similar risk characteristics are segmented together.

48. A bank shall develop comprehensive processes for identification, assessment and management of data quality risks associated with data that are fed into models or used at various stages of ECL computation. The processes shall be applicable to both internal as well as external data. It shall also ensure effective management of historical data.

49. During the process of "data aggregation" (internal of external), a bank shall avoid material inconsistency or cherry-picking of data as it will result in inaccurate/ biased ECL outcome. A bank may exclude certain information during "data aggregation" only if it has no material impact on the ECL computation.

50. A bank shall maintain sufficient historical loss data which shall be adequate enough to mitigate the vagaries of the business cycles and associated outliers (at least over a period of five years) to provide a meaningful analysis of its credit loss experience for use as a starting point when estimating the level of allowances on a collective or individual basis.

Segmentation of Exposures

51. While computing ECL at a portfolio level, a bank shall group exposures into segments with shared credit risk characteristics so that the bank can reasonably assess changes in credit risk and thus the impact on the estimate of ECL. A bank's methodology for segmenting exposures to assess credit risk shall be documented and subject to appropriate review and internal approval.

52. The basis of grouping into a segment shall be reviewed to ensure that exposures within the group remain homogeneous in terms of their response to credit risk drivers.

53. Segments implemented upon initial recognition based on similar credit risk characteristics need not necessarily remain appropriate subsequently, given that the relevant characteristics and their impact on the level of credit risk for the group may change over time. In such cases, the grouping of exposures into various segments shall be re-evaluated and exposures shall be re-segmented if relevant new information is received, or a bank's changed expectations of credit risk suggest that a permanent adjustment is warranted.

54. Exposures shall not be grouped in such a way that an increase in the credit risk of particular exposure is masked by the performance of the group as a whole.

Forward looking information

55. A bank shall include factors that are specific to the borrower, general economic conditions and an assessment of both the current as well as the forecast of macroeconomic variables at each reporting date for assessment of ECL. While estimating ECL for longer time horizons involving greater degree of judgment[5] than an objective assessment, a bank may rely on internal projections based on the available information.

56. Historical information is an important anchor or base to measure ECL. However, a bank shall adjust historical data, such as Observed Default Rate (ODR), on the basis of current observable data to reflect the effects of the current conditions and

[5] The degree of judgement that is required to estimate ECL depends on the availability of detailed information. As the forecast horizon increases, the availability of detailed information may decrease, and the degree of judgement required to estimate ECL may potentially increase

its forecasts of future conditions that did not affect the period on which the historical data is based. A bank shall regularly review the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience.

57. In certain cases, where there is no historical data availability of ODR, a bank may use suitable benchmarks which shall be periodically validated.

58. Links between macroeconomic variables and credit risk drivers must be clearly established. When statistical linkages are weak, experienced credit judgment shall guide ECL estimates, with the rationale thoroughly documented and rigorously reviewed at appropriate governance levels. Judgment shall account for the bank's position in the credit cycle to ensure context-specific estimates.

59. A bank shall develop a disciplined and high-quality approach towards assessment and measurement of ECL; and shall have in place adequate processes and systems to ensure utmost control to ensure that ECL computation outcome is unbiased.

Model Risk Management

60. ECL assessment and measurement may involve a number of models, with some models providing input to the next model during the ECL computation lifecycle. A bank shall implement a three-stage model risk management framework as part of internal control to ensure accountability:

- **Front-Line Operations**: Model owners shall oversee development, implementation, and usage, ensuring proper approval and validation, promptly addressing changes, and maintaining accountability for performance within bank's policies.
- **Risk Management and Compliance**: The risk management team shall identify ECL ecosystem risks through a risk control function, conducting independent validations, managing risk limits, developing action plans, and controlling model usage or restrictions.

- **Internal Audit**: Internal audit shall provide objective assurance on the effectiveness of the first two stages, reporting to the board and audit committee on ECL and model risk management.

Key principles of model risk management that shall be followed while implementing ECL framework within a bank are detailed in Chapter V.

Other Prudential Aspects of ECL framework

61. ECL allowances for Stage 2 and Stage 3 financial instruments shall be considered as specific provisions. A bank may consider Stage 1 ECL allowances as general provisions for inclusion in Tier 2 capital up to the extant prescribed limits.

Level of Application

62. In cases where a bank has more than one exposure to a borrower, and any one of the exposures moves to Stage 3, then the bank shall consider all exposures to that counterparty as a Stage 3 asset respectively. In other words, Stage 3 status shall be applied at the level of the borrower.

Upgradation of accounts

63. Upgradation of restructured accounts from Stage 3 to Stage 1 shall be as per applicable provisions under the extant Prudential Framework of Resolution for Stressed Assets dated June 07, 2019, as amended from time to time.

    Further, an instrument in Stage 3 can be brought to Stage 2 after all the irregularities, due to which it was classified under Stage 3, are rectified. A bank shall keep such Stage 3 instruments in Stage 2 for minimum six months after all the irregularities are rectified, before the same is brought to Stage 1. However, a restructured financial instrument which has satisfactorily completed its monitoring period may directly move to Stage 1.

Prudential Floors for ECL

64. The ECL estimates arrived at by the bank at Stage 1 and 2 shall be subject to the following product-wise prudential floors as a regulatory backstop:

Loan Product	Stage 1 Floor		Stage 2 Floor
Secured retail loans[6]	0.40%		5%
Corporate Loan	0.40%		5%
Loan to Small and Micro enterprises	0.25%		5%
Loan to Medium Enterprises	0.40%		5%
Home loans and Loan against Property	0.40%		1.50%
Project Finance	**Construction Phase**	**Operational Phase**	
CRE	1.25%	1.00%	Additional 0.375%/0.5625%[7]
CRE-RH	1.00%	0.75%	
Other Project Finance Exposures	1.00%	0.40%	
Unsecured Retail Loans	1%		5%
Loan against FD	0.40%		0.40%
Gold Loan	0.40%		1.50%
Credit equivalent exposures of off-balance sheet exposures	0.40%		5%
Farm Loans	0.25%		5%
Any other loan not covered above	0.40%		5%

65. The prudential floor for financial instruments that have moved into Stage 3 shall be as below:

i) For all corporate loans, loan to Small and Micro enterprises, loan to Medium Enterprises, loan to CRE, loan to CRE-RH, loans for project under implementation, farm loans and Credit equivalent exposures of off-balance sheet exposures and loan to Banks, NBFCs and other Regulated FIs and other secured loans:

[6] Retail loans having 100% coverage with primary security/collateral.

7 For accounts which have availed DCCO deferment and are classified as 'standard', lenders shall maintain additional specific provisions of 0.375% for infrastructure project loans and 0.5625% for non-infrastructure project loans (including CRE and CRE-RH), for each quarter of deferment, over and above the applicable Stage 1 provision in terms of Reserve Bank of India (Project Finance) Directions, 2025 dated June 19, 2025 as amended from time to time.

Duration in Stage 3	Stage 3 floor (in per cent)
0-1 year	25/40*
1-2 years	40/100*
2-3 years	55/100*
3-4 years	75/100*
After 4 years	100%
*Unsecured portion	

ii) For Unsecured Retail Loans

Duration in Stage 3	Stage 3 floor (in per cent)
0-1 year	25%
After 1 year	100%

iii) For Home Loans/ Loan against property, Gold loans, loan against FD, LIC policy, Kisan Vikas Patra etc.

Duration in Stage 3	Stage 3 floor (in per cent)
0-1 year	10/25*
1 – 2 years	20/100*
2 – 3 years	30/100*
3-4 years	40/100*
More than 4 years	100%
*Unsecured portion	

Explanation:

For determining the amount of unsecured advances, the rights, licenses, authorisations, etc., charged to the bank as collateral in respect of projects (including infrastructure projects), shall not be reckoned as tangible security. Hence such advances shall be reckoned as unsecured. However, in the case of infrastructure projects, the debt due to the bank may be considered as secured to the extent assured by the project authority in terms of the concession agreement, subject to the following conditions:

a) The borrower entity is restricted from acting to the detriment of the creditors i.e., the borrower is not permitted to issue additional debt without the consent of existing lenders.
b) The borrower entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project.
c) The revenues are availability-based or subject to a rate-of-return regulation or take-or-pay contract. For instance, banks may treat annuities under build-operate-transfer (BOT) model in respect of road/ highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities subject to the condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.
d) The borrower entity's revenue depends on one main counterparty and this main counterparty is a central government, PSE or a corporate entity with a risk weight of 80 per cent or lower;
e) The contractual provisions governing the exposure to the borrower entity provide for a high degree of protection, such as escrow of cash flows and legal first claim for the bank, in case of a default of the borrower entity.
f) The main counterparty or other counterparties which similarly comply with the eligibility criteria for the main counterparty will protect the bank from the losses resulting from a termination of the project;
g) All assets and contracts necessary to operate the project have been charged in favor of the bank to the extent permitted by applicable law; and
h) The bank may assume control of the borrower entity or substitute the borrower entity or trigger termination in case of default.

66. A bank shall apply the above floors at the loan product level. The same shall also act as floor for investments coming under the purview of ECL, depending on the type of the issuer of the investment product.

67. For loan commitment/ undrawn commitment, ECL floor will be same as floor for loans on exposures arrived at after application of Credit Conversion Factors (CCFs).

68. For off-balance-sheet credit exposures *viz.* financial guarantee and performance Guarantee, ECL floor will be same as those applicable for loans on exposure arrived at after application of CCFs as per the applicable Basel norms on capital adequacy for banks in India, as amended from time to time.

    *Currently applicable details of CCF are provided in **Annex 3** of these Directions.*

69. A bank may utilise existing stock of floating provisions/ countercyclical provisioning buffer, if any, towards provisioning for ECL.

Regulatory Probability of Default (PD)

70. The 12-month PD for any instrument that comes under the purview of ECL shall not be taken as less than 0.05%.

Regulatory Loss Given Default (LGD)

71. For ECL computation, a bank shall calculate their own LGD based on historical information and future macroeconomic projections. However, if the bank find itself unable to correctly estimate LGD, it may take resort to the below regulatory backstops.

	Secured Portion	Unsecured Portion
Regulatory LGD	65%	70%

72. For loans or portion of loan secured by eligible collateral which act as credit risk mitigants in terms of Master Circular – Basel III Capital Regulations, a bank may use LGD of 45% if the same is not estimated internally.

Exposure at Default (EAD)

73. A bank shall properly estimate EAD, for the purpose of computation of ECL, based on the behaviour of the financial instrument in the past and future macroeconomic projections.

Additional provisions in Specific cases

74. The provisioning requirements in respect of these specific transactions or exposures shall also be additionally subjected to other relevant Directions (over and above the provisions held in terms of these Directions), as mentioned below:

a. For Resolution of Stressed Assets - Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2023, as updated from time to time.

b. For Unhedged Foreign Currency Exposure - Reserve Bank of India (Unhedged Foreign Currency Exposure) Directions, 2022.

c. Exposures exceeding Normally Permitted Lending Limit (NPLL) - Guidelines on 'Enhancing Credit Supply for Large Borrowers through Market Mechanism' dated August 25, 2016, as updated from time to time.

d. Provisions for country risk

(i) A bank shall make provisions, on the net funded country exposures on a graded scale ranging from 0.25 to 100 percent according to the risk categories as per the following schedule:

Risk category	ECGC Classification	Provisioning Requirement (per cent)
Insignificant	A1	0.25
Low	A2	0.25
Moderate	B1	5
High	B2	20
Very high	C1	25
Restricted	C2	100
Off-credit	D	100

(ii) A bank shall make provision for country risk in respect of a country where its net funded exposure is one per cent or more of its total assets.

(iii) The provision for country risk shall be in addition to the provisions required to be held according to the asset classification status of the asset.

(iv) Notwithstanding Sl. No. (iii), in the case of 'loss assets' and 'doubtful assets', provision held, including provision held for country risk, shall not exceed 100% of the outstanding.

(v) A bank may not make any provision for 'home country' exposures i.e. exposure to India.

(vi) The exposures of foreign branches of Indian commercial banks to the host country shall be included for the computation of provision requirements.

(vii) A Foreign bank shall compute the country exposures of its Indian branches and shall hold appropriate provisions in their Indian books. However, their exposures to India will be excluded for the above purpose.

(viii) A bank may make a lower level of provisioning (say 25% of the requirement) in respect of short-term exposures (i.e. exposures with contractual maturity of less than 180 days).

e. Provisions under circular DBR.IBD.BC.No.68/23.37.001/2015-16 dated December 31, 2015 on '*Extension of Credit Facilities to Overseas Step-down Subsidiaries of Indian Corporates'.*

f. Provisioning in respect of cases of fraud

(i) A bank shall provide for the entire amount due to the bank or for which the bank is liable (including in case of deposit accounts), immediately upon a fraud being detected.

(ii) While computing the provisioning requirement, a bank may adjust financial collateral eligible under Basel III Capital Regulations - Capital Charge for Credit Risk (Standardised Approach), if any, available with them with regard to the accounts declared as fraud account.

g. Provisioning requirements for derivative exposures: Credit exposures computed as per the current marked to market value of the contract, arising on account of the interest rate & foreign exchange derivative transactions, credit default swaps and gold, shall attract provisioning requirement as applicable to the loan assets in the 'standard' category, of the concerned counterparties.

h. Reserve for Exchange Rate Fluctuations Account (RERFA)

When exchange rate movements of Indian rupee turn adverse, the outstanding amount of foreign currency denominated loans (where actual disbursement was made in Indian Rupee) which becomes overdue, goes up correspondingly, with its attendant implications of provisioning requirements. Such assets shall not normally be revalued. In case such assets need to be revalued as per requirement of accounting practices or for any other requirement, the following procedure may be adopted:

i. The loss on revaluation of assets has to be booked in the bank's Profit & Loss Account.
ii. In addition to the provisioning requirement as per Asset Classification, the full amount of the Revaluation Gain, if any, on account of foreign exchange fluctuation shall be used to make provisions against the corresponding assets.

i. Advances restructured on account of Natural Calamities:

Advances restructured and classified as standard in terms of the Master Direction – Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 – SCBs (as updated from time to time) shall attract an additional provision of five per cent over and above the provisions determined in terms of these Directions.

j. Wilful Defaulters

In respect of existing loans/exposures to companies having director/s (other than nominee directors of government/ financial institutions brought on board at the time of distress), whose name/s appear in the list of wilful defaulters, an additional provision of five per cent shall be provided over and above the provisions determined in terms of these Directions.

75. The requirements in these Directions shall be without prejudice to the provisions of any other statute or applicable regulation in force.

Consolidated Financials

76. For the preparation of consolidated financial statement, subsidiaries/ joint ventures etc., shall prepare their financial statements as per extant accounting/ regulatory norms.

Transition Arrangements

77. It has been decided to introduce a transitional arrangement for the impact of ECL based provisioning on regulatory capital by giving bank time to rebuild their capital resources following a possible negative impact arising from the introduction of ECL accounting.

78. The transitional adjustment amount, i.e., the difference between the ECL required as on April 1, 2027 (computed based on the balance sheet position as on March 31, 2027), and the provisions held as per the extant IRACP norms as on March 31, 2027 may, at the option of the bank, be added back to the Common Equity Tier 1 (CET 1) capital. This benefit shall be provided till March 31, 2031 as per the table below. A bank may choose to spread the transition over a shorter period.

$$\begin{aligned}&\text{Transitional Adjustment Amount}\\&\qquad = \mathrm{f} \times \mathrm{Max}\left(0, \mathrm{ECL}_{\mathrm{Apr\ 1,2027}} - \mathrm{IRAC\ Provisions}_{\mathrm{Mar\ 31,2027}}\right)\end{aligned}$$

where,

- $\mathrm{ECL}_{\mathrm{Apr\ 1,2027}}$ is the ECL required as on April 1, 2027 (computed based on the balance sheet position as on March 31, 2027)
- $\mathrm{IRAC\ Provisions}_{\mathrm{Mar\ 31,2027}}$ is the stock of provisions held as per IRACP norms as on March 31, 2027

And $'\mathrm{f}'$ can have the maximum value as per the table below:

Financial Year	**Maximum fraction of transitional adjustment amount that may be added back to CET 1 capital**
2027-28	$^4/_5$
2028-29	$^3/_5$
2029-30	$^2/_5$
2030-31	$^1/_5$

79. The transitional adjustment amount included in CET1 capital each year during the transition period shall be taken through to other measures of capital as appropriate

(e.g. Tier 1 capital and total capital), and hence to the calculation of the leverage ratio and of large exposures limits. However, the transitional adjustment amount as added back above shall not be:

i) included in Tier 2 capital;

ii) used to reduce exposure amounts in the standardised approach; and,

iii) used to reduce the total exposure measure in the leverage ratio.

80. A bank shall make appropriate disclosures in their financial statements on the following aspects:

i) whether a regulatory transitional arrangement has been applied; and,

ii) the impact on the bank's regulatory capital and leverage ratios compared to the bank's "fully loaded" capital and leverage ratios had the transitional arrangement not been applied.

81. A bank shall continue to calculate and make provisions as per the ECL framework from the FY 2027-28 onward, irrespective of the application of the transitional arrangement.

Chapter IV: Income Recognition

82. Interest Income for financial assets such as loans shall be calculated by applying the "effective interest rate" to gross carrying amount of a financial asset during Stage 1 and Stage 2. Interest income on investments, which come under the purview of these Directions, shall be recognized in terms of *MD on Classification, Valuation and Operation of Investments Portfolio of Commercial Banks, 2023* as amended from time to time.

83. In respect of other financial assets, i.e., the assets that are:

   a. Purchased or originated credit-impaired financial asset (POCI) – A bank shall apply the <u>credit-adjusted effective interest rate</u> to the amortised cost of the financial asset since initial recognition.

   b. financial assets that are not POCI but subsequently have become credit-impaired or considered under default - shall apply the original <u>effective interest rate</u> to the amortised cost of the financial asset in subsequent reporting periods from the date of the asset becoming credit impaired, i.e., being classified as Stage 3.

84. The amount of interest revenue accrued for financial asset as determined in para 83 (a) and 83 (b) above shall be debited to P&L as an additional ECL provision. A bank may transfer the same to a specific loss allowance account to keep a track of dues.

85. A bank that, in a reporting period, has calculated interest revenue by applying the EIR to the amortised cost of a financial asset in accordance with para 83 (b), shall, in subsequent reporting periods, calculate the interest revenue by applying the EIR to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired or considered under default and the improvement can be related objectively to an event occurring after the requirements in para 83 (b) were applied.

86. All aspects, other than those covered in these Directions, relating to investments shall be governed by *MD on Classification, Valuation and Operation of Investments Portfolio of Commercial Banks, 2023* as amended from time to time.

Chapter V – Principles for Model Risk Management under ECL

87. In order to achieve accurate, transparent, and compliant ECL computation, a bank shall adhere to a cohesive set of principles governing model selection, management, validation, monitoring, and governance. These principles provide a framework to ensure reliability and accountability in estimating credit losses across diverse portfolios, balancing regulatory compliance with informed judgment.

Comprehensive Model Inventory

88. A bank shall maintain a robust model inventory framework to systematically catalogue all ECL models. This inventory shall include key details such as model owners, developers, and users; tiering based on risk and materiality; intended uses (e.g., regulatory or internal); dependencies with upstream and downstream models; and the status of validation, monitoring, and controls. A well-structured inventory promotes effective oversight and serves as a centralized resource for management and validation teams.

Categorisation of Models Through Risk-Based Tiering

89. A risk-based model tiering process shall be adopted by the bank to classify models according to their risk and output materiality. This tiering shall guide the frequency and rigor of validation efforts, ensuring higher scrutiny for models with greater impact. Periodic review by an independent team shall validate the tiering approach to maintain alignment with the bank's risk profile and enhance its effectiveness.

Model Documentation

90. A bank shall employ models tailored to specific portfolios, with complexity adjusted to portfolio type and segmentation. Comprehensive documentation shall articulate the ECL assessment approach for each exposure or portfolio, justifying the suitability of chosen methods, particularly when varied approaches are applied across portfolios. Changes to measurement approaches shall be supported by clear rationale and quantified impacts to ensure transparency and traceability.

Structured Lifecycle Approach

91. ECL models shall be managed through a structured lifecycle encompassing development, pre-implementation validation, implementation, usage and monitoring, independent validation, and recalibration or retirement. Each model shall have a detailed prospectus outlining its methodology, limitations, and initial validation outcomes, accessible to validation teams and management for effective oversight. Documentation shall capture all inputs, data, and assumptions (e.g., PD, LGD, economic forecasts) and explain how exposure life is determined, incorporating prepayments, defaults, historical loss periods, and forward-looking adjustments.

Integration of Macroeconomic Variables

92. Macroeconomic variables shall be suitably incorporated into ECL computations by modelling their impact through multiple economic scenarios, each assigned a probability based on careful analysis. The frequency of probability reviews shall be justified and documented. Variables with strong credit risk linkages shall be

identified, tailored to portfolio, segmentation, or geography, with their selection rigorously documented. For Lifetime ECL, a bank shall extrapolate forecasts beyond standard horizons, supporting assumptions like mean reversion timing to ensure unbiased estimates.

Model Validation

93. A bank shall put in place a robust model validation framework entailing critical aspects, that shall be duly documented.

- **Scope and Summary:** Clarify the model's purpose, including vendor models, estimated outputs, regulatory uses, and any development or prior validation challenges.
- **Inputs:** Verify data sources, input types, automation levels, quality controls, transformations, and assumptions for outliers or missing data, using sensitivity tests to assess material impacts.
- **Methodology:** Confirm the conceptual and mathematical soundness of model design, calibration appropriateness, and rationale for analytical or expert assumptions, reviewing developer validation tests.
- **Implementation:** Evaluate operational stability and business continuity plans.
- **Use:** Ensure alignment with intended purpose and regulatory compliance.
- **Monitoring and Maintenance:** Assess ongoing monitoring plans, including issues and mitigation actions.
- **Access and Change Controls:** Review stakeholder access, change permissions, and version controls.
- **Prospectus:** Confirm the prospectus is comprehensive.
- **Tests:** Document the methodology and rationale for quantitative and qualitative validation tests, ensuring thorough inspection of documentation, usage, governance, and data maintenance for all models.

Model Calibration

94. The models shall be validated before implementation to ensure suitability, and the bank shall perform post-implementation back-testing to compare predictions with

actual outcomes, refining parameters to enhance accuracy. Recalibration shall be triggered by explicit numerical indicators, with choices documented and aligned with model objectives. Post-model adjustments (PMAs) or management overlays shall address model limitations, supported by qualitative reasoning and a consistent governance framework. PMAs shall be documented, including justification, calculation criteria, and validation triggers, and validated proportional to their materiality, assessing relevance, assumptions, and root causes of deficiencies.

Leveraging Credit Judgement

95. Forward-looking information shall be suitably integrated into ECL estimation, with establishment of clear links between macroeconomic variables and credit risk drivers. When statistical linkages are weak, experienced credit judgment shall guide ECL estimates, with the rationale thoroughly documented and rigorously reviewed at appropriate governance levels. Judgment shall account for the bank's position in the credit cycle, varying by jurisdiction, to ensure context-specific estimates.

Continuous Monitoring of Model Performance

96. An ongoing performance monitoring process shall be put in place with clearly defined responsibilities. Monitoring frequency shall align with model complexity and tiering, tracking metrics like accuracy, stability, and reliability, and assessing impacts from economic or market changes. If the development team conducts monitoring, their reports shall undergo independent validation and be reviewed by a model management committee, which addresses metric breaches. Improvements post-validation shall be documented to support continuous enhancement.

97. By embracing these principles, a bank can establish a transparent, reliable, and compliant ECL estimation process, effectively managing credit risk across diverse portfolios while balancing accuracy, regulatory adherence, and informed judgment.

Chapter VI: Disclosures, Regulatory Reporting and Repeal

Disclosures

98. The details of disclosures required to be made by the bank with respect to ECL is as prescribed in ***Annex 4*** of these Directions. A bank shall provide detailed disclosure in their notes to accounts for financial instruments which come under the purview of these Directions. The credit risk disclosures made by the bank shall enable users of financial statements to understand the effect of credit risk on the amount, timing and certainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

   i) information about a bank's credit risk management practices and how they relate to the recognition and measurement of ECL, including the methods, assumptions and information used to measure ECL

   ii) quantitative and qualitative information that allows users of financial statements to evaluate the allowances in the financial statements arising from ECL, including changes in the amount of ECL and the reasons for those changes; and

   iii) information about a bank's credit risk exposure (ie the credit risk inherent in a bank's financial assets and commitments to extend credit) including significant credit risk concentrations.

The credit risk management practices

99. A bank shall explain their credit risk management practices and how they relate to the recognition and measurement of ECL. To meet these objectives, a bank shall disclose information that enables users of financial statements to understand and evaluate:

   i) how did the bank determine a significant increase in the credit risk of financial instruments since initial recognition.

   ii) definitions of credit impairment

   iii) how were the instruments grouped if ECL are measured on a collective basis;

   iv) how did a bank determine that its financial assets are credit-impaired;

v) bank’s write-off policy, including the indicators that there is no reasonable expectation of recovery.

100. A bank shall explain the inputs, assumptions and estimation techniques used to apply the requirements of ECL estimation in terms of these Directions. For this purpose, a bank shall disclose:

i) the basis of inputs and assumptions and the estimation techniques used to:

a. measure the 12-month and lifetime ECL;

b. determine whether the credit risk of financial instruments have increased significantly since initial recognition; and

c. determine whether a financial asset is a credit-impaired financial asset.

ii) how forward-looking information has been incorporated into the determination of ECL, including the use of macroeconomic information; and

iii) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

Quantitative and qualitative information about amounts arising from ECL

101. To explain the changes in the loss allowance and the reasons for those changes, a bank shall provide, by class of financial instrument, a reconciliation of the opening balance with the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

i) the loss allowance measured at an amount equal to 12-month ECL

ii) the loss allowance measured at an amount equal to lifetime ECL for:

a. financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

b. financial assets which are credit-impaired at the reporting date (but which are not purchased or originated credit-impaired); and financial assets that are purchased or originated credit-impaired.

102. In addition to the reconciliation, a bank shall disclose the total amount of undiscounted ECL at initial recognition on financial assets initially recognised during the reporting period.

103. To enable users of financial statements to understand the changes in the loss allowance, a bank shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for all financial instruments that represent the loss allowance and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:

i) changes because of financial instruments originated or acquired during the reporting period;

ii) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime ECL.

104. A bank shall use the format prescribed in ***Annex 4*** for the disclosure relating to credit quality of financial instruments, summary of loan assets, reconciliation of loss allowance, approach for ECL and macroeconomic assumptions. For other disclosures required as per chapter VI of these Directions, a bank shall devise its own format. A bank may devise additional disclosures at its discretion if it results in better representation of financial information as sought by the above provisions.

105. As the date of transition for banks is April 1, 2027, their first reporting as per the ECL framework shall be based on financial position as on June 30, 2027.

106. ***Annex 5*** contains list of circulars repealed with respect to the provisions relating to SCBs coming under the purview of this Direction.

Annex 1

Illustrative list of information that may be relevant in assessing changes in credit risk

a. significant changes in internal pricing factors of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument or similar financial instrument with the same terms and the same counterparty were newly originated or issued at the reporting date.

b. other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date (such as more stringent covenants, increased amounts of collateral or guarantees, lower loan-to-value (LTV) ratio, or higher income coverage) because of changes in the credit risk of the financial instrument since initial recognition.

c. significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life. Changes in market indicators of credit risk include, but are not limited to:

    (i) the credit spread;

    (ii) the credit default swap prices for the borrower;

    (iii) the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost; and

    (iv) other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments.

d. an actual or expected significant change in the financial instrument's external credit rating.

e. an actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally

f. existing or forecasted adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates

g. an actual or expected significant change in the operating results of the borrower. Examples include actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations.

h. significant increases in credit risk on other financial instruments of the same issuer/ borrower.

i. an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology.

j. significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring. For example, if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages.

k. a significant change in the quality of the guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.

l. significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments. Credit quality enhancements or support include the consideration of the financial condition of the guarantor and/or, for interests issued in securitisations, whether subordinated interests are expected to be capable of absorbing ECL (for example, on the loans underlying the security).

m. expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, delays in review/renewal of the loan account *vis-à-vis* pre-determined schedule or other changes to the contractual framework of the instrument.

n. significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group (for example, an increase in the expected number or extent of delayed contractual payments or significant increases in the expected number of credit card borrowers who are expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

o. changes in the bank's credit management approach in relation to the financial instrument; ie based on emerging indicators of changes in the credit risk of the financial instrument, the bank's credit risk management practice is expected to become more active or to be focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower.

p. bank's stressed exposures which are classified under "Watch-list" or equivalent classification, as reported to the Board or Board-level Committees based on Board approved policies of the bank.

q. past due information.

r. Any delay in payment of fee/ charges from the due date as per the internal policy of the bank.

Annex 2

Simplified Approach for ECL calculation

A bank having a portfolio of trade/Lease receivables, categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms, may use simplified approach for ECL calculation. The loss allowance for such trade/Lease receivables shall always be measured at an amount equal to lifetime time ECL.

To determine the ECL for the portfolio, a bank may use a provision matrix. The provision matrix is based on its historical observed loss rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed loss rates are updated and changes in the forward-looking estimates are analysed.

A bank may estimate a provision matrix based on historical data: (An example is provided below)

	Current	**1-30 days past due**	**31-60 days past due**	**61-90 days past due**	**More than 90 days past due**
Loss Rate	0.3%	1.6%	3.6%	6.6%	10.6%

The ECL, prior to adjustment for forward-looking estimates, for trade receivables from the large number of small customers of a particular bank with total exposure of ₹3 crores is illustrated below:

	Gross carrying amount	**Lifetime expected credit loss allowance (Gross carrying amount x lifetime expected credit loss rate)**
Current	₹15,000,000	₹45,000
1-30 days past due	₹7,500,000	₹120,000
31-60 days past due	₹4,000,000	₹144,000
61-90 days past due	₹2,500,000	₹165,000
More than 90 days past due	₹1,000,000	₹106,000
	₹30,000,000	**₹580,000**

Annex 3

Credit Conversion Factors (CCFs)

Sr. No.	Instruments	Credit Conversion Factor (%)
	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
	Certain transaction-related contingent items (e.g., performance bonds, bid bonds, warranties, indemnities and standby letters of credit related to particular transaction).	50
	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
	Revolving / non-revolving underwriting facilities.	50
	Commitments with certain drawdown	100
	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 worthiness.	 20 50 0

Annex 4

Table 1: Credit quality of Financial Instruments

1.A Loans: Credit quality of loan assets (in ₹) (for overall loan portfolio and major loan products)

Particulars	As on March 31, XXXX					As on March 31, YYYY				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances										
Product type 1										
Current										
Past due 1–30 days										
Past due 31–60 days										
Past due 61–89 days										
Past due 90 days										
Total										
Impairment loss allowance										
Carrying amount										
Product type 2										
Current										
Past due 1–30 days										
Past due 31–60 days										
Past due 61–90 days										
Past due 90 days										
Total										
Impairment loss allowance										
Carrying amount										

1.B Investments: Credit quality of Investment assets (in ₹) (for overall Investment portfolio and major Investment products)

Particulars	As on March 31, XXXX					As on March 31, XXXX				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Investment										
Investment type 1										
Sovereign rated										
Rating Grade 1										
Rating Grade 2										
Rating Grade 3										
Rating Grade x										
Total										
Impairment loss allowance										
Carrying amount										
Investment type 2										
Sovereign rated										
Rating Grade 1										
Rating Grade 2										
Rating Grade 3										
Rating Grade x										
Total										
Impairment loss allowance										
Carrying amount										

1.C Loan commitments and Financial Guarantees: Credit quality of Loan commitments and financial guarantees (in ₹)

Particulars	As on March 31, XXXX					As on March 31, YYYY				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loan commitments										
Product type 1										
Product type 2										
Total										
Impairment loss allowance										
Carrying amount										
Financial guarantees										
Product type 1										
Product type 2										
Total										
Impairment loss allowance										
Carrying amount										

The above table shall also be provided for all other financial instruments which come under the purview of ECL

Table 2: Summary of Loan assets

Particulars	As on March 31, XXXX					As on March 31, YYYY				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Less: ECL allowance										

Net carrying amount										

Table 3: Reconciliation of loss allowance

3.A Table for reconciliation of gross carrying amount and corresponding ECL loss allowance for loans :

	Stage 1		Stage 2		Stage 3		Total	
	Gross loan amount	ECL loss allowance	Gross loan amount	ECL loss allowance	Gross loan amount	ECL loss allowance	Gross loan amount	ECL loss allowance
Balance as on April 1, xxxx	-		-	-	-	-		
Transfer to Stage 1	-		-	-	-	-		
Transfer to Stage 2	-		-	-	-	-		
Transfer to Stage 3	-		-	-	-	-		
Net remeasurement of loss allowance	-		-	-	-	-		
New financial assets originated during the year	-		-	-	-	-		
Matured or repaid	-		-	-	-	-		
Write-offs	-		-	-	-	-		
Balance as on March yyyy	-		-	-	-	-		
Transfer to Stage 1	-		-	-	-	-		
Transfer to Stage 2	-		-	-	-	-		
Transfer to Stage 3	-		-	-	-	-		
Net remeasurement of loss allowance	-		-	-	-	-		
New financial assets originated during the year	-		-	-	-	-		
Matured or repaid	-		-	-	-	-		
Write-offs	-		-	-	-	-		
Balance as on March zzzz	-		-	-	-	-		

3.B Tables for reconciliation of the opening balance with the closing balance of the

Investments	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as on April 1, xxxx	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-
New financial assets originated during the year	-	-	-	-	-
Matured or repaid	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as on March 31, yyyy	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-
New financial assets originated during the year	-	-	-	-	-
Matured or repaid	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as on March 31, zzzz	-	-	-	-	-

Loss allowance for Investments:

3.C Table for reconciliation of the opening balance with the closing balance of the loss allowance for Loan commitments:

Loan commitments	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased or Originated Credit Impaired (POCI)	Total
Balance as on April 1, xxxx	-	-	-	-	-
Net remeasurement of loss allowance					
New financial assets originated or purchased	-	-	-	-	-
Balance as on March 31, yyyy	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Balance as on March 31, zzzz	-	-	-	-	-

3.D Table for reconciliation of the opening balance with the closing balance of the loss allowance for Financial Guarantee Contracts

Financial Guarantee Contracts	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased or Originated Credit Impaired (POCI)	Total
Balance as on April 1, xxxx	-	-	-	-	-
Net remeasurement of loss allowance					
New financial assets originated or purchased	-	-	-	-	-
Balance as on March 31, yyyy	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Balance as on March 31, zzzz	-	-	-	-	-

3.E Table for reconciliation of the opening balance with the closing balance of the loss allowance for other financial instruments under the purview of ECL:

Others	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased or Originated Credit Impaired (POCI)	Total
Balance as on April 1, xxxx	-	-	-	-	-
Net remeasurement of loss allowance					
New financial assets originated or purchased	-	-	-	-	-
Balance as on March 31, yyyy	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Balance as on March 31, zzzz	-	-	-	-	-

Table 4: Approach for ECL (to be submitted to RBI only[8])

The following table contains the approach adopted by the bank for various components of ECL viz. PD, EAD and LGD across the various types of loans (product wise), debt instrument, financial guarantee etc. For instruments where the bank doesn't not use PD, LGD, EAD approach, the bank shall separately give disclosure of ECL methodology used.

Financial Instrument*	Brief of the product	PD			EAD	LGD
		Stage 1	Stage 2	Stage 3		

*For loans, investments etc

Table 5: Macroeconomic Assumptions (to be submitted to RBI only)

The table below lists the macroeconomic assumptions used in the base, upside and downside scenarios for the computation of ECL.

As on March 31, XXXX	Indicator 1	Indicator 2	Indicator 3	Indicator 4

[8] Information in respect of Tables 4 to 8 shall be furnished to RBI as part of supervisory reporting. The instructions regarding the same shall be issued separately.

Central economic assumptions				
1 year forward	X%	X%	X%	X%
5-year average	X%	X%	X%	X%
Upside economic assumptions				
1 year forward	X%	X%	X%	X%
5-year average	X%	X%	X%	X%
Downside economic assumptions				
1 year forward	X%	X%	X%	X%
5-year average	X%	X%	X%	X%

Table 6: ECL Adjustments (to be submitted to RBI only)

	As of March 31, XXXX		**As of March 31, YYYY**	
Particulars	**Portfolio 1**	**Portfolio 2**	**Portfolio 1**	**Portfolio 2**
Loss allowance before judgmental adjustments				
Post Model Adjustment				
Management Overlays				
Any other				
Loss allowance after judgmental adjustments				

Table 7: ECL data (to be submitted to RBI only)

Product name	**Observed Default Rate**			**LGD**
	Stage 1	Stage 2	Stage 3	

Table 8: ECL data (to be submitted to RBI only)

Product name	**PD-PIT**			**LGD**
	Stage 1	Stage 2	Stage 3	

Table 9: Details of Gross Advances, Gross NPAs, Net Advances and Net NPAs

Part A

(Rs. In crore up to two decimals)			
Particulars			Amount
1.	Standard Advances		
2.	Gross NPAs*		
3.	Gross Advances ** (1+2)		
4.	Gross NPAs as a percentage of Gross Advances (2/3) (in %)		
5	Deductions		
	(i)	Provisions held in the case of NPA accounts as per asset classification (including additional Provisions for NPAs at higher than prescribed rates)	
	(ii)	DICGC/ECGC claims received and held pending adjustment	
	(iii)	Part payment received and kept in suspense account or any other similar account	
	(iv)	Balance in sundries account (interest capitalisation – Restructured accounts), in respect of NPA accounts	
6.	Net Advances (3-5)		
7.	Net NPAs {2-5(I + ii + iii + iv + v)}		
8.	Net NPAs as percentage of Net Advances (7/6) (in %)		
*	Principal dues of NPAs plus funded interest term loan (FITL) where the corresponding contra credit is parked in Sundries Account (Interest capitalisation – Restructured Accounts) in respect of NPA accounts		
**	For the purpose of this statement, ‘Gross Advances’ mean all outstanding loans and advances including advances for which refinance has been received but excluding rediscounted bills, and advances written off at Head Office Level (Technical Write-off)		

Part B - Supplementary Details

(Rs. In crore up to two decimals)		
Particulars		Amount
1.	Provision on Standard Assets in Part A above	
2.	Interest recorded as Suspense/ Memorandum Item	
3.	Amount of cumulative Technical Write-off in respect of NPA accounts reported in Part A above	

Annex 5

List of circulars repealed

Circular No.	Date	Subject
DOR.STR.REC.85/21.04.048/2021-22	15/02/22	Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications
DOR.STR.REC.85/21.04.048/2021-22	15/02/22	Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications
DOR.STR.REC.68/21.04.048/2021-22	12/11/21	Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications
DOR.STR.REC.68/21.04.048/2021-22	12/11/21	Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications
DBR.No.BP.BC.64/21.04.048/2016-17	08/04/17	Additional Provisions For Standard Advances At Higher Than The Prescribed Rates
DBR.No.BP.BC.92/21.04.048/2015-16	18/04/16	Provisioning for fraud accounts
DBR.No.BP.BC.30/21.04.048/2015-16	16/07/15	Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Credit Card Accounts
DBR.No.BP.BC.83/21.04.048/2014-15	01/04/15	Provisioning pertaining to Fraud Accounts
DBR.No.BP.BC.79/21.04.048/2014-15	30/03/15	Utilisation of Floating Provisions / Counter Cyclical Provisions
Mailbox Clarification	24/02/15	Refinancing of Project Loans
DBOD.No.BP.BC.95/21.04.048/2013-14	07/02/14	Utilisation of Floating Provisions / Counter Cyclical Provisioning Buffer
DBOD.No.BP.BC.78/21.04.048/2013-14	20/12/13	Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Credit Card Accounts
DBOD.No.BP.BC-83/21.04.048/2012-13	18/03/13	Prudential Norms on Advances to Infrastructure Sector
DBOD.No.BP.BC.94/21.04.048/2011-12	18/05/11	Enhancement of Rates of Provisioning for Non-Performing Assets and Restructured Advances
DBOD.No.BP.BC.87/21.04.048/2010-11	21/04/11	Provisioning Coverage Ratio (PCR) for Advances
Mail Box Clarification	06/07/10	Provisioning for Standard Assets – Medium Enterprises
DBOD.No.BP.BC.96/08.12.014/2009-10	23/04/10	Prudential Norms on Advances to Infrastructure Sector
DBOD.No.BP.BC.64/21.04.048/2009-10	01/12/09	Second Quarter Review of Monetary Policy for the Year 2009-10 - Provisioning Coverage for Advances
DBOD.No.BP.BC.58/21.04.048/2009-10	05/11/09	Second Quarter Review of Monetary Policy for the Year 2009-10 - Provisioning Requirement for Standard Assets
DBOD.No.BP.BC.46/21.04.048/2009-10	24/09/09	Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Computation of NPA Levels

DBOD.No.BP.BC.33/21.04.048/2009-10	27/08/09	Prudential Treatment in respect of Floating Provisions
DBOD.No.BP.BC.122/21.04.048/2008-09	09/04/09	Prudential Treatment in respect of Floating Provisions
DBOD.No.BP.BC.118/21.04.048/2008-09	25/03/09	Prudential Treatment of different Types of Provisions in respect of Loan Portfolios
DBOD.BP.BC.No.69/21.03.009/2008-09	29/10/08	Prudential Norms for Off-Balance Sheet Exposures of Banks
DBOD.No.BP.BC.57/21.04.157/2008-09	13/10/08	Prudential Norms for Off-balance Sheet Exposures of Banks
DBOD.No.BP.BC.31/21.04.157/2008-09	08/08/08	Prudential Norms for Off-balance Sheet Exposures of Banks
DBOD.No.BP.BC.68/21.04.048/2006-07	13/03/07	Prudential Norms on Creation and Utilisation of Floating Provisions
DBOD.No.BP.BC.21/21.04.048/2006-2007	12/07/06	Annual Policy Statement for the year 2006-07-Additional Provisioning Requirement for Standard Assets
DBOD.NO.BP.BC.89/ 21.04.048/ 2005-06	22/06/06	Prudential norms on creation and utilization of floating provisions
DBOD.NO.BP.BC.85/ 21.04.048/2005-06	29/05/06	Annual Policy Statement for the year 2006-07: Additional Provisioning Requirement for Standard Assets
DBOD.NO.BP.BC.40/ 21.04.048/2005-06	04/11/05	Mid Term Review of Annual Policy Statement for the year 2005-06: Additional Provisioning Requirement for Standard Assets
DBOD.BP.BC.29/21.04.048/2004-05	13/08/04	Prudential norms - State Government guaranteed exposures
DBS.FID.No.C-3/01.02.00/2004-2005	03/08/04	Annual Policy Statement for the year 2004-05 : Additional Provisioning Requirement for NPAs
DBOD No.BP.BC.102/21.04.048/ 2003-04	24/06/04	Prudential Norms for Agricultural Advances
DBOD No. BP.BC.99/21.04.048/2003-04	21/06/04	Additional Provisioning Requirement for NPAs
DBOD No. BP.BC.97/21.04.141/2003-04	17/06/04	Prudential Guidelines on Unsecured Exposures
DBOD BP.BC.No.69/21.04.048/2002-03	10/02/03	Upgradation of loan accounts classified as NPAs
DBOD.BP.BC No.44/21.04.048/2002-03	30/11/02	Agricultural loans affected by natural calamities
DBOD No.BP.BC.100/ 21.01.002/2001-02	09/05/02	Prudential norms on asset classification
DBOD No.BP.BC.59/ 21.04.048/2001-2002	22/01/02	Prudential norms on income recognition, asset classification and Provisioning agricultural advances
DBOD No.BP.BC.25/ 21.04.048/2000-2001	11/09/01	Prudential norms on income recognition, asset classification and provisioning
DBOD No.BP.BC.132/ 21.04.048/2000-2001	14/06/01	Income Recognition, Asset Classification and Provisioning for Advances

DBOD No. BP.BC.116/21.04.048/2000-2001	02/05/01	Monetary & Credit Policy Measures 2001-02
DBOD No.BP.BC.98/21.04.048/2000-2001	30/03/01	Treatment of Restructured Accounts
DBOD No. BP.BC.40/21.04.048/2000- 2001	30/10/00	Income Recognition, Asset Classification and Provisioning Reporting of NPAs to RBI
DBOD.No.BP.BC.164/21.04.048/2000	24/04/00	Prudential Norms on Capital Adequacy, Income Recognition, Asset Classification and Provisioning, etc.
DBOD.No.BP.BC.144/21.04.048/2000	29/02/00	Income Recognition, Asset Classification and Provisioning and Other Related Matters and Adequacy Standards - Takeout Finance
DBOD.No.BP.BC.138/21.04.048/2000	07/02/00	Income Recognition, Asset Classification and Provisioning Export Project Finance
DBS.FID.No.C-10/01.02.00/99-2000	11/12/99	Income recognition, Asset Classification and Provisioning - Provision for Standard Assets
DBS.FID.No.C-09/01.02.00/99-2000	01/12/99	Prudential Norms relating to Asset Classification and Provisioning - Export Project Finance
DBOD.No.BP.BC.103/21.04.048/99	21/10/99	Income Recognition, Asset Classification and Provisioning Agricultural Finance by Commercial Banks through Primary Agricultural Credit Societies
DBOD.No.BP.BC.45/21.04.048/99	10/05/99	Income Recognition Asset Classification and Provisioning Concept of Commencement of Commercial Production
DBOD.No.BP.BC.35/21.01.002/99	24/04/99	Monetary & Credit Policy Measures
DBOD.No.BP.BC.120/21.04.048/98	29/12/98	Prudential norms on Income Recognition, Asset Classification and Provisioning Agricultural Loans Affected by Natural Calamities
DBOD.No.BP.BC.103/21.01.002/98	31/10/98	Monetary & Credit Policy Measures
DBOD.No.BP.BC.17/21.04.048/98	04/03/98	Prudential Norms on Income Recognition, Asset Classification and Provisioning Agricultural Advances
DBOD.No.BP.BC.29/21.04 8/97	09/04/97	Income Recognition Asset Classification and Provisioning Agricultural Advances
DBOD.No.BP.BC.14/21.04.048/97	19/02/97	Income Recognition Asset Classification and Provisioning Agricultural Advances
DBOD.No.BP.BC.9/21.04.048/97	29/01/97	Prudential Norms Capital Adequacy, Income Recognition Asset Classification and Provisioning
DBOD.No.BP.BC.163/21.04.048/96	24/12/96	Classification of Advances with Balance less than Rs. 25,000/
DBOD.No.BP.BC.65/21.04.048/96	04/06/96	Income Recognition Asset Classification and Provisioning
DBOD.No.BP.BC.26/21.04.048/96	19/03/96	Non performing Advances Reporting to RBI
DBOD.No.BP.BC.25/21.04.048/96	19/03/96	Income Recognition Asset Classification and Provisioning

DBOD.No.BP.BC.134/21.04.048/95	20/11/95	EXIM Bank's New Lending Programme Extension of Guarantee cum Refinance to Commercial Bank in respect of Post shipment Supplier's Credit
DBOD.No.BP.BC.36/21.04.048/95	03/04/95	Income Recognition Asset Classification and Provisioning
DBOD.No.BP.BC.134/21.04.048/94	14/11/94	Income Recognition Asset Classification Provisioning and Other Related Matters
DBOD.No.BP.BC.58/21.04.048/94	16/05/94	Income Recognition Asset Classification and Provisioning and Capital Adequacy Norms - Clarifications
DBOD.No.BP.BC.50/21.04.048/94	30/04/94	Income Recognition Asset Classification and Provisioning
DOS.BC.4/16.14.001/9394	19/03/94	Credit Monitoring System - Health Code System for Borrowal Accounts
DBOD.No.FSC.BC.18/24.01.001/9394	19/02/94	Equipment Leasing, Hire Purchase, Factoring, etc. Activities
DBOD.No.BP.BC.8/21.04.043/94	04/02/94	Income Recognition, Provisioning and Other Related Matters
DBOD.No.BP.BC.195/21.04.048/93	24/11/93	Income Recognition, Asset Classification and Provisioning Clarifications
DBOD.No.BP.BC.95/21.04.048/93	23/03/93	Income Recognition, Asset Classification, Provisioning and Other Related Matters
DBOD.No.BP.BC.59/21.04.04 392	17/12/92	Income Recognition, Asset Classification and Provisioning Clarifications
DBOD.No.BP.BC.129/21.04.0 4392	27/04/92	Income Recognition, Asset Classification, Provisioning and Other Related Matters
DBOD.No.BP.BC.42/C.469 (W)90	31/10/90	Classification of Non Performing Loans
DBOD.No.Fol.BC.136/C.24985	07/11/85	Credit Monitoring System - Introduction of Health Code for Borrowal Accounts in Banks