



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

www.rbi.org.in

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March 25, 2025

All Regional Rural Banks

Dear Sir/ Madam,

Master Direction – Reserve Bank of India (Prudential Norms on Capital Adequacy for Regional Rural Banks) Directions, 2025

The Reserve Bank of India has, from time to time, issued several guidelines / instructions / directives on Prudential Norms on Capital Adequacy for Regional Rural Banks (RRBs).

2. To enable RRBs to have current instructions at one place, a [Master Direction](#) incorporating all the existing guidelines / instructions / directives on the subject has been prepared for reference. This Direction also incorporates suitable modifications to and rationalisation in existing guidelines.

3. This Direction has been issued by RBI in exercise of its powers conferred under Section 35A of the Banking Regulation Act 1949, and of all the powers enabling it in this behalf.

Yours faithfully,

(Usha Janakiraman)

Chief General Manager-in-Charge

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Master Direction – Reserve Bank of India (Prudential Norms on Capital Adequacy for Regional Rural Banks) Directions, 2025

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

Chapter I: Preliminary

1. Short title and commencement

- (a) These Directions shall be called the Reserve Bank of India (Prudential Norms on Capital Adequacy for Regional Rural Banks) Directions, 2025.
- (b) These Directions shall come into effect from April 1, 2025.

2. Applicability

These Directions shall apply to all Regional Rural Banks (RRBs).

3. Purpose

This Master Direction covers instructions regarding the capital required to be provided for by banks commensurate with their risks and the components thereof. These Directions serve to specify the prudential norms from the point of view of capital adequacy. Permission for RRBs to undertake transactions in specific instruments/products/ activities shall be guided by the regulations, instructions and guidelines on the same issued by Reserve Bank from time to time.

4. Definitions

4.1 In this Master Direction unless the context otherwise requires:

- (a) “Credit risk” is defined as the potential that a bank's borrower or counterparty may fail to meet its obligations in accordance with agreed terms. It is also the possibility of losses associated with diminution in the credit quality of borrowers or counterparties.
- (b) “Deferred tax assets” and “Deferred tax liabilities” shall have the same meaning as assigned under the applicable Accounting Standards.

- (c) “Derivative” shall have the same meaning as assigned to it in section 45U(a) of the RBI Act, 1934.
- (d) “General provisions and loss reserves” include such provisions of general nature appearing in the books of the bank which are not attributed to any identified potential loss or a diminution in value of an asset or a known liability.
- (e) “Other approved securities” shall have the same meaning as defined under clause 3(xxiii) of the [Reserve Bank of India Directions - 2021 on Cash Reserve Ratio \(CRR\) and Statutory Liquidity Ratio \(SLR\)](#), as amended from time to time.
- (f) “Public financial institution” shall have the same meaning as defined under sub-section 2(72) of the Companies Act, 2013.

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 the Regional Rural Banks Act, 1976 and rules/regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

Chapter II: Composition of Regulatory Capital

5. Minimum regulatory capital

RRBs are required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9 per cent on an ongoing basis. A bank shall compute CRAR in the following manner:

$$\text{Total Capital (CRAR)} = \frac{\text{Eligible Capital Funds}}{\text{Total Risk Weighted Assets}}$$

Where, Total Risk Weighted Assets (RWAs) is calculated as the aggregate of RWAs and other off-balance sheet exposures, as mentioned in paragraph 7 below.

6. Definition of Capital Funds

The Capital Funds for capital adequacy purpose shall consist of Tier 1 and Tier 2 capital.

6.1 Tier 1 Capital

6.1.1 Components of Tier 1 Capital

The elements of Tier 1 Capital are:

- (a) Paid up share capital
- (b) Share premium, if any, resulting from the issue of shares
- (c) Share capital deposit
- (d) Statutory and other free reserves¹
- (e) Capital Reserve representing surplus arising out of sale proceeds of assets
- (f) Revaluation reserves, arising out of change in the carrying amount of a bank's property consequent upon its revaluation, may be reckoned as Tier 1 capital at a discount of 55 per cent, subject to meeting the following conditions:
 - (i) the bank is able to sell the property readily at its own will and there is no legal impediment in selling the property;
 - (ii) the revaluation reserves are shown under Schedule 2: Reserves & Surplus in the Balance Sheet of the bank;
 - (iii) revaluations are realistic, in accordance with applicable Accounting Standards;
 - (iv) valuations are obtained, from two independent valuers, at least once in every three years;
 - (v) where the value of the property has been substantially impaired by any event, these are to be immediately revalued and appropriately factored into capital adequacy computations;
 - (vi) the external auditors of the bank have not expressed a qualified opinion on the revaluation of the property;
 - (vii) the instructions on valuation of properties and other specific requirements as mentioned in the [circular RPCD.CO.RRB.BC.No.115/03.05.33/2008-09 dated June 22, 2009](#) on 'Valuation of Properties - Empanelment of Valuers' are strictly adhered to.

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

¹ In terms of extant guidelines (refer paragraph 22 of [Master Direction - Reserve Bank of India \(Financial Statements - Presentation and Disclosures\) Directions, 2021](#)), RRBs shall make provisions for DTL on the Special Reserve created under section 36(1) (viii) of Income Tax Act, 1961. Such reserves are part of Free Reserves and may be included in Tier 1 Capital.

- (g) Balance in Profit & Loss Account at the end of the previous financial year.
- (h) Perpetual Debt Instruments (PDIs), which comply with the regulatory requirements as specified in [Annex I](#) are eligible for inclusion in Tier 1 capital, subject to the limits prescribed in paragraph 6.1.2 below.

6.1.2 Limits in Tier 1 Capital

- (a) The total Tier 1 capital shall not be less than 7 per cent of RWAs after the regulatory adjustment / deduction as per paragraph 6.1.3 below.
- (b) Of the minimum Tier 1 capital of 7 percent, the PDIs will be limited to 1.5 per cent of the total RWAs.
- (c) Any additional amount raised through PDIs over and above the 1.5 per cent of the RWAs may also be reckoned as Tier 1 capital.

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

6.1.3 Regulatory Adjustments/ Deductions from Capital

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

- (a) Goodwill and other intangible assets
- (b) Losses in current year and those brought forward from previous years
- (c) Defined Benefit Pension Fund Assets and Liabilities: Defined benefit pension fund liabilities, as included on the balance sheet, must be fully recognised in the calculation of Tier 1 capital (i.e., Tier 1 capital cannot be increased through derecognising these liabilities). For each defined benefit pension fund that is an asset on the balance sheet, the asset should be deducted in the calculation of Tier 1.

Note 1: The following items, if identified in the course of supervisory inspection, or otherwise, will also be deducted from Tier 1 capital:

- (i) Deficit in NPA provisions²
- (ii) Income wrongly recognized on non-performing assets
- (iii) Provision required for liability devolved on bank, and such similar amounts.

² Refers to shortfall, if any, in NPA provisions made by the bank in comparison to the regulatory requirements as per the extant norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances.

Note 2: In terms of [circular DOR.ACC.REC.No.67/21.04.018/2024-25 on “Amortisation of additional pension liability - Implementation of Pension Scheme in Regional Rural Banks with effect from November 1, 1993 - Prudential Regulatory Treatment” dated March 20, 2025](#), pension related unamortised expenditure would not be reduced from Tier 1 Capital of the RRBs.

6.1.3.2 Treatment of Deferred Tax Assets

- (a) Deferred tax assets (DTAs) associated with accumulated losses and other such assets shall be deducted in full from Tier 1 capital.
- (b) DTAs which relate to timing differences (other than those related to accumulated losses) may, instead of full deduction from Tier 1 capital, be recognized in the Tier 1 capital up to 10% of a bank's Tier 1 capital (after the application of all regulatory adjustments).
- (c) The amount of DTAs which are to be deducted from Tier 1 capital may be netted with associated deferred tax liabilities (DTLs),

Provided that:

- Both the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority;
- The DTLs permitted to be netted against DTAs must exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension assets; and
- The DTLs must be allocated on a pro rata basis between DTAs subject to deduction from Tier 1 capital as at (a) and (b) above.

6.2 Tier 2 Capital

6.2.1 Components of Tier 2 Capital

(a) General Provisions and Loss Reserves

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

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

(b) Investment Fluctuation Reserve

Banks may include the entire amount of balance in Investment Fluctuation Reserve in Tier 2 capital.

Note: The cap applicable on recognition of General Provisions and Loss Reserves as Tier 2 capital is not applicable to IFR.

6.2.2 Limits on Tier 2 Capital

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

Chapter III: Computation of Risk Weighted Assets

7. Risk Adjusted Assets and Off-Balance Sheet Items

Risk adjusted assets means the weighted aggregate of funded and non-funded items. Degrees of credit risk expressed as percentage weightings have been assigned to Balance Sheet assets and conversion factors to off-Balance Sheet items. Banks shall multiply the value of each asset/item by the relevant weights to produce risk-adjusted values of assets and of off-Balance Sheet items. The aggregate shall constitute the total RWAs to be taken into account for computing CRAR. The weights allotted to each category of Balance Sheet assets and off-Balance Sheet items are furnished in the [Annex II](#).

Chapter IV: Reporting

8. Reporting

Banks shall furnish an annual return to the respective NABARD Regional Office, indicating capital funds and risk assets ratio, in the format given in [Annex III](#). The return shall be signed by two officials who are authorised to sign the statutory returns submitted to the Reserve Bank. The statement shall be furnished as soon as the annual accounts are finalised.

Chapter V: Repeal and other provisions

9. Repeal Provisions

With the issue of these Directions, the instructions / guidelines contained in the circulars mentioned in the [Annex IV](#) stand repealed. All the instructions / guidelines given in the above circulars shall be deemed as given under these Directions. Any

reference in other Circulars / Guidelines / Notifications issued by the Reserve Bank containing reference to the said repealed Circulars, shall mean the reference to these Directions, namely, the Reserve Bank of India (Prudential Norms on Capital Adequacy for Regional Rural Banks) Directions, 2025, after the date of repeal. Notwithstanding such repeal, any action taken, purported to have been taken or initiated under the Circulars hereby repealed shall continue to be governed by the provisions of the said Circulars.

10. Application of other laws not barred

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

11. Interpretations

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

Terms and Conditions applicable to Perpetual Debt Instruments to qualify for inclusion as Tier 1 Capital

The Perpetual Debt Instruments (PDIs) that may be issued as bonds or debentures by RRBs should meet the following terms and conditions to qualify for inclusion as Tier 1 Capital for capital adequacy purposes:

1. Terms of Issue of PDIs

(a) Amount:

RRBs shall issue PDI in Indian currency only. The amount of PDI to be raised may be decided by the Board of Directors of banks.

(b) Paid-in Status:

The instruments should be issued by the bank (i.e., not by any 'SPV' etc. set up by the bank for this purpose) and fully paid-in.

(c) Limits:

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

(d) Maturity Period:

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

(e) Rate of Interest:

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

(ii) The instrument cannot have a credit sensitive coupon feature, i.e., a coupon that is reset periodically based in whole or in part on the banks' credit standing. For this purpose, any reference rate including a broad index which is sensitive to changes to the bank's own creditworthiness and / or to changes in the credit

worthiness of the wider banking sector will be treated as a credit sensitive reference rate.

(f) Options:

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

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

(g) Lock-In Clause:

- (i) PDI should be subject to a lock-in clause in terms of which the issuing bank shall not be liable to pay interest, if
 - (a) The bank's CRAR is below the minimum regulatory requirement prescribed by RBI.
 - Or
 - (b) The impact of such payment results in bank's capital to risk assets ratio (CRAR) falling below or remaining below the minimum regulatory requirement prescribed by RBI.
- (ii) However, RRBs may pay interest with the prior approval of RBI, when the impact of such payment may result in net loss or increase the net loss, provided the CRAR remains above the regulatory norm. For this purpose, 'Net Loss' would mean either (a) the accumulated loss at the end of the previous financial year; or (b) the loss incurred during the current financial year.
- (iii) The interest shall not be cumulative.

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

(h) **Seniority of Claim:**

The claims of the investors in PDI shall be:

- (i) Senior to the claims of investors in equity shares; and
- (ii) Subordinated to the claims of all other creditors.

(i) **Discount:**

The PDIs shall not be subjected to a progressive discount for capital adequacy purposes since these are perpetual.

(j) **Other Conditions:**

- (i) PDI should be fully paid-up, unsecured, and free of any restrictive clauses.
- (ii) RRBs should comply with the terms and conditions, if any, stipulated by SEBI / other regulatory authorities in regard to issue of the instruments.

2. Compliance with Reserve Requirements

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

3. Reporting Requirements

RRBs issuing PDI shall submit a report to Chief General Manager, Department of Supervision, NABARD, Head Office, Mumbai giving details of the debt raised, including the terms of issue specified at paragraph 1 above, together with a copy of the offer document, soon after the issue is completed.

4. Investment in PDIs

- (a) RRBs shall not invest in PDI issued by other banks including RRBs.
- (b) RRBs shall not issue PDI to retail investors/ FPI/ NRIs.

5. Grant of Advances against PDI

RRBs should not grant advances against the security of the PDI issued by them.

6. Classification in the Balance Sheet

RRBs may indicate the amount raised by issue of PDI in the Balance Sheet under 'Schedule 4 – Borrowings'.

Prudential Norms - Risk Weights for Computation of CRAR

I. Domestic Operations

A. Funded Risk Assets

Items of Assets		Risk Weights	
I	Balances		
	1	Cash & balances with RBI	0
	2	Balances in current account with other banks	20
	3	Claims on banks other than investments in their capital instruments (held outside HFT and AFS category)	20
II	Investments		
	1	Investments in Government Securities	2.5
	2	Investments in other approved securities guaranteed by Central Government / State Government	2.5
	3	Investments in other securities where payment of interest and repayment of principal are guaranteed by Central Govt. (this will include investment in Indira / Kisan Vikas Patra (IVP / KVP) and investments in bonds and debentures where payment of interest and repayment of principal is guaranteed by Central Government)	2.5
	4	Investments in other securities where payment of interest and repayment of principal are guaranteed by State Governments. <u>Note:</u> Investment in securities where payment of interest or repayment of principal is guaranteed by State Government and which has become a non-performing investment, will attract 102.5 percentage risk weight	2.5
	5	Investment in other approved securities where payment of interest and repayment of principal is <u>not</u> guaranteed by Central / State Government	22.5
	6	Investments in Government guaranteed securities of government undertakings which <u>do not</u> form part of the approved market borrowing program	22.5
	7	Claims on banks other than investments in their capital instruments (held in HFT or AFS category)	22.5
	8	Investments in securities which are guaranteed by banks as to payment of interest and repayment of principal	22.5
	9	Investments in bonds issued by Public Financial Institutions (PFIs) for their Tier 2 Capital	102.5
10	All other investments including investments in securities by PFIs	102.5	

Annex II

	11	Direct investment in equity shares, convertible bonds, debentures, capital instruments of banks and units of equity oriented mutual funds including those exempted from Capital Market Exposure	127.5	
III	Loans and advances including bills purchased and discounted and other credit facilities			
	1	Loans and advances guaranteed by Government of India Note: (i) The risk weight applicable to claims on central government exposures will also apply to the claims on the Reserve Bank of India, DICGC, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd. (NCGTC) which are backed by explicit Central Government Guarantee. (ii) The risk weight of zero percent as mentioned above shall be applicable in respect of exposures guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH and NCGTC satisfying the conditions mentioned in Appendix to Annex II.	0	
	2	Loans guaranteed by State Governments	20	
	3	State Government guaranteed loan which has become a non performing asset	100	
	4	Loans granted to Public Sector Undertakings of Government of India	100	
	5	Loans granted to Public Sector Undertakings of State Governments	100	
	6	Others including PFIs	100	
	7	For the purpose of credit exposure, bills purchased / discounted / negotiated under LC (where payment to the beneficiary is not under reserve) is treated as an exposure on the LC issuing bank and assigned risk weight as is normally applicable to inter-bank exposures.	20	
	8	Bills negotiated under LCs under reserve, bills purchased / discounted / negotiated without LCs, will be reckoned as exposure on the borrower constituent. Accordingly, the exposure will attract a risk weight appropriate to the borrower.		
		(i)	Government	0
		(ii)	Banks	20
		(iii)	Others	100
	9	Housing Loan to individuals		
Category of Loan		LTV Ratio (%)		
(a)		Up to ₹20 Lakh	90	
(b)		Above ₹20 lakh and up to ₹75 lakh	80	
(c)		Above ₹75 lakh	75	

Annex II

10	Consumer credit, including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery	125
11	Microfinance Loans	100
12	Vehicle Loans	100
13	Loans up to ₹1 lakh against gold and silver ornaments	50
14	Loans above ₹1 lakh against gold and silver ornaments Note: Entire loan amount has to be risk weighted at 100%	100
15	Education loans	100
16	Loans extended against primary / collateral security of shares / debentures	125
17	Advances covered by DICGC / ECGC Note: The risk weight of 50% should be limited to the amount guaranteed and not the entire outstanding balance in the accounts. In other words, the outstanding in excess of the amount guaranteed, will carry 100% risk weight.	50
18	Advances for term deposits, life policies, NSCs, IVPs and KVPs where adequate margin is available	0
19	Loans and Advances granted by RRBs to their staff	20
20	Takeout Finance	
	(i) Unconditional takeover (in the books of lending institution)	
(a)	Where full credit risk is assumed by the taking over institution	20
(b)	Where only partial credit risk is assumed by taking over institution	
	(i) The amount to be taken over	20
	(ii) The amount not to be taken over	100
	(ii) Conditional takeover (in the books of lending and taking over institution)	100
	<i>Notes: While calculating the aggregate of funded and non-funded exposure of a borrower for the purpose of assignment of risk weight, banks may 'net-off' against the total outstanding exposure of the borrower –</i>	
	(a) advances collateralized by cash margins or deposits,	
	(b) credit balances in current or other accounts of the borrower which are not earmarked for specific purposes and free from any lien,	
	(c) in respect of any assets where provisions for depreciation or for bad debts have been made,	

		(d) claims received from DICGC / ECGC and kept in a separate a/c pending adjustment in case these are not adjusted against the dues outstanding in the respective a/cs,	
		(e) Subsidies received against various schemes and kept in a separate account.	
IV	Other Assets		
	1	Premises, furniture and fixtures	100
	2	Interest due on Government securities	0
	3	Accrued interest on CRR balances maintained with RBI -@ <u>net of claims of Government / RBI on banks on account of such transactions</u>	0
	4	Income tax deducted at source (net of provision)	0
	5	Advance tax paid (net of provision)	0
	6	Interest receivable on staff loans	20
	7	Interest receivable from banks	20
	8	Interest subvention receivable from Gol	0
	9	All other assets	100
V	Market Risk on Open Position		
	1	Market risk on foreign exchange open position (Applicable to Authorised Dealers only)	100
	2	Market risk on open gold position	100

Note: Intangible assets and losses deducted from Tier 1 capital should be assigned zero weight.

B. Off-Balance Sheet Items

The credit risk exposure attached to Off-Balance Sheet items has to be first calculated by multiplying the face value of each of the Off-Balance Sheet items by 'credit conversion factor' as indicated in the table below. This will then have to be again multiplied by the weights attributable to the relevant counter-party as specified above.

Sl. No.	Instruments	Credit Conversion Factor (%)
1	Direct credit substitutes e.g., general guarantees of indebtedness (including standby L/Cs serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptance)	100
2	Certain transaction-related contingent items (e.g., performance bonds, bid bonds, warranties and standby L/Cs related to particular transactions)	50

Annex II

Sl. No.	Instruments	Credit Conversion Factor (%)
3	Short-term self-liquidating trade-related contingencies (such as documentary credits collateralized by the underlying shipments)	20
4	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains with the bank	100
5	Forward asset purchase, forward deposit and partly paid shares and securities, which represent commitments with certain draw down	100
6	Note issuance facilities and revolving underwriting facilities	50
7	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of over one year	50
8	Similar commitments with an original maturity up to one year, or which can be unconditionally cancelled at any time. Note: In respect of borrowers having aggregate fund based working capital limit of ₹150 crore and above from the banking system, the undrawn portion of cash credit / overdraft limits sanctioned, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20 percent.	0
9	(i) Guarantees issued by banks against the counter guarantees of other banks	20
	(ii) Rediscounting of documentary bills accepted by banks. Bills discounted by banks which have been accepted by another bank will be treated as a funded claim on a bank.	20
	Note: In these cases, banks should be fully satisfied that the risk exposure is, in fact, on the other bank.	
10	Aggregate outstanding foreign exchange contracts of original maturity* –	
	(a) Less than 14 calendar days	0
	(b) More than 14 calendar days but less than one year	2
	(c) For each additional year or part thereof	3
	* In case the bank has adopted the Bilateral Netting guidelines as per Part II below, Credit Conversion Factor (CCF) for foreign exchange contracts shall be as provided in the second table in Part II below and CCF of “zero” per cent for foreign exchange contracts which have original maturity of 14 calendar days or less will not be applicable.	

Note: At present, RRB may not be undertaking most of the off-balance sheet transactions. However, keeping in view their potential for expansion, risk-weights are indicated against various off balance sheet items, which, perhaps banks may undertake in future.

II. Additional Risk Weights (Applicable to Authorised Dealers Only)

1. Foreign Exchange Contracts

- (a) Foreign exchange contracts include the following:
- (i) Cross currency swaps
 - (ii) Forward foreign exchange contracts
 - (iii) Currency futures
 - (iv) Currency options purchased
 - (v) Other contracts of a similar nature
- (b) As in the case of other off-balance Sheet items, a two-stage calculation prescribed below shall be applied:
- (i) **Step 1** - The notional principal amount of each instrument is multiplied by the conversion factor given below:

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

When effective bilateral netting contracts as specified in paragraph II.3 of this Annex are in place, the conversion factors, as mentioned in the below table, shall be applicable*:

Original maturity	Conversion Factor
Less than one year	1.5%
One year and less than two years	3.75% (i.e., 1.5% + 2.25%)
For each additional year	2.25%

- (ii) **Step 2** - The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as given in paragraph I.A above.

*Note: For purposes of calculating the credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, the original credit conversion factors (i.e., without considering the impact of bilateral netting) should be applied to the notional principal, which is defined as the

net receipts falling due on each value date in each currency. In no case should the reduced factors above be applied to net notional amounts.

2. Interest Rate Contracts

- (a) Interest rate contracts include the following:
- (i) Single currency interest rate swaps
 - (ii) Basis swaps
 - (iii) Forward rate agreements
 - (iv) Interest rate futures
 - (v) Interest rate options purchased
 - (vi) Other contracts of a similar nature
- (b) As in the case of other off-balance Sheet items, a two-stage calculation prescribed below shall be applied:
- (i) **Step 1** - The notional principal amount of each instrument is multiplied by the percentages given below:

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

When effective bilateral netting contracts as specified in paragraph II.3 of this Annex are in place, the conversion factors, as mentioned in the below table, shall be applicable:

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

- (ii) **Step 2** - The adjusted value thus obtained shall be multiplied by the risk weightage allotted to the relevant counter-party as given in paragraph I.A above.

Note: In the event of any uncertainty in assigning risk weights against a specific transaction, RBI clarification may be sought for.

3. Requirement for recognition of Bilateral Netting Contract:

- (a) Banks may net transactions subject to novation under which any obligation between a bank and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.
- (b) Banks may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.
- (c) In both cases (a) and (b), a bank will need to satisfy that it has:
 - (i) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the bank would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances.
 - (ii) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be such a net amount under:
 - The law of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located;
 - The law that governs the individual transactions; and
 - The law that governs any contract or agreement necessary to effect the netting.
 - (iii) Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law.
- (d) Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capital requirements under these guidelines. A walkaway clause is a provision which permits a non-defaulting counterparty to make only

limited payments or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.

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

- i. **Prudential Aspects:** The guarantees provided under the respective schemes shall comply with the requirements for credit risk mitigation in terms of paragraph 7.5 of the [Master Circular– Basel III Capital Regulations dated April 01, 2024](#), as amended from time to time. Among other requirements, such guarantees should be direct, explicit, irrevocable and unconditional.
- ii. **Restrictions on permissible claims:** Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by Member Lending Institutions (MLI), payout cap, etc., the zero percent risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations.
- iii. In case of a portfolio-level guarantee, effective from April 1, 2023, the extent of exposure subjected to first loss absorption by the MLI, if any, shall be subjected to full capital deduction and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations, on a pro rata basis. The maximum capital charge shall be capped at a notional level arrived at by treating the entire exposure as unguaranteed.

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

The above regulatory stipulation shall be applicable to all the banks to the extent they are recognised as eligible MLIs under the respective schemes.

Some illustrative examples of risk weights applicable on claims guaranteed under specific existing schemes are given below:

Illustrative Examples - Risk Weights (RW) applicable on credit facilities guaranteed under specific existing schemes

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

Scheme name	Guarantee Cover	Risk Weight
1. Credit Guarantee Fund Scheme for Factoring (CGFSF)	The first loss of 10% of the amount in default to be borne by Factors. The remaining 90% (i.e., second loss) of the amount in default will be borne by NCGTC and Factors in the ratio of 2:1 respectively	<ul style="list-style-type: none"> • First loss of 10% amount in default – Full capital deduction • 60% amount in default borne by NCGTC- 0% RW. • Balance 30% amount in default <u>Counterparty/Regulatory Retail Portfolio (RRP) RW as applicable.</u> <p>Note: The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.</p>
2. Credit Guarantee Fund Scheme for Skill Development (CGFSD)	75% of the amount in default. 100% of the guaranteed claims shall be paid by the Trust after all avenues for recovery have been exhausted and there is no scope for recovering the default amount.	<ul style="list-style-type: none"> • Entire amount in default - <u>Counterparty/ Regulatory Retail Portfolio (RRP) RW as applicable.</u>
3. Credit Guarantee Fund for Micro Units (CGFMU)	<p><u>Micro Loans</u></p> <p>The first loss to the extent of 3% of amount in default.</p> <p>Out of the balance, guarantee will be to a maximum extent of 75% of the amount in default in the crystallized portfolio</p>	<ul style="list-style-type: none"> • First loss of 3% amount in default – Full capital deduction • 72.75% of the amount in default - 0% RW, subject to maximum of $(\{15\% * CP\} - C) * \left[\frac{SLA}{CP} \right]$ <p>Where-</p> <ul style="list-style-type: none"> o CP = Crystallized Portfolio (sanctioned amount) o C = Claims received in previous years, if any, in the crystallized portfolio o SLA = Sanctioned limit of each account in the crystallized portfolio

Appendix to Annex II

Scheme name	Guarantee Cover	Risk Weight
		<p>o 15 per cent represents the payout cap</p> <ul style="list-style-type: none"> • Balance amount in default - <u>Counterparty/ RRP RW as applicable.</u> <p>Note: The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.</p>
4.CGTMSE guarantee coverage for Micro-Enterprises	<p><u>Upto ₹5 lakh</u> 85% of the amount in default subject to a maximum of ₹4.25 lakh</p> <p><u>Above ₹5 lakh & upto ₹50 lakh</u> 75% of the amount in default subject to a maximum of ₹37.50 lakh</p> <p><u>Above ₹50 lakh & upto ₹200 lakh</u> 75% of the amount in default subject to a maximum of ₹150 lakh</p>	<ul style="list-style-type: none"> • Guaranteed amount in default – <u>0% RW*</u> • Balance amount in default - <u>Counterparty/ RRP RW as applicable.</u>
<p>*In terms of the payout cap stipulations of CGTMSE, claims of the member lending institutions will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. However, since the balance claims will be settled in subsequent year/s as the position is remedied, the entire extent of guaranteed portion may be assigned zero percent risk weight.</p>		

Annex III
[Paragraph 8]

Statement of Capital Funds, Risk Assets/Exposures and Risk Asset Ratio

Part A - Capital Funds and Risk Assets Ratio

(Amount in ₹ crore)

I	Capital Funds	
A	Tier 1 capital elements	
	(a) Paid-up capital	
	Less: Intangible assets and losses	
	Total	
	(b) Reserves & surplus	
	1. Statutory reserves	
	2. Capital reserve (see note below)	
	3. Share premium	
	4. Revaluation reserves (refer to paragraph 6.1.1(f) of this Master Direction)	
	5. Other free reserves	
	6. Balance in Profit & Loss Account *	
	(c) Perpetual Debt Instruments (PDI)	
	Total Tier 1 capital	
	Notes: Capital reserves representing surplus on sale of assets and held in a separate account will be included.	
	General/floating provisions and specific provisions made for loan losses and other asset losses or diminution in the value of any assets will not be reckoned as capital funds. * Any balance (net) in profit and loss account i.e., balance after appropriation towards dividend payable, education fund, other funds whose utilisation is defined and asset loss, if any etc. If balance in profit and loss account is negative, the same shall be reduced.	
B	Tier 2 capital elements	
	(i) General provisions and loss reserves #	
	(ii) Investment Fluctuation Reserves	
	(iii) Revaluation reserves (refer to paragraph 6.1.1(f) of this Master Direction)	
	Total Tier 2 capital	
C	Total Capital Funds (A + B)	
II	Risk Weighted Assets	

Annex III

(a)	Adjusted value of funded risk assets i.e., on-balance Sheet items (to tally with Part 'B')	
(b)	Adjusted value of non-funded and off-Balance Sheet items (to tally with Part 'C')	
(c)	Total risk-weighted assets (a + b)	
III	Percentage of capital funds to risk-weighted assets [I(C) / II(c)]	
# Includes General Provision on standard assets		

Part B – Risk Weighted Assets i.e. On-Balance Sheet Items

(Amount in ₹ crore)

Sr. No.		Book Value	Risk Weight	Adjusted Value
I	Cash & Bank Balance			
(a)	Cash in hand (including foreign currency notes)			
(b)	Balances with banks in India			
	(i) Balances with RBI			
	(ii) Balances with banks			
	a. Current account (in India and outside India)			
	b. Other accounts (in India and outside India)			
	c. Current account balances with other RRBs			
II	Money at Call and Short Notice			
III	Investments			
	(a) Government and other approved securities *			
	(b) Others (net of depreciation provided)			
IV	Advances**			
	Loans and advances, bills purchased and discounted and other credit facilities			
	(a) Claims guaranteed by Government of India			
	(b) Claims guaranteed by State Governments			
	(c) Claims on public sector undertakings of Government of India			
	(d) Claims on public sector undertakings of State Governments			
	(e) Others			
	Notes:			

Annex III

Sr. No.		Book Value	Risk Weight	Adjusted Value
	1. Netting may be done only for advances collateralised by cash margins or deposits and in respect of assets where provisions for depreciation for bad and doubtful debts have been made. 2. Intangible assets for which losses have been deducted from Tier 1 capital should be assigned zero weight.			
V	Premises (net of depreciation provided)			
VI	Furniture and fixtures (net of depreciation provided)			
VII	Other assets (including branch adjustments, non-banking assets, etc.)			
	Total			
<p>* Provision, if any, made for depreciation in investments in Government and other approved securities may be included by way of a footnote.</p> <p>* Provisions held, either general or specific, for bad and doubtful debts may be indicated by way of footnote.</p>				

Part C – Risk Weighted Non-Funded Exposures/Off-Balance Sheet Items

Each off-Balance Sheet item may be submitted in the format indicated below:

(Amount in ₹ crore)

Nature of Item	Book Value	Conversion Factor	Equivalent Value	Risk Weight	Adjusted Value

Annex IV
[Paragraph 9]

List of Circulars repealed by these Directions

1. List of Circulars repealed fully

Sl.no.	Circular	Date	Subject
1	RPCD.CO.RRB.No.BC.44/05.03.095/2007-08	December 28, 2007	Mid-Term Review of Annual Policy Statement for the year 2007-08 - Application of Capital Adequacy norms to Regional Rural Banks
2	RPCD.CO.RRB.BC.No.60/03.05.33/2013-14	November 26, 2013	Imposition of Minimum Capital Adequacy Measure of 9% for RRBs
3	RPCD.CO.RRB.BC.No.35/03.05.33/2014-15	October 21, 2014	Risk Weights for Calculation of CRAR
4	DOR.RRB.No.21/31.01.001/2019-20	November 01, 2019	Issue of additional instruments for augmenting regulatory capital for RRBs

2. List of circulars repealed partially (for parts pertaining to RRBs only)

Sl.no.	Circular	Date	Subject
1	DBR.No.BP.BC.17/21.06.001/2019-20	September 12, 2019	Risk Weight for Consumer Credit except credit card receivables
2	DoR.BP.BC.No.76/21.06.201/2019-20	June 21, 2020	Assignment of Risk Weights on Credit Facilities (Guaranteed Emergency Credit Line) under the Emergency Credit Line Guarantee Scheme
3	DOR.CAP.REC.No.97/21.06.201/2021-22	March 31, 2022	Bilateral Netting of Qualified Financial Contracts - Amendments to Prudential Guidelines
4	DOR.MRG.REC.64/00-00-005/2022-23	August 11, 2022	Bilateral Netting of Qualified Financial Contracts - Amendments to Prudential Guidelines
5	DOR.STR.REC.67/21.06.201/2022-23	September 07, 2022	Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)
6	DOR.STR.REC.57/21.06.001/2023-24	November 16, 2023	Regulatory measures towards consumer credit and bank credit to NBFCs
7	DOR.CRE.REC.63/21.06.001/2024-25	February 25, 2025	Review of Risk Weights on Microfinance Loans