

Capital adequacy ratio of banks could rise by up to 100 bps, say officials

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'RBI easing norms for determining core capital is a progressive step'

Mumbai, March 2:

The capital adequacy of banks could go up by up to 100 basis points following the Reserve Bank of India relaxing the norms on treatment of certain balance sheet items.

Among others, State Bank of India, Bank of Baroda, and Indian Overseas Bank will get the benefit of close to 100 basis points increase in their capital adequacy ratio (CAR), said top officials of these banks.

Central Bank of India's CAR could go up by up to 40 basis points, said BK Divakara, Executive Director. CAR is the measure of the amount of a bank's capital expressed as a percentage of its risk-weighted credit exposures.

S Ravi, a practising chartered accountant and Independent Director with IDBI Bank, said the RBI's move to change the treatment of certain balance sheet items for determining banks' regulatory capital is a progressive step and will have a salutary effect on their capital position.

According to the revision in Basel III capital regulations made by the RBI, banks can now include certain items, such as property value and foreign exchange for calculation of its Tier I capital (CET1), instead of Tier II capital.

Banks' CET1 capital, comprising paid-up equity capital, statutory reserves, capital reserves, other disclosed free reserves (if any), and balance in profit and loss (P&L) account at the end of the previous financial year, must be at least 5.5 per cent of risk-weighted assets — for credit risk plus market risk and operational risk on an ongoing basis.

Foreign currency translation reserves arising from translation of financial statements of a bank's foreign operations to the reporting currency may be considered as CET1 capital. These will be reckoned at a discount of 25 per cent.

Deferred tax assets (DTAs) arising due to timing differences may be recognised as CET1 capital up to 10 per cent of a bank's CET1 capital. DTAs arise due to differences in calculation of depreciation on fixed and intangible assets under the Companies Act and the Income Tax Act.

Credit rating agency ICRA, in a note on 'The Indian Banking Sector - Changes in Basel III Capital Regulations', said while these changes provide near-term respite to public sector banks (PSBs), concerns on asset quality and solvency need to be addressed for strengthening the credit profiles of PSBs.

Further, any increase is unlikely in the loss-absorption capacity of banks (main purpose of the Tier I capital), reclassification of hidden reserves would help banks increase their Tier I capital by Rs. 35,000-40,000 crore.

As the government has already committed to infusion of Rs. 25,000-crore equity into public sector banks in FY17, total Tier I capital requirement of PSBs, estimated at Rs. 40,000-60,000 crore for that year, could be easily met, the agency added.

According to ICRA estimates, PSBs would still need to raise Tier I capital of Rs. 1.6-2.6 lakh crore in FY17-19 as against earlier estimates of Rs. 1.9-3-lakh crore. Therefore, investor appetite for PSBs' common equity as well as additional Tier I capital will be key to their ability to grow in FY18-19.

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