CAPITAL ADEQUACY RATIO (CAR)

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PRUDENTIAL NORMS

- Basel I
- Basel II
- Basel III

Capital Adequacy Ratio (CAR)

- It strengthens the soundness and stability of the banking sector and ensures its competitive performance.
- It is alternatively called Capital to Risk Weighted Asset Ratio (CRAR).

Formula of Capital Adequacy Ratio (CAR)

$$CAR = \frac{\text{Total Unimpaired Asset}}{\text{Risk Weighted Asset}}$$

- This ratio is expressed as a ratio of the total unimpaired (undamaged) capital funds to risk weighted asset.

Capital Adequacy Ratio (CAR)

- Capital adequacy is a part of the larger global frame work of Banking Committee for Financial Supervision (BCFS) – also known as Basel I, Basel II & Basel III.

Capital adequacy implies that any bank, being engaged in a business of lending has 'normal risks' associated and should have some minimum own funds to meet such risks.

- If a bank has risk weighted assets of Rs. 100 – then it should be having at least Rs. 8 as capital – Basel I

Prudential Norms

- Capital Adequacy Ratio (CAR)
- Provisioning
- Asset Quality Review
- Market Discipline

Important Principles Followed by the Banks for Lending Money / Investment

1. Liquidity
2. Profitability
3. Safety
4. Security


CREDIT SUISSE
Bank of America
Merrill Lynch


LEHMAN BROTHERS
SEP 15

Non-Performing Assets (NPAs)

Coming Video