CAPITAL TO RISK-WEIGHTED ASSETS (CRAR)

Prelims: Economics- Banking

Mains: GS-III - Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development and Employment

CRAR:

- Capital to Risk (Weighted) Assets Ratio (CRAR) is also known as Capital adequacy Ratio, the ratio of a bank's capital to its risk.
- The banking regulator tracks a bank's CAR to ensure that the bank can absorb a reasonable amount of loss and complies with statutory Capital requirements. Higher CRAR indicates a bank is better capitalized.
- The Capital to risk weighted assets ratio is arrived at by dividing the capital of the bank with aggregated risk weighted assets for credit risk, market risk and operational risk.
- The capital to risk-weighted assets ratio is calculated by adding a bank's tier 1 capital and tier 2 capitals and dividing the total by its total risk-weighted assets.
- As per RBI guidelines, banks are required to maintain a minimum Capital to Risk-weighted Assets (CRAR) of 9% on an ongoing basis.
- Out of the 9 per cent of CAR, 7 per cent has to be met by Tier 1 capital while the remaining 2 per cent by Tier 2 capital.