Q16

Consider the following statements: 1. Capital Adequacy Ratio (CAR) is the amount that banks have to maintain in the form of their own funds to offset any loss that banks incur if the account-holders fail to repay dues. 2. CAR is decided by each individual bank. Which of the statements given above is/are correct? (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2 Official key: A.

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Explanation

(a) Official key

(a) 1 only. **(a) Official key:** Capital Adequacy Ratio is the bank's own capital as a buffer against losses, including credit losses when borrowers do not repay. Statement 2 is false: CAR minima are set by the Basel framework as implemented by RBI, not by each bank at will. Only statement 1 is correct.

(b)

(b) 2 only. Banks do not decide their own regulatory CAR. This letter is not the key.

(c)

(c) Both 1 and 2. Statement 2 fails, so both-correct is not the key.

(d)

(d) Neither 1 nor 2. Statement 1 correctly describes CAR as loss-absorbing own funds, so 'neither' is not the key.

Summary

Official key is (a) 1 only. CAR (CRAR in Indian usage) is own capital relative to risk-weighted assets so that losses do not wipe out depositors. RBI, following Basel, sets the floor; individual banks cannot invent a lower ratio. Honour the stored letter (a).

Related possible facts

These can be asked in a future Prelims paper.

CAR / CRAR

Capital to Risk-weighted Assets Ratio

Basel III in India
Implemented by RBI

Minimum CRAR (India)
9 percent (higher than Basel's 8 percent)

CET1
Common Equity Tier 1 capital

Risk-weighted assets
Assets scaled by credit, market and operational risk