June 21, 2004

RBI/2004/ 260
DBOD.NO.BP.BC. 100/ 21.03.054/2003-04

All scheduled commercial banks
(excluding RRBs)

Dear Sir,

Annual Policy Statement for the year 2004-05 -
Prudential Credit Exposure Limits by Banks

Please refer to our Circular No. DBOD.BP.BC.116/21.04.48/2001-02 dated May 2, 2001 and Circular No. DBOD.BP.BC.67/21.04.48/2002-03 dated February 4. 2003, wherein it was advised that banks are allowed to assume single or group borrower credit exposure up to 15 and 40 per cent of capital funds (i.e., Tier I & Tier II Capital) respectively, with an additional allowance of 5 and 10 per cent of capital funds for infrastructure sector exposure. Banks that had difficulty in complying with the prudential credit exposure limits have approached RBI for approvals, which were considered, on a case-by-case basis.

2. As indicated in paragraph 117 of the annual policy Statement for the year 2004-2005 enclosed to the Governor's letter No.MPD.BC.249 /07.01.279 / 2003-2004 dated May 18, 2004, (copy of the paragraph enclosed) it has now been decided to discontinue the practice of giving case-by-case approval particularly in the light of the liberalised access of borrowers to ECBs and their ability to raise resources through capital/debt market. Accordingly banks are advised that: -

i) The single /group borrower prudential exposure ceilings i.e 15 per cent and 40 per cent respectively and the additional limits of 5 per cent and 10 per cent for exposure to infrastructure should be strictly adhered to by banks.

ii) Banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 per cent of capital funds (i.e 20 per cent of capital funds for single borrower and 45 per cent of capital funds for group borrowers) subject to the borrower consenting to the banks making appropriate disclosures in their Annual Reports.

iii) It is clarified that in respect of exposure to infrastructure, banks could consider additional sanctions upto 5 per cent and 10 per cent as indicated at (i) over & above the limits of 20 per cent and 45 per cent respectively.

iv) While computing the extent of exposures to a borrower/borrower group for assessing compliance vis-a-vis the single borrower limit/group borrower limit, exposures where principal and interest are fully guaranteed by the Government of India may be excluded.

v) The bank should make appropriate disclosures in the 'Notes on account' to the annual financial statements in respect of the exposures where the bank had exceeded the prudential exposure limits during the year.

vi) Banks should phase out by March 31, 2005 exposures in excess of single/group borrower limits not in conformity with above, either by increasing capital funds or reducing exposures.

Yours faithfully,

Sd/-

(C R Muralidharan)
Chief General Manager-in-Charge

Extract of Annual Policy Statement for the year 2004- 05

" ***Prudential Credit Exposure Limits***

117. At present, banks are allowed to assume single or group borrower credit exposure up to 15 and 40 per cent of capital funds (i.e., Tier I & Tier II Capital) respectively, with an additional allowance of 5 and 10 per cent of capital funds for infrastructure sector exposure. However, banks having difficulty in complying with the prudential credit exposure limits can approach RBI for approval, on a case by case basis. In the light of the liberalised access of borrowers to ECBs and their ability to raise resources through capital/debt market, it has been decided to discontinue the practice of giving case-by-case approval. Accordingly, it is proposed that:

- Banks may, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to the borrower up to a maximum of further 5 per cent of capital funds, subject to the borrower consenting to the banks making appropriate disclosures in their Annual Reports. The additional allowance of 5 and 10 per cent of capital funds for single and group borrowers, respectively, for the infrastructure exposure would continue.

- Exposures of banks that are fully guaranteed by the Government of India would be exempt from the purview of credit exposure norms.

- Banks would phase out the excess exposures beyond the prescribed limits either by increasing capital funds or reducing exposures by March 31, 2005 "