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RESERVE BANK OF INDIA

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July 26, 2004

The CEOs of the all-India Term Lending and Refinancing Institutions
(Exim Bank, IDBI, IDFC Ltd., IFCI Ltd., IIBI Ltd., NABARD, NHB, SIDBI and TFCI Ltd.)

Dear Sir,

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

Please refer to our Master Circular No. DBS.FID.No.C-7/01.02.00/2003-04 dated August 7, 2003 on exposure norms for the FIs wherein it was advised, inter alia, that FIs 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. FIs that had difficulty in complying with the prudential credit exposure limits approached RBI for approval, 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 FIs 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 FIs.

ii. FIs 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 FIs making appropriate disclosures in their Annual Reports.

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Department of Banking Supervision, Central Office, **Financial Institutions Division**, 2nd Floor, Centre 1, WTC, Mumbai- 400 005
’¹¥¸ Tel: 22189131-39; Dir.22186723 ûÅÆ¬¸: Fax 22183579 ƒ-Ÿ¸¥¸: ssgangopadhyay@rbi.org.in

iii. It is clarified that in respect of exposure to infrastructure, FIs 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 FI should make appropriate disclosures in the ‘Notes on account’ to the annual financial statements in respect of the exposures where the FI had exceeded the prudential exposure limits during the year.

vi. FIs 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.

3. Further, it is reiterated that the instructions pertaining to refinancing institutions (RFIs) viz., NABARD, SIDBI and NHB as contained in our circular DBS.FID.No.C.3/ 01.02. 00/2001-02 dated August 27, 2001 will continue to hold good as hitherto i.e. the refinance portfolio of these institutions would **not** be subject to these exposure norms and that the RFIs need to evolve their own credit exposure limits in respect of the refinancing portfolio.

Yours faithfully,

(S.S.Gangopadhyay)
Chief General Manager

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’¹¥¸ Tel: 22189131-39; Dir.22186723 ûÅÆ¬¸: Fax 22183579 ƒ-Ÿ¸¥¸: ssgangopadhyay@rbi.org.in

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 "

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