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## RBI caps banks' loan exposure to large borrowers

By ET Bureau | Updated: Dec 02, 2016, 01.25 AM IST

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MUMBAI: The Reserve Bank of India (RBI) on Thursday capped banks' exposure limit to a single entity to 20% and that to a business group at 25%. The move, aimed at containing concentration risk of banks, is in line with international best regulatory practice that is popularly known as Basel III norms. A bank's exposure to an entity or a business group is considered 'large' if it is equal to or above 10% of a bank's eligible capital base.

According to the revised norms, the sum of all exposures of a bank to a single business entity must not be higher than 20% of a bank's available and eligible capital base at all times. However, in exceptional cases, bank boards may be allowed an additional 5% exposure of the lender's available and eligible capital base.

"The sum of all exposure of a bank to a business group must not be higher than 25% of its available and eligible capital base at all times," the RBI said in a notification to banks. Under the proposed framework, an exposure to a counterparty will comprise both balance sheet as well as off-balance sheet exposures such as derivatives and other hedgings.

RBI had released the draft guidelines in August for feedback from bankers. "A bank's exposures to its counterparties may result in concentration of its assets to a single counterparty or a group of connected counterparties," RBI said. The revised norms will be implemented from April 2019, it said.

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