THE HINDU BusinessLine

RBI issues final guidelines on 'large exposure' of banks

Our Bureau

Lending to a single borrower capped at 20 per cent oftier-I capital

Mumbai, December 1:

The Reserve Bank of India on Thursday announced the final guidelines on its 'large exposures' framework. These guidelines are aimed at significant tightening of norms pertaining to concentration risks of banks, especially in relation to large borrowers. The guidelines come into effect from March 31, 2019.

According to the guidelines, a large exposure is defined as any exposure to a counter-party or group of counter-parties which is equal to 10 per cent of the bank's eligible capital base (defined as tier-I capital). Currently, the RBI's prudential exposure norms mandate that a bank exposure to a single borrower should capped at 15 per cent of their net worth while their group exposure is restricted to 40 per cent of their net worth.

This will now be capped at 20 per cent of tier-I capital for a single entity and 25 per cent of tier-I capital for group exposure.

In exceptional cases, bank boards are can allow an extra 5 per cent (of the eligible capital base) exposure to a single borrower. There must be a board approved policy in this regard.

The guidelines are intended to reduce concentration risk of banks as well as reduce dependence of large corporates on banks for their funding needs and gradually move them to the corporate bond market.

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