

Seminar on Concurrent Audit of Banks

Advances – Exposure Norms

Hosted by : WIRC of ICAI

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Advances – Prudential Exposure Norms

Single Borrower / Group Borrower

Particulars	Remarks
Single borrower	15% of capital funds
Group borrower	40% of capital funds

Capital Fund = Tier I + Tier II Capital

Special provisions for infrastructure

Additional 5% / 10% for single / group borrower limits

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Advances – Prudential Exposure Norms

LCBD

- If LC issued by third bank, exposure would be on the said (LC issuing) bank
- If LC issued by same bank, exposure would be on the borrower

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Advances – Prudential Exposure Norms

Exemptions

- Existing accounts under rehabilitation
- Food Credit
- Central Government Guaranteed Accounts
- Advance against own FDR
- Exposure to NABARD (excluding unrated non-SLR securities)

Advances – Prudential Exposure Norms

Industry-wise Exposure Norms

Particulars	Remarks
Sectoral limits	Banks to decide internal limits for each sector like textile, jute, tea, etc.
Real Estate	Should have internal guidelines
Leasing / Hire Purchase / Factoring Services	Exposure to each type of activity should not exceed 10% of total Advances

Advances – Prudential Exposure Norms

Capital Market Exposure (CME)

- Direct investment in equity, convertible bonds / Debentures / Equity-Oriented MFs
- Advance against above mentioned securities (which are taken as primary security)
- Advance for investments in above mentioned securities
- Advances wherein primary security does not cover the exposure and collateral security is in the form of above mentioned securities

Advances – Prudential Exposure Norms

Capital Market Exposure (CME)

- Secured / Unsecured advances including guarantees to stock brokers / market makers
- Loan given to corporate for meeting promoter's contribution to equity of new companies in anticipation of raising resources
- Bridge loan given to companies against expected equity flow / issues
- Underwriting
- Financing stock brokers for margin trading
- Exposure to VC Funds

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Advances – Prudential Exposure Norms

Exposure to Capital Market

Particulars	Remarks
Shareholding in companies directly / indirectly (as owner or by way of pledgee / mortgagee)	30% of paid-up capital of the company or 30% of its own capital, whichever is lower
Overall exposure to capital market in all forms	40% of own net worth as at last March for all forms
Solo as well as consolidated exposures	20% of own net worth for <u>direct investments</u> in above mentioned securities and VCs

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Advances – Prudential Exposure Norms

Financing of Equities

Particulars	Remarks
Advance against shares to individuals	Rs. 10 lakhs if held in physical form
	Rs. 20 lakhs if held in demat form
Financing for subscription to IPO	Rs. 10 lakhs
Financing employees for ESOPs	90% of purchase price or Rs. 20 lakhs, whichever is lower

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Advances – Prudential Exposure Norms

Financing of Equities

Particulars	Remarks
Advance against shares to Stock Brokers and Market Makers	To be decided on the basis of commercial judgment of the bank Prohibition for funding arbitrage operations in stock exchange
Margin on advance against shares / issue of guarantees	Uniform margin of 50%
Margins issued for capital market operations	Minimum 25% cash margin within overall 50% margin

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Advances – Restrictions

Particulars	Remarks
Advance against own shares	Prohibited
Loan to Directors of the Bank	Prohibited except for certain types of advances like i. Against FDR, LIP, Govt. Securities ii. Employee loans iii. With prior approval of RBI
Industries producing / consuming Ozone Depleting Substances (ODS)	Prohibited

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QUESTIONS ???

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THANK YOU

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