
RESERVE BANK OF INDIA
DEPARTMENT OF FINANCIAL COMPANIES
CENTRAL OFFICE
15, NETAJI SUBHAS ROAD
POST BOX No. 571
CALCUTTA

(AS AMENDED UPTO June 6, 2002)

The Reserve Bank of India, having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to issue the directions relating to the prudential norms as set out below hereby, in exercise of the powers conferred by section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, and in supersession of the earlier directions contained in Notification No. DFC. 115/DG(SPT)/98 dated January 2, 1998 gives to every non-banking financial company the directions hereinafter specified.

Short title, commencement and applicability of the directions :

1. (1) These directions shall be known as the "Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998".

(2) These directions shall come into force with immediate effect.

(3) (i) All the provisions of these directions save as provided for in clauses (ii) and (iii) hereinafter, shall apply to -

(a) a non-banking financial company (referred to in these directions as "NBFC"), except a mutual benefit financial company [and a mutual benefit company]¹ as defined in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 which is having net owned fund (referred to in these directions as “NOF”) of rupees twenty-five lakh and above and accepting/holding public deposit;

(b) a residuary non-banking company (referred to in these directions as "RNBC") as defined in the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987.

The provisions of paragraph 10 and 12 of these directions shall not apply to:

(a) a loan company;
(b) an investment company;
(c) a hire purchase finance company; and
(d) an equipment leasing company,

which is having NOF of rupees twenty-five lakh and above but not accepting/holding public deposit.

These directions shall not apply to an NBFC being an investment company;

Provided that, it is

(a) holding investments in the securities of its group/holding/subsidiary companies and book value of such holding is not less than ninety per cent of its total assets and it is not trading in such securities; and

(b) not accepting/holding public deposit.

These directions shall not apply to an NBFC being a Government company as defined under Section 617 of the Companies Act, 1956 (1 of 1956).²

Definitions

2. (1) For the purpose of these directions, unless the context otherwise requires:

(i) “break up value” means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;

(ii) “carrying cost” means book value of the assets and interest accrued thereon but not received;

(iii) “current investment” means an investment which is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made;

(iv) “doubtful asset” means -

(a) a term loan, or
(b) a lease asset, or

² Inserted vide notification No.135 dated January 13, 2000
(c) a hire purchase asset, or
(d) any other asset, which remains a substandard asset for a period exceeding two years;

(v) “earning value” means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate :-

(a) in case of predominantly manufacturing company, eight per cent;
(b) in case of predominantly trading company, ten per cent; and
(c) in case of any other company, including an NBFC, twelve per cent;

NOTE:

If an investee company is a loss making company, the earning value will be taken at zero;

(vi) “fair value” means the mean of the earning value and the break up value;

(vii) “hybrid debt” means capital instrument which possesses certain characteristics of equity as well as of debt;

(viii) “loss asset” means -

(a) an asset which has been identified as loss asset by the NBFC or its internal or external auditor or by the Reserve Bank of India during the inspection of the NBFC, to the extent it is not written off by the NBFC; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non availability of security or due to any fraudulent act or omission on the part of the borrower;

(ix) “long term investment” means an investment other than a current investment;

(x) “net asset value” means the latest declared net asset value by the concerned mutual fund in respect of that particular scheme;

(xii) “net book value” means

(a) in the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per paragraph 8(2)(i) of these directions;
(b) in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.

(xii) [with effect from March 31, 2003, ‘non-performing asset’ (referred to in these directions as “NPA”) means:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head ‘other current assets’ in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

Provided that in the case of lease and hire purchase transactions, an NBFC may classify each such account on the basis of its record of recovery:]³

[“non-performing asset” (referred to in these directions as “NPA”) means:

(a) an asset, in respect of which, interest has remained past due for six

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³ Inserted vide notification No. 158 dated June 6, 2002 (effective from March 31, 2003)
(b) a term loan inclusive of unpaid interest, when the instalment is overdue for more than six months or on which interest amount remained past due for six months;

[(ba) a demand or call loan, which remained overdue for six months from the date of demand or call or on which interest amount remained past due for a period of six months;] ¹

(c) a bill which remains overdue for six months;

(d) the interest in respect of a debt or the income on receivables under the head ‘other current assets’ in the nature of short term loans/advances, which facility remained over due for a period of six months;

(e) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months;

(f) the lease rental and hire purchase instalment, which has become overdue for a period of more than twelve months;

(g) In respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

Provided that in the case of lease and hire purchase transactions, an NBFC may classify each such account on the basis of its record of recovery; ²

(xiii) “owned fund” means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;

(xiv) “past due” means an amount of income or interest which remains unpaid for a period of thirty days beyond the due date;

(xv) “standard asset” means the asset in respect of which, no default in repayment

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¹ Inserted vide notification No. 157 dated April 22, 2002
² Substituted vide notification No. 158 dated June 6, 2002 (effective from March 31, 2003)
of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

(xvi) “sub-standard assets” means -

(a) an asset which has been classified as non-performing asset for a period of not exceeding two years;

(b) an asset where the terms of the agreement regarding interest and/or principal have been renegotiated or rescheduled after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled terms;

(xvii) “subordinated debt” means a fully paid up capital instrument, which is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the supervisory authority of the NBFC. The book value of such instrument shall be subjected to discounting as provided hereunder:

<table>
<thead>
<tr>
<th>Remaining Maturity of the instruments</th>
<th>Rate of discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Upto one year</td>
<td>100%</td>
</tr>
<tr>
<td>(b) More than one year but upto two years</td>
<td>80%</td>
</tr>
<tr>
<td>(c) More than two years but upto three years</td>
<td>60%</td>
</tr>
<tr>
<td>(d) More than three years but upto four years</td>
<td>40%</td>
</tr>
<tr>
<td>(e) More than four years but upto five years</td>
<td>20%</td>
</tr>
</tbody>
</table>

The book value of such instrument shall be subjected to discounting as provided hereunder:

to the extent such discounted value does not exceed fifty per cent of Tier I capital;

(xviii) “substantial interest” means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds ten per cent of the paid up capital of the company; or the capital subscribed by all the partners of a partnership firm;

(xix) “Tier-I Capital” means owned fund as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund;
(xx) “Tier-II capital” includes the following :-

(a) preference shares other than those which are compulsorily convertible into equity;

(b) revaluation reserves at discounted rate of fifty five percent;

(c) general provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;

(d) hybrid debt capital instruments; and

(e) subordinated debt

to the extent the aggregate does not exceed Tier-I capital.

(2) Other words or expressions used but not defined herein and defined in the Reserve Bank of India Act, 1934 (2 of 1934) or the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 or the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987 shall have the same meaning as assigned to them under that Act or those Directions. Any other words or expressions not defined in that Act or those Directions, shall have the same meaning assigned to them in the Companies Act, 1956 (1 of 1956).

**Income recognition**

3. (1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed. *(Effective from May 12, 1998)*

(3) In respect of hire purchase assets, where instalments are overdue for more than 12 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised, shall be reversed.

(4) In respect of lease assets, where lease rentals are overdue for more than 12 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.
**Explanation**

For the purpose of this paragraph, ‘net lease rentals’ mean gross lease rentals as adjusted by the lease adjustment account debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under Schedule XIV of the Companies Act, 1956 (1 of 1956).

**Income from investments**

4. (1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis:

   Provided that the income from dividend on shares of corporate bodies may be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the NBFC’s right to receive payment is established.

(2) Income from bonds and debentures of corporate bodies and from Government securities/bonds may be taken into account on accrual basis:

Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

(3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government may be taken into account on accrual basis.

**Accounting standards**

5. Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India (referred to in these directions as “ICAI”) shall be followed insofar as they are not inconsistent with any of these directions.

**Accounting of investments**

6. [(1) (a) The Board of Directors of every NBFC shall frame investment policy for the company and implement the same;

(b) The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy;

(c) Investments in securities shall be classified into current and long term, at the time of making each investment;]
(d) (i) There shall be no inter-class transfer on ad-hoc basis;

(ii) The inter-class transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board;
(iii) The investments shall be transferred scrip-wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;

(iv) The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;

(v) The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category.\(^6\)

(2) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.,

(a) equity shares,
(b) preference shares,
(c) debentures and bonds,
(d) Government securities including treasury bills,
(e) units of mutual fund, and
(f) others.

Quoted current investments for each category shall be valued at cost or market value whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

(3) Unquoted equity shares in the nature of current investments shall be valued at cost or break up value, whichever is lower. However, NBFCs may substitute fair value for the break up value of the shares, if considered necessary. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.

(4) Unquoted preference shares in the nature of current investments shall be valued at cost or face value, whichever is lower.

\(^6\) Inserted vide notification No. 157 dated April 22, 2002
(5) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

(6) Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

(7) Commercial papers shall be valued at carrying cost.

(8) A long term investment shall be valued in accordance with the Accounting Standard issued by ICAI.

**Note**

Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

[6A. Need for Policy on Demand/Call Loans]

(1) The Board of Directors of every NBFC granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

(2) Such policy shall, inter alia, stipulate the following, -

(i) A cut off date within which the repayment of demand or call loan shall be demanded or called up;

(ii) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;

(iii) The rate of interest which shall be payable on such loans;

(iv) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;

(v) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;

(vi) A cut off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;
(vii) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.

**Asset Classification**

7 (1) Every NBFC shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes namely, -

(i) Standard assets;
(ii) Sub-standard assets;
(iii) Doubtful assets; and
(iv) Loss assets.

(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

**Provisioning requirements**

8. Every NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:

**Loans, advances and other credit facilities including bills purchased and discounted**

(1) The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

(i) **Loss Assets**
   - The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstandings should be provided for;

(ii) **Doubtful Assets**
   - (a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;

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7 Inserted vide notification No. 157 dated April 22, 2002
(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstandings) shall be made on the following basis:

<table>
<thead>
<tr>
<th>Period for which the asset has been considered as doubtful</th>
<th>% of provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto one year</td>
<td>20</td>
</tr>
<tr>
<td>One to three years</td>
<td>30</td>
</tr>
<tr>
<td>More than three years</td>
<td>50</td>
</tr>
</tbody>
</table>

iii) Sub-standard assets
A general provision of 10% of total outstandings shall be made.

Lease and hire purchase assets
(2) The provisioning requirements in respect of hire purchase and leased assets shall be as under:-
**Hire purchase assets**

(i) In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by

(a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges; and

(b) the depreciated value of the underlying asset,

shall be provided for.

**Explanation**

For the purpose of this paragraph,

(1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and

(2) in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

**Additional provision for hire purchase and leased assets**

(ii) In respect of hire purchase and leased assets, additional provision shall be made as under:

(a) Where any amounts of hire charges or lease rentals are overdue upto 12 months Nil

**Sub-standard assets** :

(b) where any amounts of hire charges or lease rentals are overdue for more than 12 months but upto 24 months 10 percent of the net book value

**Doubtful assets** :

(c) where any amounts of hire charges or lease rentals are overdue for more than 24 months but upto 36 months 40 percent of the net book value

(d) where any amounts of hire charges or lease rentals are overdue for more than 36 months 70 percent of the net book value
but upto 48 months

Loss assets:

(e) where any amounts of hire charges or lease rentals are overdue for more than 48 months 100 percent of the net book value

(iii) On expiry of a period of 12 months after the due date of the last instalment of hire purchase/leased asset, the entire net book value shall be fully provided for.

NOTES:

1. The amount of caution money/margin money or security deposits kept by the borrower with the NBFC in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement may be deducted only against the provisions stipulated under clause (ii) above.

2. The amount of security deposits kept by the borrower with the NBFC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement may be deducted only against the provisions stipulated under clause (ii) above.

3. It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised cannot be taken as reason for not making provision.

4. An asset which has been renegotiated or rescheduled as referred to in paragraph (2) (xvi) (b) of these directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or rescheduling as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

5. The balance sheet for the year 1999-2000 to be prepared by the NBFC may be in accordance with the provisions contained in sub-paragraph (2) of paragraph 8.

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8 Amended vide notification No. 142 dated June 30, 2000
6. [All financial leases written on or after April 1, 2001 attract the provisioning requirements as applicable to hire purchase assets.]

**Disclosure in the balance sheet**

9. (1) Every NBFC shall separately disclose in its balance sheet the provisions made as per paragraph 8 above without netting them from the income or against the value of assets.

(2) The provisions shall be distinctly indicated under separate heads of accounts as under :-

(i) provisions for bad and doubtful debts; and

(ii) provisions for depreciation in investments.

(3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the NBFC.

(4) Such provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

**[9A Constitution of Audit Committee by NBFCs]**

An NBFC having the assets of Rs. 50 crore and above as per its last audited balance sheet shall constitute an Audit Committee, consisting of not less than three members of its Board of Directors.

[Explanation I: The Audit Committee constituted by an NBFC as required under Section 292-A of the Companies Act, 1956 (1 of 1956) shall be the Audit Committee for the purposes of this paragraph.

Explanation II: The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in Section 292-A of the Companies Act, 1956 (1 of 1956).]

**9B Accounting year**

Every NBFC shall prepare its balance sheet and profit and loss account as on March 31 every year with effect from its accounting year ending with 31st March,

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9 Inserted vide notification No. 155 dated January 1, 2002.
10 Inserted vide notification No. 155 dated January 1, 2002
2001:

Provided that if the accounting year of any NBFC ends on any date other than 31st March, 2001 such NBFC shall prepare its balance sheet and profit and loss account for any fraction of the year ending on 31st March 2001\(^{11}\).

**Requirement as to capital adequacy**

10. (1) Every NBFC shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than -

   (i) ten per cent on or before March 31, 1998; and

   (ii) twelve per cent on or before March 31, 1999 of its aggregate risk weighted assets and of risk adjusted value of off-balance sheet items.

(2) The total of Tier II capital, at any point of time, shall not exceed one hundred per cent of Tier I capital.

**Explanations**:

**On balance sheet assets**

(1) In these directions, degrees of credit risk expressed as percentage weightages have been assigned to balance sheet assets. Hence, the value of each asset/item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value of assets. The aggregate shall be taken into account for reckoning the minimum capital ratio. The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder:

   **Weighted risk assets - On-Balance Sheet items**

   **Percentage weight**

   (i) Cash and bank balances including fixed deposits and certificates of deposits with banks 0

   (ii) Investments

      (a) Approved securities 0

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\(^{11}\) Inserted vide notification No.135 dated January 13, 2000
(b) Bonds of public sector banks and fixed deposits/certificates of deposits/bonds of public financial institutions 20

(c) Units of Unit Trust of India 20

(d) Shares of all companies and debentures/bonds/commercial papers of companies other than in (b) above/units of mutual funds other than in (c) above 100

(iii) **Current assets**

(a) Stock on hire (net book value) 100

(b) Intercorporate loans/deposits 100

(c) Loans and advances fully secured against deposits held by the company itself 0

(d) Loans to staff 0

(e) Other secured loans and advances considered good 100

(f) Bills purchased/discounted 100

(g) Others (To be specified) 100

(iv) **Fixed Assets (net of depreciation)**

(a) Assets leased out (net book value) 100

(b) Premises 100

(c) Furniture & Fixtures 100

(v) **Other assets**

(a) Income tax deducted at source (net of provision) 0

(b) Advance tax paid (net of provision) 0
(c) Interest due on Government securities          0

(d) Others (to be specified)                    100

Notes:

(1) Netting may be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.

(2) Assets which have been deducted from owned fund to arrive at net owned fund shall have a weightage of `zero’.

**Off-balance sheet items**

(2) In these directions, degrees of credit risk exposure attached to off-balance sheet items have been expressed as percentage of credit conversion factor. Hence, the face value of each item requires to be first multiplied by the relevant conversion factor to arrive at risk adjusted value of off-balance sheet item. The aggregate shall be taken into account for reckoning the minimum capital ratio. This shall have to be again multiplied by the risk weight of 100. The risk adjusted value of the off-balance sheet items shall be calculated as per the credit conversion factors of non-funded items as detailed hereunder:

<table>
<thead>
<tr>
<th>Nature of item</th>
<th>Credit conversion factor – Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Financial &amp; other guarantees</td>
<td>100</td>
</tr>
<tr>
<td>ii) Share/debenture underwriting obligations</td>
<td>50</td>
</tr>
<tr>
<td>iii) Partly-paid shares/debentures</td>
<td>100</td>
</tr>
<tr>
<td>iv) Bills discounted/rediscounted</td>
<td>100</td>
</tr>
<tr>
<td>v) Lease contracts entered into but yet to be executed</td>
<td>100</td>
</tr>
<tr>
<td>vi) Other contingent liabilities (To be specified)</td>
<td>50</td>
</tr>
</tbody>
</table>

**Note:** Cash margins/deposits shall be deducted before applying the conversion factor.
Loans against NBFC’s own shares prohibited

11. (1) No NBFC shall lend against its own shares.

(2) Any outstanding loan granted by an NBFC against its own shares on the date of commencement of these directions shall be recovered by the NBFC as per the repayment schedule.

NBFC failing to repay public deposit prohibited from making loans and investments

11A. An NBFC which has failed to repay any public deposit or part thereof in accordance with the terms and conditions of such deposit, as provided in section 45QA(1) of the Reserve Bank of India Act, 1934 (2 of 1934) shall not grant any loan or other credit facility by whatever name called or make any investment or create any other asset as long as the default exists.

(Effective from May 12, 1998)

Restrictions on investments in land and building and Unquoted shares

11B (i) No equipment leasing company or hire purchase finance company, which is accepting public deposit, shall, invest in -

(a) land or building, except for its own use, an amount exceeding ten percent of its owned fund;
(b) unquoted shares of another company, which is not a subsidiary company or a company in the same group of the NBFC, an amount exceeding ten percent of its owned fund.

(ii) No loan company or investment company, which is accepting public deposit, shall, invest in -

(a) land or building, except for its own use, an amount exceeding ten percent of its owned fund;
(b) unquoted shares of another company, which is not a subsidiary company or a company in the same group of the NBFC, an amount exceeding twenty percent of its owned fund:

Provided that the land or building or unquoted shares acquired in satisfaction of its debts shall be disposed off by the NBFC within a period of three years or within such period as extended by the Bank, from the date of such acquisition if the investment in these assets together with such assets already held by the NBFC exceeds the above ceiling;
Provided further that the land or building or unquoted shares held by the company in excess of the ceiling specified hereinabove on the date of commencement of these directions, shall be disposed off so as to bring down such holding within the said ceiling by the NBFC within three years or within such period as extended by the Bank, from the date of coming into force of these Directions.

(Effective from December 18, 1998)

[Explanation]

While calculating the ceiling on investment in unquoted shares, investments in such shares of all companies shall be aggregated].

[Provided further that the above ceiling on the investment in unquoted shares shall not be applicable to an equipment leasing company or a hire purchase finance company or a loan company or an investment company in respect of investment in the equity capital of an insurance company upto the extent specifically permitted, in writing, by the Reserve Bank of India.]

Concentration of credit/investment

12. (1) No NBFC shall,

(i) lend to

(a) any single borrower exceeding fifteen per cent of its owned fund; and

(b) any single group of borrowers exceeding twenty five per cent of its owned fund;

(ii) invest in

(a) the shares of another company exceeding fifteen per cent of its owned fund; and

(b) the shares of a single group of companies exceeding twenty five per cent of its owned fund;

(iii) lend and invest (loans/investments taken together) exceeding

(a) twenty five per cent of its owned fund to a single party; and

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12 Inserted vide notification No.135 dated January 13, 2000
7 Inserted vide notification No. 128 dated December 18, 1998
13 Inserted vide notification No. 155 dated January 1, 2002
(b) forty per cent of its owned fund to a single group of parties.

Provided that the above ceilings on credit/investment concentration shall not be applicable to a RNBC in respect of investments in approved securities, bonds, debentures and other securities issued by a Government company or a public financial institution or a scheduled commercial bank under the provisions of paragraph 6(1)(a) and 6(1)(b) of the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987.

[Provided further that the above ceiling on the investment in shares of another company shall not be applicable to an NBFC in respect of investment in the equity capital of an insurance company up to the extent specifically permitted, in writing, by the Reserve Bank of India.]14

(2) Any loan granted and investment made by the NBFC in excess of the ceilings specified hereinabove and existing on the date of commencement of these directions, shall be brought down by the NBFC as per the repayment schedule in due course.

Notes:

(1) For determining the abovementioned limits, off-balance sheet exposures be converted into credit risk by applying the conversion factors explained hereinabove.

(2) The investments in debentures for the above purpose be treated as credit and not investment.

(3) The above ceilings on credit/investments shall be applicable to the own group of the NBFC as well as to the other group of borrowers/investee companies.

Submission of half yearly return

13. NBFCs including RNBCs referred to in para 1(3)(i)(a) and (b) shall submit a half-yearly return within three months of the expiry of the relative half-year as on September and March every year, commencing from the half year ending March 31, 1998, in the format (NBS-2)15 annexed hereto to the Regional Office of the Department of Non-Banking Supervision of the Reserve Bank of India under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve

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14 Inserted vide notification No. 155 dated January 1, 2002
15 Amended vide notification No. 142 dated June 30, 2000 and further amended vide notification No. 158 dated June 6, 2002.
Exemptions

14. The Reserve Bank of India may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extension of time to comply with or exempt any NBFC or class of NBFCs, from all or any of the provisions of these directions either generally or for any specified period, subject to such conditions as the Reserve Bank of India may impose.

Interpretations

15. For the purpose of giving effect to the provisions of these directions, the Reserve Bank of India may if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these directions given by the Reserve Bank of India shall be final and binding on all the parties concerned.

Sd/-

(S.P. Talwar)
Deputy Governor