



***Muthoot Finance***

**MUTHOOT FINANCE LIMITED**

**PRESS RELEASE**

**Kochi, March 21, 2012:** Reserve Bank of India has issued Circular No.RBI/2011-12/467 DNBS.CC.PD.No.265/03.10.01/2011-12 dated March 21, 2012 to all NBFCs titled “**Lending Against Security Of Single Product – Gold Jewellery**”. This circular is applicable to Muthoot Finance Ltd. On account of this, Company wish to make the following clarifications:

1. It is stipulated that NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) shall maintain a minimum Tier I capital of 12 percent by April 01, 2014. Muthoot Finance Ltd as on December 31, 2011 had a Tier 1 capital of 13.37%. Moreover, the amended regulation provides time till April 01, 2014 to achieve the level of 12%.
2. It is stipulated that NBFCs should not grant any advance against bullion / primary gold and gold coins. The Company do not finance against bullion/ primary gold and gold coins. The Company finance only against security of household used jewellery.
3. It is stipulated that NBFCs shall maintain a Loan-to-Value (LTV) ratio not exceeding 60 percent for loans granted against the collateral of gold jewellery. At present our Gold Loan Assets Under Management is around Rs. 240 Billion and approximately the value of jewellery with the Company is more than Rs. 400 Billion. Hence our LTV is below 60%. As a matter of abundant caution we had been progressively reducing our lending rate per gram as a risk management measure, seeing the volatility in the gold prices during the last couple of months.

Of late, the industry has attracted lot of new entrants seeing the success of the existing players. We feel that the RBI has taken these steps in order to regulate the risk especially with respect to new entrants to the sector, who may not be aware of the various nuances of the business and also to strengthen the existing companies. The steps taken with respect to capital adequacy and LTV should be seen as steps to strengthen the sector with robust operating practices and risk control measures. As far as financing against bullion and gold coins, banks had already been prohibited from this type of financing and the Company has also been following this practice.

We welcome the measure taken by RBI which will go a long way in ensuring that the players in the industry have robust capital structure to address any possible fall in gold prices.

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