Draft Reserve Bank of India (Small Finance Banks – Credit Risk Management) Directions, 2025

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Reserve Bank of India (Small Finance Banks – Credit Risk Management) Directions, 2025

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Introduction

Small Finance Banks (SFBs), in the course of financial intermediation, are exposed to various financial and non-financial risks, of which credit risk is the one of the most significant risks. If not managed effectively, credit risk may have ramifications for a range of other risk categories too. As credit exposures of SFBs encompass varied sectors, borrower types and products with their own idiosyncratic complexities as well as systemic implications due to interconnectedness among themselves, credit risk management of SFBs involve a range of prudential tools, including statutory and regulatory restrictions / prohibitions on certain activities. Recognising this, the Reserve Bank has, from time to time, issued guidelines to strengthen credit risk management practices.

Accordingly, in exercise of powers conferred by sections 21 and 35A of the Banking Regulation Act, 1949; the Reserve Bank being satisfied that it is necessary and expedient in the public interest to do so, hereby issues these Directions hereinafter specified.

Chapter-I - Preliminary

A. Short title and Commencement

1. These directions shall be called the Reserve Bank of India (Small Finance Banks – Credit Risk Management) Directions, 2025.

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

B. Applicability

3. These Directions shall be applicable to Small Finance Banks (hereinafter collectively referred to as ‘banks’ and individually as a ‘bank’).

C. Definitions

4. (1) In these Directions, unless the context otherwise requires,

(i) 'Cash credit' means a facility, under which a customer is allowed an advance up to the credit limit against the security by way of hypothecation / pledge of goods, book debts, standing crops, etc. The facility is a running account and

'Drawing Power - DP' is periodically determined with reference to the value of the eligible current assets. The outstanding amount is repayable on demand.

(ii) 'Credit Default Swap (CDS)' means a bilateral derivative contract on one or more reference assets in which the protection buyer pays a fee through the life of the contract in return for a credit event payment by the protection seller following a credit event of the reference entities.

(iii) ‘Current Account’ means A form of demand deposit account wherefrom withdrawals are allowed any number of times depending upon the balance in the account or up to a particular agreed amount and shall also be deemed to include other deposit accounts which are neither Savings nor Term deposit account.

(iv) “Earnings before Interest and Depreciation (EBID)" shall have the same meaning as defined for computation of Debt Service Coverage Ratio (DSCR) i.e., EBID = Profit After Tax + Depreciation + Interest on debt + Lease Rentals, if any.

(v) “Entity” means a counterparty to which bank has exposure in any currency (for the purpose of Chapter VI on Unhedged Foreign Currency Exposure).

Explanation*:* Exposure shall mean all fund-based and non-fund-based exposures.

(vi) ‘Financial hedge' shall mean hedging through a derivative contract with a financial institution. Financial hedge shall be considered only where the entity has documented the purpose and the strategy for hedging at inception of the derivative contract and assessed its effectiveness as a hedging instrument at periodic intervals.

Note: For the purpose of assessing the effectiveness of hedge, guidance may be taken from the applicable accounting standards and the relevant guidance notes of the Institute of Chartered Accountants of India on the matter.

(vii) 'Foreign Currency Exposure (FCE)' of an entity shall mean the gross sum of all items on the entity's balance sheet that have impact on its profit and loss account due to movement in foreign exchange rates.

(viii) 'Listed entities' shall mean entities listed on the recognised stock exchanges.

(ix) 'Natural hedge' shall mean a hedge arising out of the operations of the company when cash flows offset the risk arising out of the Foreign Currency exposure (FCE).

***Explanation**:* An exposure shall be considered as naturally hedged only if the offsetting exposure has the maturity / cash flow within the same accounting year. For instance, export revenues (booked as receivable) may offset the exchange risk arising out of repayment obligations of an external commercial borrowing if both the exposures have cash flows / maturity within the same accounting year.

(x) 'Overdraft' means a facility, under which a customer is allowed to draw an agreed sum (credit limit) in excess of credit balance in their account. The overdraft facility may be secured (against fixed / term deposits and other securities, like small saving instruments, surrender value of insurance policies, etc.) or clean (i.e. without any security). The overdraft facility might be granted on their current account, savings deposits account or temporary overdraft on credit accounts.

(xi) Relative will include :

- Spouse
- Father
- Mother (including step-mother)
- Son (including step-son)
- Son's Wife
- Daughter (including step-daughter)
- Daughter's Husband
- Brother (including step-brother)

- Brother’s wife
- Sister (including step-sister)
- Sister’s husband
- Brother (including step-brother) of the spouse
- Sister (including step-sister) of the spouse

(xii) 'Revaluation Reserve' means a reserve created on the revaluation of assets or net assets represented by the surplus of the estimated replacement cost or estimated market values over the book values thereof.

(xiii) 'Substantial interest' in case of banks shall have the same meaning as assigned to it in Section 5(ne) of the Banking Regulation Act, 1949.

(xiv) 'Unhedged Foreign Currency Exposure (UFCE)' shall mean Foreign Currency Exposure (FCE) excluding items which are effective hedge of each other. While estimating UFCE of an entity, banks shall consider only two types of hedges - financial hedge and natural hedge.

2) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, or the Reserve Bank of India Act, 1934, and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or in other relevant regulations issued by the Reserve Bank or as used in commercial parlance, as the case may be.

Chapter-II - Credit Risk Evaluation

5. The bank shall put in place a comprehensive Board approved policy on Credit Risk Management. The policy shall, inter alia, cover aspects related to country risk management, unhedged foreign currency exposures, valuation of properties including empanelment of valuers, and opening of current accounts and CC / OD accounts. The specific aspects to be addressed in these policies are also detailed in the relevant paragraphs of this Directions.

6. The banks shall strictly follow the credit risk management guidelines contained in 'Guidance Note on Risk Management'.

7. The banks shall carry out their independent and objective credit appraisal in all cases and must not depend on credit appraisal reports prepared by outside consultants, especially the in-house consultants of the borrowing entity.

8. The banks shall carry out sensitivity tests / scenario analysis, especially for infrastructure projects, which shall inter alia include project delays and cost overruns. This will aid in taking a view on viability of the project at the time of deciding on deferment of DCCO / restructuring.

9. Banks shall ascertain the source and quality of equity capital brought in by the promoters / shareholders. Multiple leveraging, especially, in infrastructure projects, is a matter of concern as it effectively camouflages the financial ratios such as Debt Equity ratio, leading to adverse selection of the borrowers. Therefore, banks shall ensure at the time of credit appraisal that debt of the parent company is not infused as equity capital of the subsidiary / SPV.

10. The banks shall review their extant sectoral exposure limits for consumer credit and put in place, if not already there, Board approved limits in respect of various sub-segments under consumer credit as may be considered necessary by the Boards as part of prudent risk management. In particular, limits shall be prescribed for all unsecured consumer credit exposures. The limits so fixed shall be strictly adhered to and monitored on an ongoing basis by the Risk Management Committee.

11. Banks shall include in their loan policies/ credit appraisal processes, suitable provisions for obtaining Credit Information Reports (CIRs) from one or more Credit Information Companies (CICs) so that the credit decisions are based on credit information available in the system.

12. The bank shall be guided by DoS.CO.PPG.BC.1/11.01.005/2020-21 dated August 21, 2020 for review / renewal of Credit Facilities and DBS.CO.PPD.BC.No. 5/11.01.005/2010-11 dated January 14, 2011 on 'End Use of Funds – Monitoring'.

Chapter-III - Country Risk Management

A. Policy & Procedures

13. Banks should formulate appropriate, well documented and clearly defined 'Country Risk Management' (CRM) policies, with the approval of the respective Boards. The CRM policy should address the issues of identifying, measuring, monitoring and controlling country exposure risks. The Policy should specify the responsibility and accountability of the various levels for the country risk management decisions. Banks should also put in place procedures for ensuring that necessary steps are taken in accordance with the CRM policy. The CRM policy should be periodically reviewed by the Board on the basis of the experience gained.

14. Banks should institute appropriate procedures for dealing with country risk problems. They should have in place contingency plans and clear exit strategies, which would be activated at times of crisis. Appropriate systems/ procedures should be laid down with the approval of the Board to handle situations involving significant changes in conditions in any country. For the present, only in respect of the countries, where a bank’s net funded exposure is one per cent or more of its total assets, the bank is required to formulate the CRM policy for dealing with that country risk problems.

15. The CRM policy should stipulate rigorous application of the 'Know Your Customer' (KYC) principle in international activities which should not be compromised by availability of collateral or shortening of maturities. Country risk element should be explicitly recognised while assessing the counter-party risk.

B. Scope

16. Banks shall reckon both funded and non-funded exposures from their domestic as well as foreign branches while identifying, measuring, monitoring, and controlling country risks. In the case of foreign banks operating in India, the scope shall be confined to their branches in India. Banks shall refer to Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2025 for permissible Non-Fund based credit facilities.

17. Banks shall take into account indirect country risk. For example, exposures to a domestic commercial borrower with a large economic dependence on a certain country shall be considered as subject to indirect country risk.

C. Ratings

18. Banks shall put in place appropriate systems to move over to internal assessment of country risk and shall evolve sound systems for measuring and monitoring country risk. The system shall be able to identify the full dimensions of country risk as well as incorporating features that acknowledge the links between credit and market risk. Banks shall use a variety of internal and external sources as a means to measure country risk. Banks shall not rely solely on rating agencies or other external sources as their only country risk-monitoring tool and shall also incorporate information from the relevant country managers of their foreign branches into their country risk assessments. However, the rating accorded by a bank to any country shall not be better than the rating of that country by an international rating agency. For the present, only in respect of the country, where a bank's net funded exposure is two per cent or more of its total assets, the bank is required to undertake internal assessment of country risk rating.

19. The frequency of periodic reviews of country risk ratings shall be at least once a year with a provision to review the rating of specific country, based on any major events in that country, where bank exposure is high, even before the next periodical review of the ratings is due.

20. Till such time, as banks move over to internal rating systems, banks may use the seven category classification followed by Export Credit Guarantee Corporation of India Ltd. (ECGC) for the purpose of classification and making provisions for country risk exposures. ECGC shall provide to banks, on request, quarterly updates of their country classifications and shall also inform all banks in case of any sudden major changes in country classification in the interim period.

D. Monitoring of exposures

21. Banks shall monitor their country exposures on a real time basis. .

22. Management of country risk shall incorporate stress testing as one method to

monitor actual and potential risks. Stress testing shall include an assessment of the impact of alternative outcomes to important underlying assumptions.

23. Boards shall review the country risk exposures at quarterly intervals. The review shall include progress in establishing internal country rating systems, compliance with the regulatory and the internal limits, results of stress tests and the exit options available to the banks in respect of countries belonging to 'high risk & above' categories. In case, any significant deterioration takes place in respect of any particular country risk or overall exposure, banks shall report to the Board such developments in its next meeting, without waiting for the quarterly review by the Board.

24. Country risk management processes employed by banks shall require adequate internal controls that include audits or other appropriate oversight mechanisms to ensure the integrity of the information used by senior officials in overseeing compliance with policies and limits.

Chapter-IV - Statutory Restrictions

A. Advances against Bank's own Shares

25. In terms of Section 20(1)(a) of the Banking Regulation Act, 1949, a bank cannot grant any loans and advances on the security of its own shares.

B. Advances to Bank's Directors

26. The banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company [not being a subsidiary of the banking company or a company registered under Section 8 of the Companies Act, 2013, or a Government company] of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

27. Section 20(1)(b) of the Banking Regulation Act, 1949 also lays down the restrictions on loans and advances to the directors and the firms in which they hold substantial interest. Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is reckoned as 'loans and advances' for the purpose of Section 20 of the Banking Regulation Act, 1949. For the applicability of Section 20 of BR Act, 1949, the banks shall be guided by following instructions:

(i) Section 20 (1) (b) of the B. R. Act, 1949 shall not apply to

(a) subsidiary of the banking company, or

(b) a company registered under Section 8 of the Companies Act, 2013 or

(c) a Government company.

(ii) The sanction or grant of credit facilities to Companies in India by foreign banks having branches in India shall be in compliance with the spirit of Section 20 of the Banking Regulation Act, 1949. Accordingly, a foreign bank branch in India shall not lend to a firm / company in India, if a director in the foreign bank's Board abroad has an interest in the firm /

company or if the company is a subsidiary of any Indian / foreign parent in which the director is interested.

(iii) A director shall be considered to have interest in a company if he is a director / managing agent / manager / employee or guarantor in the concerned company and shall be considered to have interest in a firm if he is a partner / manager / employee or guarantor in the concerned firm.

(iv) In case a banking company is granting any loan or advance to a subsidiary of the holding company, the provisions of Section 20 shall be attracted if any of the directors of the banking company is a director of the holding company, irrespective of whether any of the directors of the banking company is a director of the subsidiary or not.

(v) The provisions of Section 20(1)(b)(iii) of the B R Act, 1949 are not attracted in case of advances granted or commitment made by the bank to a company prior to appointment of the Director of the company on the Board of the bank.

(vi) The bank is precluded from renewing the loan / limit after its expiry or enhancing the limit that would have been sanctioned prior to the date of company's Director becoming a Director of the bank as renewal / enhancement / change in terms would mean entering into fresh commitment by the bank. Alternatively, the director has to relinquish the directorship of either the bank or the company.

(vii) Section 20 does not make any distinction between the directors on the basis of the interest they represent. Therefore, the prohibitions stipulated under Section 20 are applicable to nominee directors also.

(viii) Purchase of cheques is specifically exempted from prohibitory provisions of Section 20. However, withdrawal against uncleared effects (cheques presented for clearing) amounts to grant of advance and therefore shall attract provisions of Section 20.

(ix) Derivative transactions are off balance sheet items and are treated on similar lines with non-fund based transactions and are out of purview of

Section 20 provided it is ensured by banks that the transactions are genuine hedge transactions arising out of normal business requirements (not speculative ones) and no liability devolves on banks. The bank has to satisfy about the genuineness of the underlying exposure of the concerns. The banks shall adhere to the instructions contained in Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2025 and Reserve Bank of India (Small Finance Banks – Concentration Risk Management) Directions, 2025.

(x) Provisions of Section 20 shall also apply to priority Sector lending.

(xi) The provisions of Section 20 shall not apply to public trust.

28. (1) Section 20 of Banking Regulation Act, 1949 (B.R. Act, 1949) prohibits banks from granting any loan or advance to any of its Directors. However, in exercise of the powers conferred by clause (a) of the Explanation under sub-section (4) of Section 20 of Banking Regulation Act, 1949 and having regard to the considerations referred to therein, the Reserve Bank has specified that for the purposes of the said Section, the following loans / advances granted to the Chief Executive Officer / Whole Time Directors shall not be considered as 'loans and advances':

i) Loan for purchasing of car
ii) Loan for purchasing of personal computer
iii) Loan for purchasing of furniture
iv) Loan for constructing / acquiring a house for personal use
v) Festival advance
vi) Credit limit under credit card facility

The extant policy guidelines exempting the above-mentioned loans and advances from applicability of Section 20 of Banking Regulation Act, 1949 required banks to approach Reserve Bank for prior approval, except in case of loans granted to a Director who was an employee of the bank immediately prior to his / her appointment as a Director.

(2) In order to streamline the existing processes and to obviate the need to approach Reserve Bank on case-to-case basis, it has been decided that in

exercise of the powers vested with Reserve Bank under Section 35B of the B.R. Act, 1949, commercial banks can grant loans and advances to the Chief Executive Officer / Whole Time Directors, without seeking prior approval of Reserve Bank, subject to the following conditions:

(i) The loans and advances shall form part of the compensation / remuneration policy approved by the Board of Directors or any committee of the Board to which powers have been delegated or the Appointments Committee, as the case may be.

(ii) The guidelines on Base Rate shall not be applicable on the interest charged on such loans. However, the interest rate charged on such loans shall not be lower than the rate charged on loans to the bank's own employees.

3) The terms and conditions of the loans granted to the Chief Executive Officer / Whole Time Directors which are currently outstanding may, at the banks' discretion, be reviewed in the light of the above guidelines in order to address transition issues.

4) Banks shall note that in view of the prohibition under Section 20 of the BR Act, 1949, apart from the types of loans mentioned in paragraph 28, no other loan can be sanctioned to Directors.

29. For the above purpose, the term 'loans and advances' shall not include the following:

(i) loans or advances against Government securities, life insurance policies or fixed deposit;

(ii) loans or advances to the Agricultural Finance Corporation Ltd;

(iii) such loans or advances as can be made by a banking company to any of its directors (who immediately prior to becoming a director, was an employee of the banking company) in his capacity as an employee of that banking company and on the same terms and conditions as would have been applicable to him as an employee of that banking company, if he had not become a director of the banking company. The banking company includes every bank to which the provisions of Section 20 of the Banking Regulation Act, 1949 apply;

(iv) call loans made by banking companies to one another;

(v) facilities like bills purchased / discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance / co- acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.;

(vi) line of credit / overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd. (NSCCL) / Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement; and

(vii) a credit limit granted under credit card facility provided by a bank to its directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.

30. As regards giving guarantees and opening of L/Cs on behalf of the bank's directors, it is pertinent to note that in the event of the principal debtor committing default in discharging his liability and the bank being called upon to honour its obligations under the guarantee or L/C, the relationship between the bank and the director could become one of the creditor and debtor. Further, it is possible for the directors to evade the provisions of Section 20 by borrowing from a third party against the guarantee given by the bank. Such transactions defeat the very purpose of restrictions imposed under Section 20, if the bank does not take appropriate steps to ensure that the liabilities thereunder do not devolve on them. In view of the above, while extending non-fund-based facilities such as guarantees, L/Cs, acceptance on behalf of directors and the companies / firms in which the directors are interested; it shall be ensured that:

(i) adequate and effective arrangements have been made to the satisfaction of the bank that the commitments would be met by the openers of L/Cs, or acceptors, or guarantors out of their own resources,

(ii) the bank will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee, and

(iii) no liability would devolve on the bank on account of L/Cs acceptances.

31. In case, such contingencies arise as at (ii) & (iii) above, the bank shall be deemed to be a party to the violation of the provisions of Section 20 of the Banking Regulation Act, 1949.

C. Restrictions on Holding Shares in Companies

32. While granting loans and advances against shares, statutory provisions contained in Sections 19(2) and 19(3) of the Banking Regulation Act, 1949 shall be strictly observed.

D. Restrictions on Credit to Companies for Buy-back of their Securities

33. In terms of provisions of the Companies Act, 2013, companies are permitted to purchase their own shares or other specified securities out of their

(1) free reserves, or

(2) securities premium account, or

(3) the proceeds of any shares or other specified securities,

subject to compliance of various conditions specified therein. Therefore, banks shall not provide loans to companies for buy-back of shares / securities.

Chapter-V - Regulatory Restrictions

A. Granting loans and advances to relatives of Directors

34. Without prior approval of the Board or without the knowledge of the Board, no loans and advances shall be granted to relatives of the bank's Chairman / Managing Director or other Directors, Directors (including Chairman / Managing Director) of other banks and their relatives, Directors of Scheduled Co-operative Banks and their relatives, Directors of Subsidiaries / Trustees of Mutual Funds / Venture Capital Funds set up by the financing banks or other banks, as per details given below.

A.1 Lending to directors and their relatives on reciprocal basis

35. There have been instances where certain banks have developed an informal understanding or mutual / reciprocal arrangement among themselves for extending credit facilities to each other's directors, their relatives etc. By and large, they did not follow the usual procedures and norms in sanctioning credit limits to the borrowers, particularly those belonging to certain groups or directors, their relatives, etc. Facilities far in excess of the sanctioned limits and concessions were allowed in the course of operation of individual accounts of the parties. Although, there is no legal prohibition on a bank from giving credit facilities to a director of some other banks or his relatives, serious concern was expressed in Parliament that such quid pro quo arrangements are not considered to be ethical. The banks shall, therefore, follow the guidelines indicated below in regard to grant of loans and advances and award of contracts to the relatives of their directors and directors of other banks and their relatives:

36. Unless sanctioned by the Board of Directors / Management Committee, banks shall not grant loans and advances aggregating Rupees five crore and above to –

i) directors (including the Chairman / Managing Director) of other banks (including directors of Scheduled Co-operative Banks, directors of subsidiaries / trustees of mutual funds / venture capital funds);

ii) any firm in which any of the directors of other banks (including directors of

Scheduled Co-operative Banks, directors of subsidiaries / trustees of mutual funds / venture capital funds) is interested as a partner or guarantor; and

iii) any company in which any of the directors of other banks (including directors of Scheduled Co-operative Banks, directors of subsidiaries / trustees of mutual funds / venture capital funds) holds substantial interest or is interested as a director or as a guarantor.

37. The restrictions as contained in Section 20 of the Banking Regulation Act, 1949 would apply to grant of loans and advances to spouse and minor / dependent children of the Directors of banks. However, banks may grant loan or advance to or on behalf of spouses of their Directors in cases where the spouse has his / her own independent source of income arising out of his / her employment or profession and the facility so granted is based on standard procedures and norms for assessing the creditworthiness of the borrower. Such facility shall be extended on commercial terms. All credit proposals for twenty five lakhs rupees and above shall be sanctioned by the bank's Board of Directors / Management Committee of the Board. The proposals for less than twenty five lakhs rupees shall be sanctioned by the appropriate authority in banks in terms of the powers delegated to them.

38. Unless sanctioned by the Board of Directors / Management Committee, banks shall also not grant loans and advances aggregating five crore rupees and above to -

i) any relative other than spouse (spouse as specified in paragraph 37 above) and minor / dependent children of their own Chairmen / Managing Directors or other Directors;

ii) any relative other than spouse (spouse as specified in paragraph 37 above) and minor / dependent children of the Chairman / Managing Director or other directors of other banks including directors of Scheduled Co-operative Banks, directors of subsidiaries / trustees of mutual funds / venture capital funds;

iii) any firm in which any of the relatives other than spouse (spouse as specified in paragraph 37 above) and minor / dependent children as

mentioned in (i) & (ii) above is interested as a partner or guarantor; and

iv) any company in which any of the relatives other than spouse (spouse as specified in paragraph 37 above) and minor / dependent children as mentioned in (i) & (ii) above hold substantial interest or is interested as a director or as a guarantor or is in control.

39. The proposals for credit facilities of an amount less than Rupees twenty five lakh or Rupees five crore (as the case may be) to these borrowers shall be sanctioned by the appropriate authority in the financing bank under powers vested in such authority, but the matter shall be reported to the Board.

40. The Chairman / Managing Director or other director who is directly or indirectly concerned or interested in any proposal shall disclose the nature of his / her interest to the Board when any such proposal is discussed. He / she shall not be present in the meeting unless his / her presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

41. The above norms relating to grant of loans and advances shall equally apply to awarding of contracts.

42. The term ‘loans and advances’ shall not include loans or advances against -

i) Government securities
ii) Life insurance policies
iii) Fixed or other deposits
iv) Stocks and shares
v) Temporary overdrafts for small amounts, i.e. upto rupees twenty five thousand
vi) Casual purchase of cheques up to rupees five thousand at a time
vii) Housing loans, car advances, etc. granted to an employee of the bank under any scheme applicable generally to employees.

43. Banks shall evolve, *inter alia*, the following procedure for ascertaining the interest of a director of a financing bank or of another bank, or his relatives, in credit proposals / award of contracts placed before the Board / Committee or

other appropriate authority of the financing banks:

i) Every borrower shall furnish a declaration to the bank to the effect that -

   a) (where the borrower is an individual) he is not a director or specified near relation of a director of a banking company;

   b) (where the borrower is a partnership firm) none of the partners is a director or specified near relation of a director of a banking company; and

   c) (where the borrower is a joint stock company) none of its directors, is a director or specified near relation of a director of a banking company.

ii) The declaration shall also give details of the relationship of the borrower to the director of the bank.

44. In order to ensure compliance with the instructions, banks shall forthwith recall the loan when it transpires that the borrower has given a false declaration.

45. The above guidelines shall also be followed while granting loans / advances or awarding contracts to directors of scheduled co-operative banks or their relatives.

46. These guidelines shall also be followed by banks when granting loans and advances and awarding of contracts to directors of subsidiaries / trustees of mutual funds / venture capital funds set up by them as also other banks.

47. These guidelines shall be duly brought to the notice of all directors and also placed before the bank's Board of Directors.

***Note**:* For the purpose of paragraphs 35 to 47: 'Control' shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in another manner.

B. Restrictions on Grant of Loans & Advances to Officers and Relatives of Senior Officers of Banks

48. The statutory regulations and / or the rules and conditions of service applicable to officers or employees of public sector banks indicate, to a certain extent, the precautions to be observed while sanctioning credit facilities to such officers and employees and their relatives. In addition, the following guidelines shall be followed by all the banks with reference to the extension of credit facilities to officers and the relatives of senior officers:

i) Loans and advances to officers of the bank

No officer or any Committee comprising, inter alia, an officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to his / her relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to senior officers of the financing bank shall be reported to the Board.

ii) Loans and advances and award of contracts to relatives of senior officers of the bank

Proposals for credit facilities to the relatives of senior officers of the bank sanctioned by the appropriate authority shall be reported to the Board. Further, such transaction shall also be reported to the Board when a credit facility is sanctioned by an authority, other than the Board to -

(a) any firm in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a partner or guarantor; or

(b) any company in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a director or as a guarantor.

49. The above norms relating to grant of credit facility shall equally apply to the awarding of contracts.

50. Application of the Guidelines in case of Consortium Arrangements

In the case of consortium arrangements, the above norms relating to grant of

credit facilities to relatives of senior officers of the bank shall apply to the relatives of senior officers of all the participating banks.

51. Scope of certain expressions

i) The term ‘Senior Officer’ shall refer to -

(a) any officer in senior management level in Grade IV and above in a nationalised bank, and

(b) any officer in equivalent scale

- in the State Bank of India and associate banks, and
- in any banking company incorporated in India.

ii) The term ‘credit facility’ shall not include loans or advances against -

(a) Government securities

(b) Life Insurance policies Fixed or other deposits

(c) Temporary overdrafts for small amount i.e. upto Rupees twenty five thousand, and

(d) Casual purchase of cheques up to five thousand rupees at a time.

(e) Credit facility shall also not include loans and advances such as housing loans, car advances, consumption loans, etc. granted to an officer of the bank under any scheme applicable generally to officers.

52. In this context, banks shall, inter alia,

(i) evolve a procedure to ascertain the interest of the relatives of a senior officer of the bank in any credit proposal / award of contract placed before the Board Committee or other appropriate authority of the financing bank;

(ii) obtain a declaration from every borrower to the effect that -

(a) if he is an individual, that he is not a specified, near relation to any senior officer of the bank,

(b) if it is a partnership or HUF firm, that none of the partners, or none of the members of the HUF, is a near, specified relation of any senior officer of the bank, and

(c) if it is a joint stock company, that none of its directors, is a relative of any senior officer of the bank.

(iii) ensure that the declaration gives details of the relationship, if any, of the borrower to any senior officer of the financing bank.

(iv) make a condition for the grant of any credit facility that if the declaration made by a borrower with reference to the above is found to be false, then the bank shall be entitled to revoke and / or recall the credit facility.

(v) consider in consultation with their legal advisers, amendments, if any, required to any applicable regulations or rules, inter alia, dealing with the service conditions of officers of the bank to give effect to these guidelines.

C. Restrictions on Grant of Financial Assistance to Industries Producing / Consuming Ozone Depleting Substances (ODS)

53. Banks shall not extend finance for setting up of new units consuming / producing the Ozone Depleting Substances (ODS). No financial assistance shall be extended to small / medium scale units engaged in the manufacture of the aerosol units using chlorofluorocarbons (CFC) and no refinance would be extended to any project assisted in this sector.

Chapter-VI - Unhedged Foreign Currency Exposure (UFCE)

54. An explanatory note providing the background is furnished in Annex I.

55. Computation of UFCE

(1) Banks shall ascertain the Foreign Currency Exposure (FCE) of all entities at least on an annual basis. Banks shall compute the FCE following the relevant accounting standard applicable for the entity.

The requirement in paragraph 55(1) would not be applicable for entities which are already submitting the information on UFCE as per paragraph 55(2).

Explanation*:* Banks shall consider the items maturing or having cash flows over the period of next five years.

Note: For arriving at the foreign currency exposure of entities, their exposure from all sources including foreign currency borrowings and External Commercial Borrowings shall be taken into account.

(2) Banks shall assess the Unhedged Foreign Currency Exposure (UFCE) of entities with FCE by obtaining information on UFCE from the concerned entity.

Provided *that* the information on UFCE shall be obtained from entities on a quarterly basis based on statutory audit, internal audit or self-declaration by the concerned entity.

Provided further that UFCE information shall be audited and certified by the statutory auditors of the entity, at least on an annual basis.

56. For 'Provisioning and Capital Requirements' banks shall refer to Reserve Bank of India (Small Finance Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 and Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025, respectively. .

57. Systems and Controls

(i) Banks shall incorporate the risk of UFCE of entities in their internal credit rating system and credit risk management policies and procedures.

(ii) Banks shall stipulate internal limits for UFCE within the overall Board approved risk policy of the bank.

58. Consortium Lending

(1) In the case of consortium / multiple banking arrangements, the consortium leader / bank having the largest exposure shall have the lead role in monitoring the unhedged foreign exchange exposure of entities.

***Note**:* Banks shall put in place a system for information sharing and dissemination in terms of Reserve Bank of India (Commercial Banks – Transfer and Distribution of Credit Risk) Directions, 2025

59. Exemption / Relaxation

(1) Banks shall have the option to exclude the following exposures from the calculation of UFCE:

(i) Exposures to entities classified as sovereign, banks and individuals.

For this purpose, sovereign shall include domestic and foreign sovereign as provided in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025

For this purpose, RBI regulated financial institutions (SIDBI, NABARD, NHB, EXIM Bank and NaBFID), Bank of International Settlement (BIS), International Monetary Fund (IMF) and eligible Multilateral Development Banks (MDBs) listed in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025 shall be considered as 'bank'.

(ii) Exposures classified as Non-Performing Assets.

(iii) Intra-group foreign currency exposures of Multinational Corporations (MNCs) incorporated outside India.

For example, an Indian subsidiary of an MNC incorporated outside India may have borrowed from its parent.

Provided that the bank is satisfied that such foreign currency exposures are appropriately hedged or managed robustly by the parent.

(iv) Exposures arising from derivative transactions and / or factoring

transactions with entities, provided such entities have no other exposures to banks in India.

60. Overseas Branches/Subsidiaries

(1) The provisions of this paragraph shall be applicable to overseas branches/subsidiaries of banks subject to the following:

(i) With respect to the exposure to entities incorporated outside India, information on UFCE shall be obtained from such entities on a quarterly basis based on internal audit or self-declaration and the requirement of certificate from statutory auditors on annual basis, as provided in paragraph 55(2), may not be insisted upon. In cases where bank is not able to obtain information on UFCE from concerned entities, the treatment provided in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025 shall apply.

(ii) Banks shall compute the potential loss due to UFCE by replacing INR with the domestic currency of that jurisdiction and USD with the foreign currency (i.e., currency other than domestic currency of that jurisdiction) in which the entity has maximum exposure in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

Note: Banks shall compute the largest annual volatility over a period of last ten years in the following manner: First, daily changes in the foreign exchange rates shall be computed as a log return of today's rate over the previous day's rate. Second, daily volatility shall be computed as standard deviation of these returns over a period of one year (250 observations). Third, this daily volatility shall be annualised by multiplying it by square root of 250. This computation shall be performed on a daily basis for the all the days in the last ten years. The largest annual volatility thus computed shall be used for the computation of the potential loss by multiplying it with the UFCE.

61. Exemption / Relaxation

Banks shall have the option to exclude the following exposures from the calculation of UFCE:

(a) Exposures to entities classified as sovereign, banks, and individuals.

Explanation (1) sovereign include domestic and foreign sovereign as provided in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

Explanation (2) For this purpose, bank include Reserve Bank regulated financial institutions (SIDBI, NABARD, NHB, EXIM Bank, and NaBFID), Bank of International Settlement (BIS), International Monetary Fund (IMF), and eligible Multilateral Development Banks (MDBs) listed in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

(b) Exposures classified as Non-Performing Assets.

(c) Intra-group foreign currency exposures of Multinational Corporations (MNCs) incorporated outside India such as an Indian subsidiary of an MNC incorporated outside India may have borrowed from its parent.

Provided that the bank is satisfied that such foreign currency exposures are appropriately hedged or managed robustly by the parent.

(d) Exposures arising from derivative transactions and / or factoring transactions with entities, provided such entities have no other exposures to banks in India.

Chapter-VII - Legal Entity Identifier (LEI) for Borrowers

62. The Legal Entity Identifier (LEI) code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. LEI is a 20-digit unique code to identify parties to financial transactions worldwide.

63. The LEI for the participants of the OTC derivatives market has since been implemented vide circular RBI/2016-17/314 FMRD.FMID No.14/11.01.007/2-16-17 dated June 01, 2017 in a phased manner.

64. It is advised that regulated entities (REs) shall ensure that non-individual borrowers with aggregate exposure of ₹5 crore and above from banks (Scheduled Commercial Banks (excluding Regional Rural Banks), Local Area Banks, Small Finance Banks, and Primary (Urban) Co-operative Banks) and Financial Institutions (All India Financial Institutions and NBFCs (including HFCs)) obtain LEI codes

Explanation: 'Exposure' for this purpose shall include all fund based and non-fund based (credit as well as investment) exposure of banks / FIs to the borrower. Aggregate sanctioned limit or outstanding balance, whichever is higher, shall be reckoned for the purpose. Lenders shall ascertain the position of aggregate exposure based on information available either with them, or CRILC database or declaration obtained from the borrower

65. Borrowers who fail to obtain LEI codes from an authorised Local Operating Unit (LOU) shall not be sanctioned any new exposure nor shall they be granted renewal / enhancement of any existing exposure. However, Departments / Agencies of Central and State Governments (not Public Sector Undertakings registered under Companies Act or established as Corporation under the relevant statute) shall be exempted from this provision.

Explanation*:* A government agency is an administrative set up of the government, responsible for certain area/s of activity, e.g., ISRO, BIS, DGCA, etc..

Banks shall encourage large borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.

66. Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

67. The rules, procedure and documentation requirements maybe ascertained from LEIIL.

68. After obtaining LEI code, banks shall also ensure that borrowers renew the codes as per GLEIF guidelines.

Chapter-VIII - Valuation of Properties - Empanelment of Valuers

69. The banks shall be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers.

70. Policy for valuation of properties

(a) The banks shall have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.

(b) The valuation shall be done by professionally qualified independent valuers i.e. the valuer shall not have a direct or indirect interest.

(c) The banks shall obtain minimum two Independent Valuation Reports for properties valued at ₹50 crore or above.

71. Revaluation of bank's own properties

In addition to the above, the banks may keep the following aspects in view while formulating policy for revaluation of their own properties:

(a) The extant guidelines on Capital Adequacy permit banks to include revaluation reserves at a discount of 55 per cent as a part of Tier II Capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy shall inter alia cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc. The policy shall also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation / depreciation etc.

(b) As the revaluation shall reflect the change in the fair value of the fixed asset, the frequency of revaluation shall be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation shall reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The banks shall adhere to these principles meticulously while changing the frequency of

revaluation / method of depreciation for a particular class of asset and shall make proper disclosures in this regard.

72. Policy for Empanelment of Independent valuers

(a) The banks shall have a procedure for empanelment of professional valuers and maintain a register / record of 'approved list of valuers'.

(b) The banks may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualification, banks shall take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

73. The banks shall also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India.

Chapter-IX - Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable, and Intangible Assets in CERSAI

74. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 25 of the Companies Act 1956 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

75. It is to be noted that initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry shall be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property. It may be noted that under the provisions of Section 23 of the SARFAESI Act, particulars of any charge creating security interest over property is required to be filed with the Registry within 30 days from the date of creation.

76. The Government of India has issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:

(i) Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage other than mortgage by deposit of title deeds.

(ii) Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.

(iii) Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature.

(iv) Particulars of creation, modification or satisfaction of security interest in any ‘under construction’ residential or commercial or a part thereof by an agreement or instrument other than mortgage.

Chapter-X - Opening of Current Accounts and CC / OD Accounts by Banks

A. Opening of Current Accounts for borrowers availing Cash Credit / Overdraft Facilities from the Banking System

77. For borrowers, where the aggregate exposure of the banking system is less than ₹5 crore, banks can open current accounts without any restrictions placed vide this circular subject to obtaining an undertaking from such customers that they (the borrowers) shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more.

Explanation: 'Exposure' for the purpose of instructions contained in paragraph 77 to paragraph 91 shall mean sum of sanctioned fund based and non-fund-based credit facilities availed by the borrower. All such credit facilities carried in their Indian books shall be included for the purpose of exposure calculation.

In case of proprietary firms, the aggregate exposure shall include all the credit facilities availed by the borrower, for business purpose or in personal capacity.

The banks may compute the aggregate exposure based on the information available from Central Repository of Information on Large Credits (CRILC), Credit Information Companies (CICs), National E-Governance Services Ltd. (NeSL), etc. and by obtaining customers' declaration, if required.

(2) 'Banking System' for the purpose of instructions contained in paragraph 77 to paragraph 91, shall include Scheduled Commercial Banks and Payments Banks only.

78. Where the aggregate exposure of the banking system is ₹5 crore or more:

1) Borrowers can open current accounts with any one of the banks with which it has CC / OD facility, provided that the bank has at least 10 per cent of the aggregate exposure of the banking system to that borrower. In case none of the lenders has at least 10 per cent of the aggregate exposure, the bank having the highest exposure among CC / OD providing banks may open current accounts.

2) Other lending banks may open only collection accounts subject to the condition that funds deposited in such collection accounts shall be remitted within two

working days of receiving such funds, to the CC / OD account maintained with the above-mentioned bank (paragraph 78(1)) maintaining current accounts for the borrower. The balances in such collection accounts shall not be used for repayment of any credit facilities provided by the bank, or as collateral / margin for availing any fund or non-fund based credit facilities. However, banks maintaining collection accounts are permitted to debit fees / charges from such accounts before transferring funds to CC / OD account.

3) Non-lending banks are not permitted to open current / collection accounts.

B. Opening of Current Accounts for borrowers not availing Cash Credit / Overdraft Facilities from the banking system

79. In case of borrowers where aggregate exposure of the banking system is ₹50 crore or more:

1) Banks shall be required to put in place an escrow mechanism. Borrowers shall be free to choose any lending bank as their escrow managing bank. All lending banks shall be part of the escrow agreement. The terms and conditions of the agreement may be decided mutually by lending banks and the borrower.
2) Current accounts of such borrowers can only be opened / maintained by the escrow managing bank.
3) Other lending banks can open 'collection accounts' subject to the condition that funds shall be remitted from these accounts to the said escrow account at the frequency agreed between the bank and the borrower. Further, balances in such collection accounts shall not be used for repayment of any credit facilities provided by the bank, or as collateral / margin for availing any fund or non-fund based credit facilities. While there is no prohibition on amount or number of credits in 'collection accounts', debits in these accounts shall be limited to the purpose of remitting the proceeds to the said escrow account. However, banks maintaining collection accounts are permitted to debit fees / charges from such accounts before transferring funds to the escrow account.
4) Non-lending banks shall not open any current account for such borrowers.

80. In case of borrowers where aggregate exposure of the banking system is ₹5 crore or more but less than ₹50 crore, there is no restriction on opening of current accounts by the lending banks. However, non-lending banks may open only

collection accounts as detailed at paragraph 79(3) above.

81. In case of borrowers where aggregate exposure of the banking system is less than ₹5 crore, banks may open current accounts subject to obtaining an undertaking from them that they (the customers) shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more. The current account of such customers, as and when the aggregate exposure of the banking system becomes ₹5 crore or more, and ₹50 crore or more, shall be governed by the provisions of paragraph 80 and paragraph 81 respectively.

82. Banks are free to open current accounts of prospective customers who have not availed any credit facilities from the banking system, subject to necessary due diligence as per their Board approved policies.

83. Banks are free to open current accounts, without any of the restrictions placed in this Circular, for borrowers having credit facilities only from NBFCs / FIs / co-operative banks / non- bank institutions, etc. However, if such borrowers avail aggregate credit facilities of ₹5 crore or above from the banks covered under these guidelines, the provisions of the Circular shall be applicable.

C. Opening of Cash Credit / Overdraft Facilities

84. When a borrower approaches a bank for availing CC / OD facility, the bank can provide such facilities without any restrictions placed vide this circular if the aggregate exposure of the banking system to that borrower is less than ₹5 crore. However, the bank shall obtain an undertaking from such borrowers that they (the borrowers) shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more.

85. For borrowers, where the aggregate exposure of the banking system is ₹5 crore or more:

1) Banks having a share of 10 per cent or more in the aggregate exposure of the banking system to such borrower can provide CC / OD facility without any restrictions placed vide these instructions.

2) In case none of the banks has at least 10 per cent exposure, bank having the

highest exposure among CC / OD providing banks can provide such facility without any restrictions.

3) Where a bank's exposure to a borrower is less than 10 per cent of the aggregate exposure of the banking system to that borrower, while credits are freely permitted, debits to the CC / OD account can only be for credit to the CC / OD account of that borrower with a bank that has 10 per cent or more of aggregate exposure of the banking system to that borrower. Funds shall be remitted from these accounts to the said transferee CC / OD account at the frequency agreed between the bank and the borrower. Further, the credit balances in such collection accounts shall not be used for repayment of any credit facilities provided by the bank, or as collateral / margin for availing any fund or non-fund based credit facilities. However, banks are permitted to debit interest / charges pertaining to the said CC / OD account and other fees / charges before transferring the funds to the CC / OD account of the borrower with bank(s) having 10 per cent or more of the aggregate exposure. It may be noted that banks with exposure to the borrower of less than 10 per cent of the aggregate exposure of the banking system can offer working capital demand loan (WCDL) / working capital term loan (WCTL) facility to the borrower.

4) In case there is more than one bank having 10 per cent or more of the aggregate exposure, the bank to which the funds are to be remitted may be decided mutually between the borrower and the banks.

D. Exemptions Regarding Specific Accounts

86. Banks are permitted to open and operate the following accounts without any of the restrictions placed in terms of paragraph 77 to paragraph 85:

i) Specific accounts which are stipulated under various statutes and specific instructions of other regulators / regulatory departments / Central and State Governments. An indicative list of such accounts is given below:

a. Accounts for real estate projects mandated under Section 4 (2) l (D) of the Real Estate (Regulation and Development) Act, 2016 for the purpose of maintaining 70 per cent of advance payments collected from the home buyers;

b. Nodal or escrow accounts of payment aggregators / prepaid payment instrument issuers for specific activities as permitted by Department of Payments and Settlement Systems (DPSS), Reserve Bank of India under Payment and Settlement Systems Act, 2007;

c. Accounts for the purpose of IPO / NFO / FPO / share buyback / dividend payment / issuance of commercial papers / allotment of debentures / gratuity etc. which are mandated by respective statutes or by regulators and are meant for specific / limited transactions only;

ii) Accounts opened as per the provisions of Foreign Exchange Management Act, 1999 (FEMA) and notifications issued thereunder including any other current account if it is mandated for ensuring compliance under the FEMA framework;

iii) Accounts for payment of taxes, duties, statutory dues, etc. opened with banks authorised to collect the same, for borrowers of such banks which are not authorised to collect such taxes, duties, statutory dues, etc.;

iv) Accounts for settlement of dues related to debit card / ATM card / credit card issuers / acquirers;

v) Accounts of White Label ATM Operators and their agents for sourcing of currency;

vi) Accounts of Cash-in-Transit (CIT) Companies / Cash Replenishment Agencies (CRAs) for providing cash management services;

vii) Accounts opened by a bank funding a specific project for receiving / monitoring cash flows of that specific project, provided the borrower has not availed any CC / OD facility for that project;

viii) Inter-bank accounts;

ix) Accounts of All India Financial Institutions (AIFIs), viz., EXIM Bank, NABARD, NHB, and SIDBI;

x) Accounts attached by orders of Central or State governments / regulatory body / Courts / investigating agencies etc. wherein the customer cannot undertake any discretionary debits;

87. Banks maintaining accounts listed in paragraph 86 shall ensure that these accounts are used for permitted / specified transactions only. Further, banks shall flag these accounts in the CBS for easy monitoring. Lenders to such borrowers may also enter into agreements / arrangements with the borrowers for monitoring of cash flows / periodic transfer of funds (if permissible) in these accounts.

E. Other Instructions

88. All banks, whether lending banks or otherwise, shall monitor all accounts regularly, at least on a half-yearly basis, specifically with respect to the aggregate exposure of the banking system to the borrower, and the bank's share in that exposure, to ensure compliance with these instructions. If there is a change in exposure of a particular bank or aggregate exposure of the banking system to the borrower which warrants implementation of new banking arrangements, such changes shall be implemented within a period of three months from the date of such monitoring.

89. Banks shall put in place a monitoring mechanism, both at head office and regional / zonal office levels to monitor non-disruptive implementation of the circular and to ensure that customers are not put to undue inconvenience during the implementation process.

90. Banks shall not route drawal from term loans through CC / OD / Current accounts of the borrower. Since term loans are meant for specific purposes, the funds shall be remitted directly to the supplier of goods and services. In cases where term loans are meant for purposes other than for supply of goods and services and where the payment destination is identifiable, banks shall ensure that payment is made directly, without routing it through an account of the borrower. However, where the payment destination is unidentifiable, banks may route such term loans through an account of the borrower opened as per the provisions of the circular. Expenses incurred by the borrower for day-to-day operations may be routed through an account of the borrower.

91. The flow-charts related to these instructions are furnished as Annex II and Annex III.

Chapter-XI - Loan System for Delivery of Bank Credit

92. With a view to enhance credit discipline among the larger borrowers enjoying working capital facility from the banking system, delivery of bank credit for such borrowers shall be as under:

(i) Minimum level of 'loan component'

In respect of borrowers having aggregate fund based working capital limit of ₹150 crore and above from the banking system, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 60 percent of the sanctioned fund based working capital limit, including ad hoc limits and TODs. Hence, for such borrowers, drawings up to 60 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility. The bifurcation of the working capital limit into loan and cash credit components shall be effected after excluding the export credit limits (pre-shipment and post-shipment) and bills limit for inland sales from the working capital limit. Investment by the bank in the commercial papers issued by the borrower shall form part of the loan component, provided the investment is sanctioned as part of the working capital limit.

(ii) Sharing of Working Capital Finance

Bifurcation of working capital facility into loan component and cash credit component shall be maintained at individual bank level in all cases, including consortium lending. The ground rules for sharing of cash credit and loan components may be laid down by the consortium, wherever formed, subject to guidelines on bifurcation as stated in sub-paragraph 92(i) above. All lenders in the consortium shall be individually and jointly responsible to make sure that at the aggregate level, the 'loan component' meets the above- mentioned requirements. Under Multiple Banking Arrangements (MBAs), each bank shall ensure adherence to these guidelines at individual bank level.

(iii) Amount and tenor of the loan

The amount and tenor of the loan component may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than seven days. Banks may decide to split the loan component into WCLs with different maturity periods as per the needs of the borrowers.

(iv) Repayment / Renewal / Rollover of Loan Component

Banks / consortia / syndicates will have the discretion to stipulate repayment of the WCLs in instalments or by way of a '"bullet"' repayment, subject to IRAC norms. Banks may consider rollover of the WCLs at the request of the borrower, subject to compliance with the extant IRAC norms.

(v) For credit conversion factor for undrawn portion of cash credit limits sanctioned to the aforesaid large borrowers, banks shall refer to Reserve Bank of India (Small Finance Banks - Prudential Norms on Capital Adequacy) Directions, 2025.

Chapter-XII - Repeal and other provisions

A. Repeal and saving

93. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Credit Risk Management as applicable to Small Finance Banks, stands repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

94. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

95. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

96. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI 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 RBI shall be final and binding.

Annex I

Explanatory Note to Chapter on Unhedged Foreign Currency Exposure

Introduction

1. Unhedged foreign currency exposures of any entity are an area of concern not only for the individual entity but also to the entire financial system. Entities which do not hedge their foreign currency exposures can incur significant losses during the period of heightened volatility in foreign exchange rates. These losses may reduce their capacity to service the loans taken from the banking system and increase their probability of default thereby affecting the health of the banking system.

Background and Rationale

2. The Reserve Bank first introduced the concept in October 1999 as part of risk management systems after it was observed during the economic crises in some countries that banks bear additional credit risk on entities which have unhedged foreign currency risk. Accordingly, banks were advised to evolve a suitable framework for regular monitoring of foreign currency risk exposure of entities which do not have natural hedge and to factor such unhedged exposures of entities into the risk rating system for taking credit decisions.

3. The aim of the framework was that the banks shall price the risk from Unhedged Foreign Currency Exposure (UFCE) as credit risk premium which may nudge entities to hedge their foreign currency exposures in the market. To this end, banks were further advised though a series of instructions to a) regularly monitor the unhedged portion of large foreign currency exposures of entities; b) have a Board approved policy on hedging of foreign currency loans; and c) have a mechanism for information sharing on UFCE in case of consortium lending. However, a sizeable portion of entities' foreign currency exposures remained unhedged resulting in significant but avoidable risks to entities' balance sheets, in turn, impacting the quality of bank's assets.

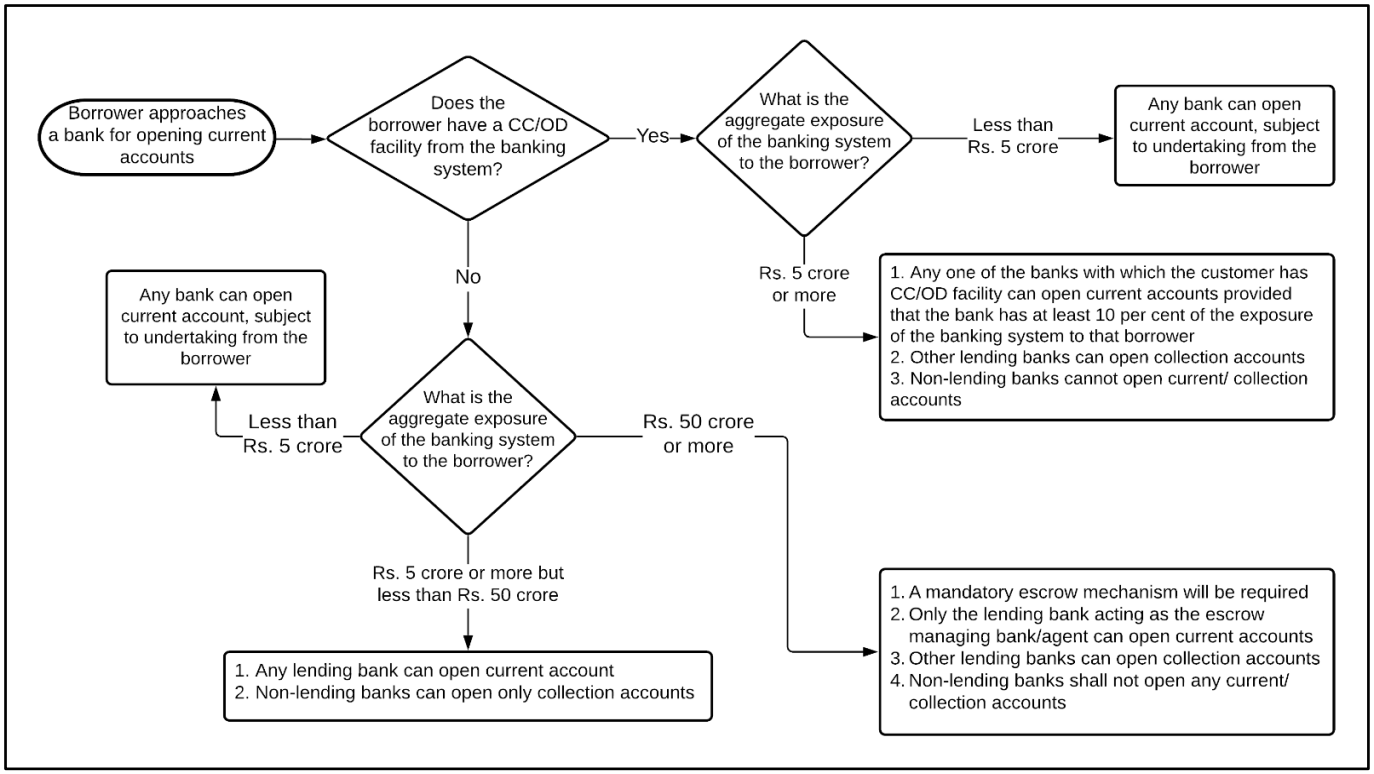
4. To address the risk on bank's books, banks were advised to maintain incremental provisioning and capital requirements for their exposures to entities with UFCE. The process of computing incremental provisioning and capital requirements can be summarised in following steps:

a) Step 1: Assess the foreign currency exposure (FCE) of the entity.
b) Step 2: Ascertain the amount of UFCE from entities' FCE taking into account two types of hedges – natural hedge and financial hedge.
c) Step 3: Estimate the potential loss to the entity from UFCE exposure of entity due to exchange rate movements.
d) Step 4: Maintain incremental provisioning and capital requirements against banks' exposure to the entity based on impact of likely / potential loss on entity's overall profitability.

5. Based on banks' feedback, a few amendments were made to the guidelines for operational clarity and accuracy of information obtained. These included, inter alia, allowing collection of information on UFCE directly from entities (through self-certified / audited UFCE certificates); clarification on capital treatment of incremental provisioning requirement for UFCE; and treatment in case bank is unable to obtain information on UFCE from entity. Banks were also given an option to follow an alternative method for their exposure to smaller entities. Under this alternative method, instead of obtaining information on UFCE from smaller entities, bank could maintain incremental provisioning of 10 bps for such exposures.

6. Further, some exposures were excluded from the ambit of these instructions, namely, inter-bank exposures, intra-group exposures of Multinational Corporations incorporated outside India and exposure to entities which have not borrowed from Indian banking system.

Annex II – Flow Chart – Opening of Current Accounts



Annex III – Flow Chart – Opening of Cash Credit / Overdraft Accounts