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RESERVE BANK OF INDIA

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

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Reserve Bank of India (Reserve Bank) is statutorily mandated to operate the credit system of the country to its advantage. In pursuit of this mandate, the Reserve Bank encourages innovation in the financial systems, credit products and delivery mechanisms while ensuring orderly growth, financial stability and the protection of depositors' and borrowers' interest. With the progressive deregulation of bank credit, prudential norms primarily serve as regulatory safeguards. These norms, issued from time to time, provide guidance to regulated entities (REs) on the design and delivery of credit-related products and services. These Directions consolidate the instructions issued to commercial banks on credit facilities.

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 so to do, 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 Facilities) Directions, 2025.
2. These Directions shall come into effect immediately upon its issuance, unless indicated otherwise.

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) For the purpose of these Directions, following definitions shall apply:

(i) 'Actual Date of Commencement of Commercial Operations' (actual DCCO) means the date on which the project is put to commercial use and completion certificate / provisional completion certificate / occupancy certificate (in case of CRE and CRE-RH projects) or its equivalent is issued to the concessionaire / project developer / promoter.

(ii) 'Annual Percentage Rate' (APR) means APR as defined under the Reserve Bank of India (Small Finance Banks - Responsible Business Conduct) Directions, 2025.

(iii) 'Appointed Date' means the date, as defined in the concession agreement entered into between the concessionaire and the concession granting authority, on which the concession agreement comes into force in accordance with the terms outlined therein (applicable only in the case of infrastructure projects under Public Private Partnership (PPP) model).

(iv) 'Beneficiary' means the party in whose favour the NFB facility is issued by the bank.

(v) 'Bullet Repayment Loans' means loans where both principal and interest are due for payment at the maturity of the loan.

(vi) 'Co-acceptance of bills' means an undertaking to make payment to the drawer of the bill (seller / exporter) on due date if the buyer / importer fails to make the payment on that date.

(vii) 'Collateral Security' or 'Collateral' means an existing asset of the borrower pledged to the lender for availing and securing a credit facility extended by the lender to the borrower.

(viii) 'Consumption Loan' means any permissible loan that does not fit the definition of 'income generating loan' as defined subsequently.

(ix) 'Credit Event' in the context of project finance exposures, shall be deemed to have been triggered on the occurrence of any of the following:

(a) Default with any lender.
(b) Any lender(s) determines a need for extension of the original / extended DCCO, as the case may be, of the project.
(c) Expiry of original / extended DCCO, as the case may be.
(d) Any lender(s) determines a need for infusion of additional debt.
(e) The project is faced with financial difficulty as determined under the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025.

(x) 'Date of Financial Closure': Refers to means the date on which the capital structure of the project, including equity, debt, grant (only in the case of infrastructure PPP projects) (if any), accounting for minimum 90% of total project cost, becomes legally binding on all stakeholders.

Explanation: In the case of CRE-RH projects, lenders may reckon contingent sales receivables (if any) as part of promoters' contribution to the project.

(xi) 'Default' means non-payment of debt (as defined in Insolvency and Bankruptcy Code (IBC), 2016) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor.

(xii) 'Default Loss Guarantee' (DLG) means a contractual arrangement, called by whatever name, between the bank and another entity, under which the latter guarantees to compensate the bank, for the loss due to default up to a certain percentage of the loan portfolio of the bank, specified upfront. Any other implicit guarantee of similar nature, linked to the performance of the loan portfolio of the bank and specified upfront, shall also be covered under the definition of DLG.

(xiii) 'Digital Lending' means a remote and automated lending process, largely by use of seamless digital technologies for customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.

(xiv) 'Digital Lending Apps / Platforms (DLAs)' means a mobile and / or web-based applications, on a standalone basis or as a part of suite of functions of an application with user interface that facilitate digital lending services. DLAs shall include applications of the bank as well as those operated by Lending Service Provider (LSP) engaged by bank for extending any credit facilitation services in conformity with extant outsourcing guidelines issued by the Reserve Bank.

(xv) 'Extended DCCO': If the original DCCO is revised, then the revised DCCO shall be termed as the Extended DCCO.

(xvi) 'Guarantee' means a contract to perform the promise, or discharge the liability, of a third person in the contingent case of his non-performance or default, in terms of The Indian Contract Act, 1872.

(xvii) 'Guarantor' means the party which issues the guarantee.

(xviii) 'Infrastructure Sector' shall include the sub-sectors included in the Harmonised Master List of Infrastructure sub-sectors issued by the Department of Economic Affairs, Ministry of Finance, Government of India.

(xix) 'Income Generating Loan' means loans extended for the purpose of productive economic activities, such as farm credit, loans for business or commercial purposes, loans for creation or acquisition of productive assets etc.

(xx) 'Interest During Construction' (IDC) means the interest accrued on debt provided by a lender and capitalised during the construction phase of the project.

(xxi) 'Jewellery' means items that are designed to be worn as personal adornments.

(xxii) 'Lending Service Provider' (LSP) means an agent of the bank (including another bank) who carries out one or more of bank's digital lending functions, or part thereof, in customer acquisition, services incidental to underwriting and pricing, servicing, monitoring, recovery of specific loan or loan portfolio on behalf of the bank in conformity with extant outsourcing guidelines issued by the Reserve Bank.

Provided that, while entities offering only Payment Aggregator (PA) services in terms of the extant instructions issued by the Reserve Bank shall remain out of the ambit of these Directions, any PA also performing the role of an LSP shall comply with Chapter III of these Directions.

(xxiii) 'Normal transit period' means the average period normally involved from the date of negotiation / purchase / discount till the receipt of bill proceeds in the Nostro account of the bank concerned, as prescribed by FEDAI from time to time.

Explanation: It is clarified that it is not the time taken for the arrival of goods at overseas destination.

(xxiv) 'Obligor' in the context of Chapter XIV of these Directions means a party against whose obligations, financial or otherwise, a NFB facility has been issued. In the case of guarantees, the obligor may also be termed as 'principal debtor', as defined under the Indian Contract Act, 1872.

(xxv) 'Original DCCO' means the date, as envisaged at the time of financial closure, by which the project is expected to be put to commercial use and completion certificate / provisional completion certificate, or its equivalent, is expected to be issued to the concessionaire / project developer / promoter.

Provided that, in the case of CRE and CRE-RH projects, original DCCO shall be the date on which Occupancy Certificate, or its equivalent, is expected to be obtained from the competent authority.

(xxvi) 'Ornaments' means items meant for use as adornment of any object, decorative items, or utensils, excluding those items that fall under the definition of jewellery as defined previously.

(xxvii) 'Overdue bill' in the case of a demand bill means a bill which is not paid before the expiry of the normal transit period, plus grace period. In the case of a usance bill, it refers to a bill which is not paid on the due date.

(xxviii) 'Post-shipment Credit' means any loan or advance granted or any other credit provided by the bank to an exporter of goods / services from India from the date of extending credit after shipment of goods / rendering of services to the date of realisation of export proceeds, and includes any loan or advance granted to an exporter, in consideration of, or on the security of any duty drawback allowed by the Government from time to time.

(xxix) 'Pre-shipment' / 'Packing Credit' means any loan or advance granted or any other credit provided by the bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment / working capital expenses towards rendering of services on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods / services from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgement of export orders or letter of credit with the bank has been waived.

(xxx) 'Primary Gold' and 'Primary Silver' means gold and silver in any form other than in the form of a jewellery, ornaments and coins.

(xxxi) 'Project' in the context of Chapter VII of these Directions means a venture undertaken through capital expenditure (involving current and future outlay of funds) for creation / expansion / upgradation of tangible assets and / or facilities in the expectation of stream of cash flow benefits extending far into the future. Projects usually have the characteristics of a long gestation period, irreversibility and substantial capital outlays.

(xxxii) 'Project Finance' in the context of Chapter VII of these Directions refers to the method of funding a project in which the revenues to be generated by the funded project serve as the primary security for the loan, and also as a source of repayment. Project finance may take the form of financing the construction of a new capital installation (greenfield), or financing an improvement /

enhancement in the existing installation (brownfield). For the purpose of these Directions, an exposure shall qualify as a project finance exposure only if the following conditions are satisfied:

(a) The pre-dominant source of repayment as envisaged at the time of financial closure (i.e., at least 51 per cent) must be from cash flows arising from the project which is being financed.

(b) All the lenders have a common agreement with the debtor.

Explanation: A common agreement may have different loan terms (except original / extended / actual DCCO as specified in paragraph 76 of these Directions) for each of the lender provided the same has been agreed upon by the debtor and all the lender(s) to the project.

(xxxiii) 'Restructuring' shall have the same meaning as specified under the Reserve Bank of India (Small Finance Banks - Resolution of Stressed Assets), Directions, 2025.

(xxxiv) 'Resolution Plan' (RP) shall have the same meaning as specified under the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025.

(xxxv) 'Secured portion of an NFB facility' means the portion of the facility covered by realisable value of tangible security/ collateral estimated on a realistic basis.

(xxxvi) 'Top-up Loan' in the context of Chapter IV of these Directions means an additional loan sanctioned over and above an outstanding loan, during the tenor of the original loan, based on the strength of the collateral already pledged for the existing loan.

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

Chapter II - Role of The Board

5. A bank shall put in place a Board approved credit policy covering, inter alia, the areas specified below, to the extent such activities are undertaken by it. The specific aspects to be addressed in such a policy are detailed in the relevant paragraphs of these Directions.

(1) Digital Lending including DLG
(2) Lending Against Gold and Silver Collateral
(3) Gold Metal Loans
(4) Microfinance Loans
(5) Project Finance
(6) Housing Finance
(7) Finance to NBFCs
(8) Issue of Non-Fund Based Credit Facilities like guarantee, letter of credit, co-acceptance, partial credit enhancement.
(9) Discounting / Rediscounting of Bills
(10) Export Credit
(11) Loan Against Financial Assets
(12) Credit Facilities to Overseas Joint Ventures (JV)
(13) Bridge Loans

Chapter III - Digital Lending Guidelines

A. General Requirements for bank-LSP Arrangements

6. Due diligence requirements with respect to LSPs

(1) Digital lending by a bank involving a LSP, shall be carried out under a contractual agreement between the bank and the LSP, which clearly defines the respective roles, rights, and obligations of each party thereto.

(2) A bank shall conduct enhanced due diligence before they enter into an agreement with a LSP for digital lending, taking into account LSP's technical capabilities, robustness of data privacy policies and storage systems, fairness in conduct with borrowers, past records of conduct and ability to comply with all applicable regulations and statutes.

(3) A bank shall carry out periodic review of the conduct of the LSP vis-à-vis the terms of the contractual agreement and shall take appropriate action in the event of any deviation therefrom.

(4) A bank shall lay down, as part of its policy, suitable monitoring mechanisms for the loan portfolios originated with the support of LSPs.

(5) A bank shall impart necessary guidance to LSP acting as a recovery agent, to discharge their duties responsibly and ensure that LSP complies with the applicable instructions in the Reserve Bank of India (Commercial Banks – Responsible Business Conduct) Directions, 2025.

(6) A bank shall continue to conform to the extant guidelines on outsourcing as detailed in the Reserve Bank of India (Small Finance Banks – Managing Risks in Outsourcing) Directions, 2025, and shall ensure that the LSPs engaged by it and the DLAs (either of the bank or of the LSPs engaged by the bank) comply with these Directions.

(7) As an overarching principle, any outsourcing agreement entered into by a bank with an LSP shall in no manner dilute or absolve the bank of its obligations under any statutory or regulatory provision, and the bank shall remain fully responsible and liable for all acts and omissions of the LSP.

7. Bank-LSP arrangements involving multiple lenders

In cases where an LSP has agreements with multiple lenders for digital lending, each lender shall ensure the following:

(1) An LSP shall provide a digital view of all the loan offers matching the borrower's request on the DLA which meets the requirement of the borrower. The name of the unmatched lenders shall also be disclosed in the digital view.

(2) While the LSP may adopt any mechanism to match the request of borrowers with the lender(s) to offer a loan, it shall follow a consistent approach for similarly placed borrowers and products. The mechanism adopted by the LSP and any subsequent changes to this mechanism shall be properly documented.

(3) The digital view of loan offers from matching lenders shall include the name(s) of the lender(s) extending the loan offer, amount and tenor of loan, APR, monthly repayment obligation and penal charges (if applicable), in a way which enables the borrower to make a fair comparison between various offers. A link to the KFS shall also be provided in respect of each of the lender.

(4) The content displayed by the LSP shall be unbiased, objective and shall not directly / indirectly promote or push a product of a particular lender, including the use of dark patterns / deceptive patterns designed to mislead borrowers into choosing a particular loan offer. However, ranking of loan offers based on a publicly pre-disclosed metric for such ranking shall not be construed as promoting a particular product.

Explanation: Dark patterns shall have the same meaning as defined under Section 2(e) of the 'Guidelines for Prevention and Regulation of Dark Patterns, 2023' dated November 30, 2023, issued by Central Consumer Protection Authority, and as amended from time to time.

B. Conduct and Customer Protection Requirements

8. Assessing **the borrower's creditworthiness**

(1) A bank shall obtain the necessary information relating to economic profile of the borrower with a view to assessing the borrower's creditworthiness before extending any loan, including, at a minimum, age, occupation and income details. The same shall be kept on record for audit purposes.

(2) A bank shall ensure that there is no automatic increase in credit limit unless an explicit request is received, evaluated and kept on record from the borrower for such increase.

9. Disclosures to borrowers

(1) A bank shall provide a Key Fact Statement (KFS), as per instructions contained in the Reserve Bank of India (Small Finance Banks - Responsible Business Conduct), Directions, 2025.

(2) As regards penal charges, a bank shall be guided by the Reserve Bank of India (Small Finance Banks - Responsible Business Conduct), Directions, 2025.

(3) A bank shall ensure that digitally signed documents (on the letter head of the bank) *viz*., KFS, summary of loan product, sanction letter, terms and conditions, account statements, privacy policies of the bank / LSP with respect to storage and usage of borrowers' data, etc. shall automatically flow to the borrower on the registered and verified email / SMS upon execution of the loan contract / transactions.

Explanation: Digitally signed documents shall be in compliance with the provisions of the Information Technology Act, 2000, as amended from time to time.

(4) The bank shall maintain a website of their own in public domain, which shall be kept up to date, *inter-alia*, with the following details at a prominent single place on the website for ease of accessibility:

(i) Details of all of its digital lending products and its DLAs.

(ii) Details of LSPs and the DLAs of the LSPs along with the details of the activities for which they have been engaged for.

(iii) Particulars of bank's customer care and internal grievance redressal mechanism.

(iv) Link to the Reserve Bank's Complaint Management System (CMS) and Sachet Portal.

(v) Privacy policies and other details as required under extant guidelines of the Reserve Bank.

(5) A bank shall ensure that DLAs / LSPs have links to the above website of the bank.

(6) In case of a loan default, when a recovery agent is assigned for recovery or there is a change in the recovery agent already assigned, the particulars of such recovery agent authorised to approach the borrower for recovery shall be communicated to the borrower through email / SMS before the recovery agent contacts the borrower for recovery.

10. **Loan disbursal, servicing and repayment**

(1) Disbursement of loan by a bank shall always be made into the bank account of the borrower except for disbursals covered exclusively under statutory or regulatory

mandate (of the Reserve Bank or of any other regulator) and disbursals for specific end use, provided the loan is disbursed directly into the bank account of the end-beneficiary. The bank shall ensure that in no case, disbursal is made to a third-party account, including the accounts of LSP, except as provided in this Chapter.

Provided that, advances against salary, where the loan is disbursed directly to the bank account of the borrower, but the repayment is from the corporate employer, can be allowed subject to the condition that the loan is repaid by the corporate employer by deducting the amount from the borrower's salary. However, it must be ensured that LSPs do not have any control over the flow of funds directly or indirectly in such transactions and that repayment is directly from the bank account of the employer to the bank.

(2) A bank shall ensure that all loan servicing, repayment, etc. is executed by the borrower directly in the bank's account without any pass-through account / pool account of any third party, including the accounts of LSP.

(3) The flow of funds between the bank accounts of the borrower and the bank shall not be controlled either directly or indirectly by a third-party, including the LSP.

(4) A bank shall ensure that any fees, charges, reimbursements, etc. payable to LSP are paid directly by the bank and are not charged to or collected from the borrowers separately by LSP.

(5) In case of delinquent loans, a bank may deploy physical interface to recover loans in cash, wherever necessary. In order to afford operational flexibility to the bank, such transactions are exempted from the requirement of direct repayment of loan in the bank's account. However, any recovery by cash shall be duly reflected in full in the borrower's account on the same day and the bank shall ensure that any fees, charges, etc., payable to LSPs for such recovery are paid directly by the bank and are not charged by LSP to the borrower either directly or indirectly from the recovery proceeds.

11. Cooling-off period

(1) The borrower shall be given an explicit option to exit a digital loan by paying the principal and the proportionate APR without any penalty during an initial "cooling-off period". The cooling off period shall be determined by the bank in terms of its credit policy, subject to the period so determined not being less than one day. For borrower continuing with the loan even after cooling-off period, pre-payment shall

continue to be allowed as per the Reserve Bank of India (Small Finance Banks - Responsible Business Conduct) Directions, 2025.

(2) The bank may retain a reasonable one-time processing fee, if the customer exits the loan during the cooling-off period. This, if applicable, shall be disclosed to the customer upfront in KFS.

12. Grievance redressal

(1) A bank, and its LSP which has an interface with the borrower, shall designate nodal grievance redressal officers to deal with digital lending related complaints / issues raised by the borrower.

(2) Contact details of the nodal grievance redressal officers shall be prominently displayed on the websites of the bank, its LSP and on the DLA, as well as in the KFS provided to the borrower.

(3) The facility of lodging complaint shall also be made available on the DLA and on the website as stated above. It is reiterated that responsibility of grievance redressal shall continue to remain with the bank.

(4) If any complaint lodged by the borrower against the bank or the LSP engaged by the bank is rejected wholly or partly by the bank, or the borrower is not satisfied with the reply; or the borrower has not received any reply within 30 days of receipt of complaint by the bank, the said borrower can lodge a complaint over the Complaint Management System (CMS - https://cms.rbi.org.in/) portal under the Reserve Bank-Integrated Ombudsman Scheme (RB-IOS - Issued vide Notification CEPD. PRD. No.S873/13.01.001/2021-22 dated November 12, 2021) or send a physical complaint to "Centralised Receipt and Processing Centre, 4th Floor, Reserve Bank of India, Sector -17, Central Vista, Chandigarh - 160017" as per the grievance redressal mechanism prescribed by the Reserve Bank. This information shall be suitably conveyed to the borrower.

C. Technology and Data Requirement

13. Collection, usage and sharing of data with third parties

(1) A bank shall ensure that any collection of data by its DLA and DLA of its LSP is need-based and with prior and explicit consent of the borrower having audit trail. In any case, the bank shall also ensure that DLA of the bank / LSP desist from accessing mobile phone resources like file and media, contact list, call logs, telephony functions, etc. A one-time access can be taken for camera, microphone,

location or any other facility necessary for the purpose of on-boarding / KYC requirements only, with the explicit consent of the borrower.

(2) The borrower shall be provided with an option to give or deny consent for use of specific data, restrict disclosure to third parties, data retention, revoke consent already granted to collect personal data and if required, make the bank / LSP delete / forget the data.

(3) The purpose of obtaining borrowers' consent needs to be disclosed at each stage of interface with the borrowers.

(4) Explicit consent of the borrower shall be taken before sharing personal information with any third party, except for cases where such sharing is required as per statutory or regulatory requirement.

14. Storage of data

(1) A bank shall ensure that LSP engaged by them do not store personal information of borrower except some basic minimal data (viz., name, address, contact details of the customer, etc.) that may be required to carry out their operations or service within the scope of the bank-LSP agreement. Responsibility regarding data privacy and security of the customer's personal information on an ongoing basis shall be that of the bank.

(2) A bank shall ensure that clear policy guidelines regarding the storage of customer data including the type of data that can be stored, the length of time for which data can be stored, restrictions on the use of data, data destruction protocol, standards for handling security breach, etc., are put in place and also disclosed by the bank and the LSP engaged by the bank prominently on their website and DLA at all times.

(3) A bank shall ensure that no biometric data is stored / collected by them and LSP, unless allowed under extant statutory guidelines.

(4) A bank shall ensure that all data is stored only in servers located within India, while ensuring compliance with statutory obligations / regulatory instructions. Further, in case the data is processed outside India, the same shall be deleted from servers outside India and brought back to India within 24 hours of processing.

15. Comprehensive privacy policy

(1) A bank and LSPs engaged by the bank shall have a comprehensive privacy policy compliant with applicable laws, associated regulations and the Reserve Bank

guidelines which shall be made available publicly on the website of the bank and LSP, as the case may be.

(2) Details of third parties (where applicable) allowed to collect personal information through the DLA shall also be disclosed in the privacy policy.

16. Technology standards

A bank shall ensure that they and the LSPs engaged by them comply with various technology standards / requirements on cybersecurity stipulated by the Reserve Bank and other relevant agencies, or as may be specified from time to time, for undertaking digital lending.

D. Reporting of Credit Information and DLAs

17. Reporting to Credit Information Companies (CICs)

(1) As per the provisions of the Credit Information Companies (CIC) (Regulation) Act, 2005; CIC Rules, 2006; CIC Regulations, 2006 and related guidelines issued by the Reserve Bank from time to time, a bank shall ensure that any lending done through their DLAs and / or DLAs of LSPs is reported by them to CICs irrespective of its nature / tenor.

(2) Extension of structured digital lending products by a bank and / or LSPs engaged by a bank over a merchant platform involving short term, unsecured / secured credits or deferred payments, need to be reported to CICs by the bank. A bank shall ensure that LSPs, if any, associated with such deferred payment credit products shall abide by the extant outsourcing guidelines issued by the Reserve Bank and be guided by the instructions contained in this Chapter.

18. Reporting of DLAs to the Reserve Bank

(1) The bank shall report all DLAs deployed / joined by them, whether their own or those of the LSPs, either exclusively or as a platform participant, on the Centralised Information Management System (CIMS) portal of the Reserve Bank in the requisite format as given in the Annex - I to these Direction.

(2) The bank shall update the aforesaid list as and when additional DLA(s) are deployed or the engagement with the existing DLA(s) ceases to exist by filing the updated data in the CIMS portal.

(3) The Chief Compliance Officer of the bank or any other official designated by the Board of the bank for the purpose shall certify that the data on DLAs submitted by

them on the CIMS portal is correct and the DLAs are compliant with all the extant regulatory instructions, including the provisions of this Chapter.

(4) Without prejudice to the generality of the above, the Chief Compliance Officer / other official designated by the Board of the bank shall certify the following aspects:

(i) DLAs have link to the bank's website where further information about the loan products, the lender, the LSP, particulars of customer care, link to Sachet Portal, privacy policies, etc. can be accessed by the borrower.

(ii) DLAs (in case owned by LSP), have appointed a suitable nodal grievance redressal officer to deal with digital lending related complaints / issues raised by the borrower, details of which are prominently available on the respective DLA.

(iii) Data collection and storage by DLAs is in compliance with paragraphs 13 and 14 of this Direction and other statutory and regulatory requirements, as applicable from time to time.

(iv) The DLA's particulars submitted by the bank are also suitably disclosed on the bank's website as required under paragraph 9(4) of these Direction.

(5) The bank shall ensure the correctness and timeliness of information regarding DLAs, as the data, as submitted by the bank on CIMS, shall be published on the website of the Reserve Bank in an automated manner and the Reserve Bank shall not verify / validate the data submitted on CIMS. All issues and grievances of customers concerning DLAs shall be addressed and dealt with by the bank directly.

(6) The bank shall ensure that the inclusion of any third party DLAs deployed by them as part of above reporting, shall not be construed by the DLAs or any associated entity as conferring any form of registration, authorization, or endorsement by the Reserve Bank. The bank shall also ensure that such inclusion is not misrepresented in any marketing, promotional, or other materials issued by or on behalf of the DLAs.

E. Loss sharing arrangement in case of default

19. Eligibility as Default Loss Guarantee (DLG) provider

A bank may enter into DLG arrangements only with a LSP / other lender engaged as an LSP. Further, an LSP providing DLG shall be incorporated as a company under the Companies Act, 2013.

20. Due diligence and other requirements with respect to DLG provider

(1) A bank, including a bank acting as DLG provider, shall lay down, as part of its policy, the eligibility criteria for DLG provider, nature and extent of DLG cover, process of monitoring and reviewing the DLG arrangement, and the details of the fees, if any, payable to / received by the DLG provider, as the case may be, before entering into any DLG arrangement.

(2) A bank shall ensure that any DLG arrangement does not act as a substitute for credit appraisal requirements and robust credit underwriting standards need to be put in place irrespective of the DLG cover.

(3) Every time a bank enters into or renews a DLG arrangement, it shall obtain adequate information to satisfy itself that the entity extending DLG would be able to honour it. Such information shall, at a minimum, include a declaration from the DLG provider, certified by the statutory auditor of the DLG provider, on the aggregate DLG amount outstanding, the number of lenders and the respective number of portfolios against which DLG has been provided. The declaration shall also contain past default rates on similar portfolios.

(4) It is clarified that the due-diligence requirements specified herein are in addition to the general requirements applicable to bank-LSP arrangements as set out in paragraph 6 of these Directions.

21. Restrictions on entering into DLG arrangements

(1) A bank shall not enter into DLG arrangements for revolving credit facilities offered through digital lending channel and credit cards as defined under the Reserve Bank of India (Small Finance Banks – Credit Cards and Debit Cards: Issuance and Conduct) Directions, 2025.

(2) A bank shall not enter into DLG arrangements on the loans which are covered by the credit guarantee schemes administered by trust funds as specified under the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

22. Structure of DLG arrangements

DLG arrangements shall be backed by an explicit and legally enforceable contract between a bank and the DLG provider. Such contract, among other things, shall contain the following details:

(1) Extent of DLG cover.

(2) Form in which DLG cover is to be maintained with the bank.

(3) Timeline for DLG invocation.

(4) Disclosure requirements as under paragraph 28 of these Directions.

23. Forms of DLG

A bank shall accept DLG only in one or more of the following forms:

(1) Cash deposited with the bank.

(2) Fixed Deposit maintained with a Scheduled Commercial Bank with a lien marked in favour of the bank.

(3) Bank Guarantee in favour of the bank.

24. Cap on DLG

(1) A bank shall ensure that the total amount of DLG cover on any outstanding portfolio which is specified upfront shall not exceed five per cent of the total amount disbursed out of that loan portfolio at any given time. In case of implicit guarantee arrangements, the DLG Provider shall not bear performance risk of more than the equivalent amount of five per cent of the underlying loan portfolio.

(2) The portfolio over which DLG can be offered shall consist of identifiable and measurable loan assets which have been sanctioned (the ‘DLG set’). This portfolio shall remain fixed for the purpose of DLG cover and is not meant to be dynamic.

(3) Illustrative examples on cap on DLG:

Illustration I

Assume that as on April 1, 2024 the bank earmarks a portfolio of ₹40 crore (out of the total sanctioned loans) under a DLG arrangement (DLG set). This portfolio shall remain "frozen" for the purpose of the specific DLG arrangement - meaning that no loan assets can be added or removed from it, except through loan repayment/ write-off. The bank can have such multiple DLG sets.

The ceiling for DLG cover on such portfolio shall be fixed at ₹2 crore (5 per cent of ₹40 crore), which shall get activated proportionately as and when the loans are disbursed.

Illustration II

Assume that out of the above DLG set, loans amounting to ₹10 crore are disbursed immediately. Then as on April 1, 2024, the DLG cover available for the portfolio shall be ₹0.5 crore (5 per cent of disbursed).

Subsequently, if loans of ₹10 crore are further disbursed on April 15, 2024, the DLG cover shall proportionately increase to ₹1 crore effective April 15, 2024.

(Refer table below also for summary of each case)

Case 1: As on June 30, 2024, loans worth ₹5 crore mature without any default. In this case, the outstanding portfolio in the books of the bank would be ₹15 crore and the DLG cover shall remain at ₹1 crore.

Case 2: Subsequently, there is a default of ₹2 crore during Q2-2024 and consequently the bank invokes the entire DLG of ₹1 crore (assuming that till date zero principal / interest have been received towards these loans). In this case, as of Sept 30, 2024 the outstanding portfolio in the books of the bank shall be ₹15 crore (₹20 crore original portfolio less ₹5 crore loans matured without default) but no headroom for DLG will be available as the maximum permissible DLG cover of ₹1 crore (5 per cent of disbursed) has been exhausted.

Case 3: Going further, let's assume that recovery worth ₹1 crore is made by the bank during October 2024 on the defaulted loans of ₹2 crore. In such a case, the amount of the outstanding portfolio in the books of the bank as on October 31, 2024 shall come down to ₹14 crore (₹20 crore original portfolio less ₹5 crore loans matured without any default less ₹1 crore loans which were in default and recovered). However, the recovery amount of ₹1 crore cannot be added to reinstate the DLG cover.

(figures in ₹crore)

Period	**Disbursed**	**Loan maturing without default**	**Default Amount**	**DLG Invoked**	**Recovery/ Write-off**	**Outstanding Portfolio**	**Available DLG Cover**
Initial Position	10	-	-	-	-	10	0.5
Further disbursement	10	-	-	-	-	20	1
Case 1	20	5	-	-	-	15	1
Case 2	20	5	2	1	-	15	0
Case 3	20	5	2	1	1	14	0

25. Recognition of NPA

(1) Recognition of individual loan assets in the portfolio as Non-Performing Asset (NPA) and consequent provisioning shall be the responsibility of the bank as per the Reserve Bank of India (Small Finance Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 irrespective of any DLG cover available at the portfolio level.

(2) The amount of DLG invoked shall not be set off against the underlying individual loans, i.e. the liability of the borrowers in respect of the underlying loan shall remain unaffected.

(3) Recovery by a bank, if any, from the loans on which DLG has been invoked and realised, can be shared with the DLG provider in terms of the contractual arrangement.

(4) DLG amount once invoked by the bank shall not be reinstated, including through loan recovery.

26. Treatment of DLG for regulatory capital

(1) Capital computation, i.e., computation of exposure and application of Credit Risk Mitigation benefits on individual loan assets in the portfolio shall continue to be governed by Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

(2) In case, DLG provider is a bank, it shall deduct full amount of the DLG which is outstanding from its capital.

27. Invocation and tenor of DLG

(1) A bank shall invoke DLG within a maximum overdue period of 120 days, unless the loan dues are made good by the borrower before that.

(2) The period for which the DLG agreement remains in force shall not be less than the longest tenor of the loan in the underlying loan portfolio.

28. Disclosure requirements

(1) The bank shall put in place a mechanism to ensure that LSPs with whom they have a DLG arrangement shall publish on their website the total number of portfolios and the respective amount of each portfolio on which DLG has been offered. The name of the lender(s) may or may not be disclosed as part of disclosure under this provision.

(2) Disclosure under paragraph (1) above shall be made on a monthly basis, with the disclosure for any given month to be provided no later than seven working days following the conclusion of that month.

29. Exceptions

Guarantees covered under the following schemes / entities shall not be covered within the definition of DLG:

(1) Guarantee schemes of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC).

(2) Credit guarantee provided by Bank for International Settlements (BIS), International Monetary Fund (IMF) as well as Multilateral Development Banks as referred to in the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

F. General Provisions

30. EMI programmes on Credit Card are governed specifically by the Reserve Bank of India (Small Finance Banks – Credit Cards and Debit Cards: Issuance and Conduct) Directions, 2025. Such transactions shall not be covered under this Chapter. However other loan products offered on Credit Cards which are not covered / envisaged under the aforesaid Directions shall be governed by the stipulations laid down under this Chapter. Further, this Chapter shall also be applicable to all loans offered on Debit Card, including EMI programmes.

31. DLG arrangements entered between a bank and their LSP conforming to the instructions laid down in this Chapter shall neither be treated as "synthetic securitisation" as defined under the Reserve Bank of India (Small Finance Banks – Securitisation Transactions) Directions, 2025, nor attract the provisions of 'loan participation' as defined under the Reserve Bank of India (Small Finance Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

Chapter IV - Lending against Gold and Silver Collateral

Background: Reserve Bank has restricted lending against primary gold such as gold bullion due to broader macro-prudential concerns as also due to speculative and non-productive nature of gold. However, banks have been permitted to lend against the collateral security of gold jewellery, ornaments and coins for meeting the short-term financing needs of borrowers. The extant regulations are guided, inter alia, by the objective of providing the borrowers an avenue to tide over their tight liquidity conditions by leveraging the gold jewellery, ornaments or coins that are kept idle, while simultaneously addressing the risks for the lenders. Similar concerns and objectives guide a few regulations issued in the past on lending against the collateral of silver.

32. Instructions contained in this Chapter shall be complied with as expeditiously as possible but no later than April 1, 2026. Loans sanctioned prior to the date of adoption of these directions by the bank shall continue to be governed by the instructions contained in the Annex II and applicable before the issuance of these directions. Instructions contained in Annex II will cease to be effective from the date of adoption and implementation of instructions contained in this Chapter.

A. General Provisions

33. The credit policy (hereinafter called the policy) of a bank, as required in terms of paragraph 5 of these Directions, shall include, inter alia, appropriate single borrower limits and aggregate limits for the portfolio of loans against collateral of jewellery, ornaments or coins made of gold or silver ("eligible collateral" for this Chapter); maximum LTV ratio permissible for such loans; action to be taken in cases of breach of LTV ratio; valuation standards and norms; and standards of gold and silver purity. The policy shall also include appropriate documentation to be obtained and maintained for loans proposed to be categorised under priority sector lending.

34. A bank may decide on a suitable approach for lending against eligible collateral as part of its credit risk management framework, consistent, inter alia, with the principle of proportionality and ease of access for small ticket loans. However, detailed credit assessment, including assessment of borrower's repayment capacity shall be undertaken in case the total loan amount against eligible collateral is above ₹2.5 lakh to a borrower.

    Provided that in case of Bullet repayment loans, the threshold loan amount for detailed credit assessment shall be the total amount payable at maturity.

35. A bank may renew an existing loan or sanction a top-up loan upon a formal request from the borrower, subject to a credit assessment in accordance with paragraph 34. Such renewal or top-up shall be permitted only within the permissible LTV, and provided the loan is classified as standard. Further, renewal of bullet repayment loan shall be allowed only after payment of accrued interest, if any. The bank shall ensure that such renewals and top-ups are clearly identifiable in its Core Banking System or Loan Processing System.

B. Restrictions and Ceilings

36. A bank shall not grant any advance or loan:

(1) For purchase of gold in any form including primary gold, ornaments, jewellery, or coins, or for purchase of financial assets backed by gold, e.g., units of Exchange-traded funds (ETFs) or units of Mutual Funds; and

(2) against primary gold or silver or financial assets backed by primary gold or silver.

Provided that a bank may extend need-based working capital finance to borrowers who use gold or silver as a raw material or as an input in their manufacturing or industrial processing activity, where such gold or silver can also be accepted as security. A bank extending such finance shall ensure that borrowers do not acquire or hold gold for investment or speculative purposes.

37. A bank shall not extend a loan where ownership of the collateral is doubtful. A suitable document or declaration shall be obtained from the borrower in all cases to the effect that the borrower is the rightful owner of the eligible collateral. Multiple or frequent sanction of loans against eligible collateral to the same borrower, aggregating to a value in excess of a threshold to be decided by the lender, must be examined closely as part of the transaction monitoring under the anti-money laundering (AML) framework.

38. A bank shall not:

(1) Avail loans by re-pledging gold or silver pledged to it by its borrowers.

(2) Extend loans to other lenders, entities or individuals by accepting gold or silver collateral pledged to such lenders, entities, or individuals by their borrowers as collateral.

For removal of doubt, it is clarified that the above provision does not preclude a lender from financing another lender against the security of underlying receivables.

39. Tenor of consumption loans in the nature of bullet repayment loans shall be capped at 12 months, which may be renewed in terms of paragraph 35.

40. Loans against ornaments and coins shall be subject to the following:

    (1) The aggregate weight of ornaments pledged for all loans to a borrower shall not exceed 1 kilogram for gold ornaments, and 10 kilograms for silver ornaments.
    (2) The aggregate weight of coin(s) pledged for all loans to a borrower shall not exceed 50 grams in case of gold coins, and 500 grams in case of silver coins.

C. Valuation and Assaying of Gold and Silver collateral

41. Gold or silver accepted as collateral shall be valued based on the reference price corresponding to its actual purity (caratage). For this purpose, the lower of

    (1) the average closing price for gold or silver, as the case may be, of that specific purity over the preceding 30 days, or
    (2) the closing price for gold or silver, as the case may be, of that specific purity on the preceding day, as published either by the India Bullion and Jewellers Association Ltd. (IBJA) or by a commodity exchange regulated by the Securities and Exchange Board of India (SEBI) shall be used.

42. If price information for the specific purity is not directly available, the lender shall use the published price available for the nearest available purity and proportionately adjust the weight of the collateral based on its actual purity to arrive at valuation.

43. For the purpose of valuation, only the intrinsic value of the gold or silver contained in the eligible collateral shall be reckoned and no other cost elements, such as precious stones or gems, shall be added thereto.

D. Loan to Value Ratio (LTV)

44. The maximum LTV ratio in respect of consumption loans against the eligible collateral shall not exceed LTV ratios as provided in the table below:

Total consumption loan amount per borrower	Maximum LTV ratio
≤ ₹2.5 lakh	85 per cent
> ₹2.5 lakh & ≤ ₹5 lakh	80 per cent
> ₹5 lakh	75 per cent

Explanation: ‘Loan to Value (LTV) ratio’ on a day in this context means the ratio of the outstanding loan amount to the value of the pledged eligible collateral or security, as the case may be, on that day. In case of bullet repayment loans, however, the LTV calculation, and the loan amount, shall take into account the total amount payable at maturity.

45. The prescribed LTV ratio shall be maintained on an ongoing basis throughout the tenor of the loan.

E. Other Provisions

46. For conduct related aspects and collateral management, the bank shall be guided by the instructions contained in Reserve bank of India (Small Finance Banks - Responsible Business Conduct), Directions, 2025.

47. The bank shall generally disburse loans into borrower's bank accounts. Banks shall comply with the Reserve Bank of India (Small Finance Banks – Know Your Customer) Directions, 2025. Provisions of Sections 269 SS and 269 T of the Income Tax Act, 1961, and associated rules shall be complied with, as may be applicable.

48. In case of bank transfers, the bank shall ensure that:

    (1) Loan disbursals are made to the borrower's account and not to a third-party account *Exceptions*:

        (i) Disbursals covered exclusively under statutory or regulatory mandate (of RBI or of any other regulator),
        (ii) Flow of money between lenders for co-lending transactions, and
        (iii) Disbursals for specific end use, provided the loan is disbursed directly into the bank account of the end-beneficiary).

    (2) Loan servicing, repayment, etc. is executed by the borrower directly in the bank's account without any pass-through account or pool account of any third party.

49. Running multiple loans simultaneously to a single borrower or a group of related borrowers may be prone to misuse and susceptible to fraud. Consequently, such practices shall be subject to stricter internal audit and supervisory examination.

50. For instructions on disclosure requirements, the bank shall be guided by the instructions contained in Reserve Bank of India (Small Finance Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter V - Gold Metal Loans (GML)

A. General provisions for extending GML

51. Banks nominated for import of gold (as notified by Directorate General of Foreign Trade (DGFT), list available at Reserve Bank's website) and designated banks participating in Gold Monetization Scheme, 2015 (GMS) are authorised to extend Gold Metal Loans to exporters of jewellery as well as domestic jewellery manufacturers who are not exporters of jewellery. An authorised bank shall extend GML facility to eligible borrowers, subject to the following conditions:

    (1) The tenor of the GML for the jewellery exporters shall be decided as per the extant Export Import Policy and the Handbook of Procedures (as released by DGFT from time to time).

    (2) The tenor of the GML for the domestic jewellery manufacturers, who are not exporters of jewellery, shall not exceed 180 days.

    (3) Interest charged to the borrowers for GML extended out of imported gold shall be linked to the international gold interest rate.

    (4) The gold borrowings shall be subject to normal reserve requirements.

    (5) The loan shall be subject to capital adequacy and other prudential requirements.

    (6) Banks shall ensure end-use of funds lent under GML to borrowers and adhere to KYC guidelines.

    (7) Any mismatch arising out of the gold borrowing / deposit and lending shall be within the prudential risk limits approved by the authorised bank's Board.

    (8) The bank shall carefully assess the overall risks on granting GML and lay down a detailed lending policy with the approval of the Board.

    (9) GML shall not involve any direct or indirect liability of the borrowing entity towards foreign suppliers of gold.

    (10) In case GML is given by the authorised bank to its own existing customers, the loan shall be carved out within the credit limit sanctioned by the bank. In case of new borrowers, the GML limit shall be fixed after carrying out a detailed credit appraisal and due diligence.

    (11) The bank shall calculate their exposure and compliance with prudential norms daily by converting the gold quantity into INR by crossing LBMA (London Bullion Market Association) Gold AM price fixing for Gold / US Dollar rate with the rupee-dollar reference rate announced by the Reserve Bank.

(12) GML can be availed of only by gold jewellers who are themselves manufacturers of gold jewellery. The jewellers cannot sell the gold borrowed under GML scheme to any other party for manufacture of jewellery.

B. GML against Letter of Credit (LC) or Bank Guarantee (BG)

52. An authorised bank shall extend GML to customers of other banks by accepting stand-by letter of credit (LC) or bank guarantee (BG) issued by their bankers in favour of the authorised bank subject to authorised bank's own norms for lending and other conditions stipulated by the Reserve Bank. The stand-by LC / BG issuing bank and the GML providing bank shall adhere to the following guidelines:

(1) The stand-by LC / BG shall be extended only on behalf of eligible borrowers and shall cover at all times the full value of the quantity of gold borrowed by these entities. The stand-by LC / BG shall be issued by the borrowers' bankers in favour of an authorised bank only and not to any other entity which may otherwise be having permission to import gold.

(2) The bank issuing the stand-by LC / BG (only inland letter of credit / bank guarantee) shall do so only after carrying out proper credit appraisal. The bank shall ensure that adequate margin is available to it at all times consistent with the volatility of the gold prices.

(3) The stand-by LC / BG facilities shall be denominated in INR and not in foreign currency.

(4) Stand-by LC / BG issued by the non-authorised banks shall be subject to extant capital adequacy and prudential norms.

(5) The bank issuing stand-by LC / BG shall also carefully assess the overall risks on granting these facilities and lay down a detailed lending policy with the approval of their Board.

(6) Stand-by LC / BG issuing bank shall carry out rigorous credit appraisal exercise and treat stand-by LC / BG limit (non-fund based limit) at par with the fund based limit. Similarly, bank disbursing GML shall carry out independent credit appraisal of the borrower. It shall not rely solely on stand-by LC / BG issued by other banks.

(7) Stand-by LC / BG issuing bank and bank disbursing GML while assessing the credit requirement of the borrower may, among others, take into account the following aspects:

(i) Track record of the borrower,

(ii) Trade cycle of the manufacturing activity,

(iii) Credit worthiness of the borrower,

(iv) Collateral security offered by the borrower, etc.

(8) The borrower availing GML, irrespective of whether through stand-by LC /BG issued by another bank or directly from an authorised bank, shall have good credentials and standing in the market. This shall be established by inputs from the market as well as from other sources including from the CICs.

(9) In the case of GML against revolving stand-by LC / BG, *i.e.*, where the original loan limit is restored after repayment of previous loan without any further reference to the stand-by LC / BG issuing bank, both the banks, i.e., GML providing bank and the stand-by LC / BG issuing bank shall evolve a mechanism to carefully monitor the borrowing arrangement. In such cases GML providing bank shall seek confirmation of stand-by LC / BG issuing bank before restoring the loan limit. Existing guidelines in respect of verifying the genuineness of the guarantee with the issuing bank as provided in these Directions shall be followed by the bank in this regard.

(10) The bank disbursing GML shall open current account of the borrower with the consent of stand-by LC / BG issuing bank so that funds can be arranged by the borrower in the account for monthly servicing of interest and repayment of loan on due date.

(11) The GML providing bank shall obtain all relevant information from the borrower viz., daily sales / stock position, deposit of sales proceeds etc., at stipulated intervals and there shall be proper sharing of the above information between GML providing bank and stand-by LC / BG issuing bank.

(12) Inspection of stocks, quality check of the gold stock, verification of insurance cover, etc., shall be undertaken jointly or on rotation basis by the GML providing bank and stand-by LC / BG issuing bank.

(13) The exposure assumed by the authorised bank extending the GML against the stand-by LC / BG of another bank shall be deemed as an exposure on the guaranteeing bank and attract appropriate risk weight as per the extant guidelines.

(14) The transaction shall be purely on back-to-back basis i.e., the authorised banks shall extend GML directly to the customer of another bank, against the stand-by LC / BG issued by the latter.

C. GMS-linked GML Scheme

53. Without prejudice to the generality of the uses of the gold mobilised under the GMS as stipulated in Master Direction on Gold Monetization Scheme, 2015, a designated bank may, *inter alia*, lend the gold under the GML scheme to MMTC for minting India Gold Coins (IGC) and to jewellers, or lend the gold to other designated banks participating in the GMS for granting GML subject to following conditions:

    (1) Interest Rate: The designated bank is free to determine the interest rate to be charged on GMS linked GML.
    (2) Repayment: The repayment shall be in INR or in locally sourced India Good Delivery Standard(IGDS) / LBMA's Good Delivery Standards (LGDS) gold as prescribed under paragraph 56 of these Directions.
    (3) Tenor: The tenor of GMS-linked GML shall be as per paragraphs 51(1) and 51(2) of these Directions.

54. The jewellers will receive the physical delivery of gold either from the refiners or from a designated bank, depending on the place where the refined gold is stored.

55. A designated bank shall report information on GMS-linked GML to the Reserve Bank as per Annex – 2 of the Master Direction on Gold Monetization Scheme, 2015.

D. Other provisions for extending GML

56. Gold metal loans are repayable in INR, equivalent to the value of gold borrowed, on the relevant date(s). Additionally, a bank shall provide an option to the borrower to repay a part of the GML in physical gold in lots of one kg or more, provided:

    (1) The GML has been extended out of locally sourced / GMS-linked gold.
    (2) Repayment is made using locally sourced IGDS / LGDS gold.
    (3) Gold is delivered on behalf of the borrower to the bank directly by the refiner or a central agency, acceptable to the bank, without the borrower's involvement.
    (4) The loan agreement contains details of the option to be exercised by the borrower, acceptable standards and manner of delivery of gold for repayment.
    (5) The borrower is apprised upfront, in a transparent manner, of the implications of exercising the option.
    (6) The bank shall suitably incorporate the above aspects into the board-approved policy governing GML along with concomitant risk management measures.

57. An authorised bank shall not enter into any tie up arrangements for retailing of gold / gold coins with any other entity including non-banking financial companies / co-operative banks / non-authorised banks.

58. An authorised bank shall also monitor the end-use of funds lent under GML.

59. The above guidelines are subject to the directions issued under Foreign Exchange Management Act (FEMA) from time to time.

60. An authorised bank shall adopt a suitable Board approved policy for GML keeping in view the above guidelines and the regulations issued by the Foreign Exchange Department of the Reserve Bank related to import of gold.

Chapter VI - Microfinance

A. Definition of Microfinance

61. A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

62. All collateral-free loans, irrespective of end use and mode of application / processing / disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

    Explanation: To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

B. Assessment of Household Income

63. Each bank shall put in place a board-approved policy for assessment of household income. Indicative methodology for assessment of household income is outlined below:

    (1) For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

    (i) Parameters to capture household profile

    (a) Composition of the household
        i. Number of earning members
        ii. Number of non-earning members
    (b) Type of accommodation (owned / rented, etc.)
    (c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)
    (d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)

    (ii) Parameters to capture household income

    (a) Primary source of income
        i. Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)
        ii. Nature of work (Self-employed or salaried, regular or seasonal, etc.)
        iii. Frequency of income (daily / weekly / monthly)

iv. Months / days of employment over last one year

v. Self-reported monthly income

vi. Average monthly income (to be derived from (iv) & (v) above)

(b) Other sources of income

i. Remittance

ii. Rent / Lease

iii. Pension

iv. Government transfer

v. Scholarship

vi. Others (specify details)

(c) The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.

(d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

(iii) Parameters to capture household expenses

(a) Regular monthly expenses (food, utilities, transport, house / shop rent, clothing, regular medical costs, school / college fees, etc.)

(b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)

(2) Self-reported income at 1(ii) above may be corroborated with the profile of household at 1(i) and household expenses at 1(iii). Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

64. Self-regulatory organisations (SROs) and other associations / agencies may also develop a common framework based on the indicative methodology. The banks may adopt / modify this framework suitably as per their requirements with approval of their boards.

65. Each bank shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower(s) before updating the assessed household income with CICs.

C. Limit on Loan Repayment Obligations of a Household

66. Each bank shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. The limit on the outflows on account of repayment of monthly loan obligations of a household shall be limited to a maximum 50 per cent of the monthly household income.

67. The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

68. Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

69. Each bank shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the bank shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.

D. Other provisions

70. The bank shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

71. The bank providing microfinance loans shall refer to:

    (1) Reserve Bank of India (Small Finance Banks – Interest Rates on Advances) Directions, 2025 for pricing of loans.

(2) Reserve Bank of India (Small Finance Banks – Responsible Business Conduct) Directions, 2025 for instructions related to Key Fact Statement and guidelines on conduct towards microfinance borrowers.

(3) Reserve Bank of India (Small Finance Banks – Managing Risks in Outsourcing) Directions, 2025 for instructions pertaining to responsibilities for outsourced activities.

Chapter VII - Project Finance

Background: The Directions contained in this Chapter provide a harmonised framework for financing of projects in infrastructure and non-infrastructure (including commercial real estate & commercial real estate - residential housing) sectors by banks.

72. The directions contained in this Chapter shall not apply to projects where financial closure has been achieved as on October 1, 2025 (the 'Effective Date' for this Chapter) for which the prudential guidelines on project finance prevailing before October 1, 2025, which otherwise shall be treated as repealed, shall apply. However, any resolution of a fresh credit event and / or change in material terms and conditions in the loan contract in such projects, subsequent to the effective date, shall be as per Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025.

A. Phases of Projects

73. For the purpose of application of prudential guidelines contained in this Chapter, Projects shall be broadly divided into three phases namely:

    (1) Design phase – This is the first phase which starts with the genesis of the project and includes, inter-alia, designing, planning, obtaining all applicable clearances / approvals till its financial closure.
    (2) Construction phase – This is the second phase which begins after the financial closure and ends on the day before the actual DCCO.
    (3) Operational Phase – This is the last phase which starts with commencement of commercial operation by the project on the day of the actual DCCO and ends with full repayment of the project finance exposure.

B. Prudential Conditions Related to Sanction

74. The credit policy of a bank shall incorporate suitable clauses for sanction of project finance exposures, taking into account *inter alia* the provisions under this Chapter.

75. For all projects financed by a bank, it shall be ensured that:

    (1) Financial closure has been achieved and original DCCO is clearly spelt out and documented prior to disbursement of funds.
    (2) The project specific disbursement schedule vis-à-vis stage of completion of the project is included in the loan agreement.
    (3) The post DCCO repayment schedule has been realistically designed to factor in the initial cash flows.

Provided that, the original or revised repayment tenor, including the moratorium period, if any, shall not exceed 85 per cent of the economic life of a project.

76. For a given project, original / extended / actual DCCO, as the case may be, shall be same across all lenders to the project.

77. In under-construction projects where the aggregate exposure of the lenders is up to ₹1,500 crore, no individual bank shall have an exposure which is less than 10 per cent of the aggregate exposure. For projects where aggregate exposure of all lenders is more than ₹1,500 crore, the exposure floor for an individual bank shall be 5 per cent or ₹150 crore, whichever is higher.

    Provided that, the above minimum exposure requirements shall not apply post-actual DCCO and banks may freely acquire from or sell exposures to other lenders, in compliance with guidelines contained in the Reserve Bank of India (Small Finance Banks – Transfer and Distribution of Credit Risk) Directions, 2025. Prior to actual DCCO, banks may acquire from or sell exposures to other lenders under a syndication arrangement (as specified under the Reserve Bank of India (Small Finance Banks – Transfer and Distribution of Credit Risk) Directions, 2025), provided the share of individual bank is in adherence to the above limits.

78. A bank shall ensure that all applicable approvals / clearances for implementing / constructing the project are obtained before financial closure. An indicative list of such pre-requisite approvals / clearances includes environmental clearance, legal clearance, regulatory clearances, etc., as applicable to the project.

79. Approvals / clearances which are contingent upon achievement of certain milestones in terms of project completion shall be deemed to be applicable only when such milestones are achieved. For example, consent to operate a boiler can only be applied for after the construction of a boiler. Hence, the same shall not be treated as an applicable mandatory pre-requisite at the time of financial closure.

C. Prudential Conditions Related to Disbursement and Monitoring

80. A bank shall ensure availability of sufficient land / right of way for all projects before disbursement of funds, subject to the following minimum requirements:

    (1) For infrastructure projects under PPP model – 50 per cent

    (2) For all other projects (non-PPP infrastructure, and non-infrastructure including CRE & CRE-RH) – 75 per cent

(3) For transmission line projects – as decided by the bank

81. In case of infrastructure projects under PPP model, disbursement of funds shall begin only after declaration of the Appointed Date or its equivalent, for the project. However, in cases where non-fund based credit facilities may be mandated by the concession granting authority as a pre-requisite for declaration of appointed date, the bank may sanction such credit facilities, in adherence with the instructions on non-fund based facilities as prescribed in Chapter XIV of these Direction.

82. Further, in respect of the exposures mentioned at paragraph 81 above, the original DCCO documented in the financial closure document shall be modified to reflect any change in the 'Appointed Date' by the Concession granting authority prior to disbursement of funds by way of a supplementary agreement between a lender and the debtor subject to reassessment of project viability and obtention of sanction from appropriate authorities. A Techno-Economic Viability (TEV) study shall be required for this purpose for all projects where the aggregate exposure of all lenders is ₹100 crore or more.

83. A bank shall ensure that disbursal is proportionate to the stages of completion of the project as also to the progress in equity infusion and other sources of finance, agreed as part of financial closure and receipt of remaining applicable clearances. The lender's independent engineer (LIE) / architect shall certify the stages of completion of the project.

84. A project finance account may be classified as NPA during any time before actual DCCO as per record of recovery, in terms of the Reserve Bank of India (Small Finance Banks - Income Recognition, Asset Classification and Provisioning) Directions, 2025.

D. Other Provisions

85. Creation and Maintenance of Database **-** Project specific data, in electronic and easily accessible format, shall be captured and maintained by the bank on an ongoing basis. A list of the relevant parameters which shall form part of project finance database, at a minimum, is given below.

No	Parameters for Project Finance Database
1	**Debtor Profile** Name of the Project/SPV, PAN, LEI, Name(s) of the Sponsor, Shareholding details, Banking Arrangement, Sector, Sub-Sector.
2	**Original Project Profile**

	Nature of Project, External Credit Rating, Economic Life, Date of Financial Closure, original Date of Commencement of Commercial Operations, Total project cost excluding IDC, IDC, Capital Structure, D/E, DSCR, Repayment Tenor, Repayment Start Date, Repayment Frequency.
3	**Change in DCCO** Date of Change, reason for change, extended DCCO, revised project debt, revised project total cost, increase in cost, cost overrun, % of total increase financed by equity, % of total increase financed by debt, revised D/E, revised DSCR, revised repayment tenor, revised repayment start date, revised repayment frequency, revised external credit rating.
4	**Credit event other than deferment of original/extended DCCO** Date of Change, reason, total increase in project cost, % of project cost financed through equity, % of project cost financed through debt, revised D/E, revised DSCR, revised repayment tenor, revised repayment start date, revised repayment frequency, revised external credit rating.
5	**Current Specification of the Project** Asset classification, original/ extended DCCO, economic life, external rating, total outstanding, provision held, current project cost excluding IDC, IDC, current capital structure, D/E, DSCR, repayment tenor, repayment frequency.

86. A bank shall update any change in parameters of a project finance exposure at the earliest, but not later than 15 days from such change. The necessary system in this regard shall be put in place within 3 months of the effective date.

87. A bank shall make appropriate disclosures in their financial statements, under 'Notes to Accounts', as specified in the Reserve Bank of India (Small Finance Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

Chapter VIII - Credit Facilities to Real Estate Sector

A. Loans and advances to Real Estate Sector

88. A bank shall put in place a comprehensive Board-approved policy relating to the ceiling on the total amount of real estate loans, single / group exposure limits for such loans, margins, security, repayment schedule and availability of supplementary finance.

B. Housing Finance

89. The bank shall take into account the following directions while formulating their policy and ensure that bank credit is used for productive construction activities and not for activities connected with speculation in real estate. The following shall fall under the definition of Housing Finance:

B.1 Acquisition of Land

90. Bank finance may be granted for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.

B.2 Construction of Building / Ready-built House

91. The bank granting loans / financing for construction of building or ready built house shall be guided by the following:

    (1) The bank may grant loans to individuals for purchase / construction of dwelling unit per family and loans for repairs to the damaged dwelling units of families.

    (2) The bank may extend finance to a person who already owns a house in town / village where they reside, for buying / constructing a second house in the same or other town / village for the purpose of self-occupation.

    (3) The bank may extend finance for purchase of a house by a person who proposes to let it out on rental basis on account of their posting outside the headquarters or because they have been provided accommodation by their employer.

    (4) The bank may extend finance to a person who proposes to buy the house where they are presently residing as a tenant.

    (5) The bank may finance for construction meant for improving the conditions in slum areas for which credit may be extended directly to the slum-dwellers on the guarantee of the Government, or indirectly to them through the State Governments.

(6) The bank may provide credit for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies.

92. The bank shall adhere to the following conditions, in the light of the observations of Delhi High Court on unauthorized construction:

(1) In cases where the applicant owns a plot / land and approaches the bank for a credit facility to construct a house, a copy of the sanctioned plan by competent authority in the name of a person applying for such credit facility shall be obtained by the bank before sanctioning the home loan.

(2) An affidavit-cum-undertaking shall be obtained from the persons applying for such credit facility that they shall not violate the sanctioned plan, construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the executants to obtain completion certificate within 3 months of completion of construction, failing which the bank shall have the power and the authority to recall the entire loan with interest, costs and other usual bank charges.

(3) An Architect appointed / empanelled by the bank shall also certify at various stages of construction of building that the construction of the building is strictly as per sanctioned plan and shall also certify at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained.

(4) In cases where the applicant approaches the bank for a credit facility to purchase a built-up house / flat, it shall be mandatory for them to declare by way of an affidavit-cum-undertaking that the built up property has been constructed as per the sanctioned plan and /or building bye-laws and as far as possible has a completion certificate also.

(5) An Architect appointed / empanelled by the bank shall also certify before disbursement of the loan that the built-up property is strictly as per sanctioned plan and / or building byelaws.

(6) No loan should be given in respect of those properties which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid.

(7) No loan should also be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.

B.3 Supplementary Finance

93. The Bank may consider requests for additional finance within the overall ceiling for carrying out alterations / additions / repairs to the house / flat already financed by them.

94. In the case of individuals who might have raised funds for construction / acquisition of accommodation from other sources and need supplementary finance, the bank may extend such finance after obtaining *pari passu* or second mortgage charge over the property mortgaged in favour of other lenders and / or against such other security, as it may deem appropriate.

95. The Bank may consider granting finance to –

(1) The bodies constituted for undertaking repairs to houses, and

(2) The owners of building / house / flat, whether occupied by themselves or by tenants, to meet the need-based requirements for their repairs / additions, after satisfying itself regarding the estimated cost (for which requisite certificate should be obtained from an Engineer / Architect, wherever necessary) and obtaining such security as deemed appropriate.

B.4 Exclusions under Housing Finance

96. The bank shall not grant finance for the following:

(1) Construction of buildings meant purely for Government / Semi-Government offices, including Municipal and Panchayat offices. However, the bank may grant loans for activities, which will be refinanced by institutions like NABARD.

(2) Projects undertaken by public sector entities which are not corporate bodies (i.e. public sector undertakings which are not registered under Companies Act or which are not Corporations established under the relevant statute) shall not be financed by the bank . Even in respect of projects undertaken by corporate bodies, as defined above, the bank shall satisfy itself that the project is run on commercial lines and that bank finance is not in lieu of or to substitute budgetary resources envisaged for the project. The loan could, however, supplement budgetary resources if such supplementing was contemplated in the project design. Thus, in the case of a housing project, where the project is run on commercial lines, and the Government is interested in promoting the project either for the benefit of the weaker chapters of the society or otherwise, and a part of the project cost is met by the Government through subsidies made available and / or contributions to the

capital of the institutions taking up the project, the bank finance shall be restricted to an amount arrived at after reducing from the total project cost the amount of subsidy / capital contribution receivable from the Government and any other resources proposed to be made available by the Government.

(3) Banks had, in the past, sanctioned term loans to Corporations set up by Government like State Police Housing Corporation, for construction of residential quarters for allotment to employees where the loans were envisaged to be repaid out of budgetary allocations. As these projects cannot be considered to be run on commercial lines, the bank shall not grant loans to such projects.

B.5 Lending to Housing Intermediary Agencies

97. The bank granting loans to housing Intermediary agencies shall be guided by the following:

B.5.1. Financing of Land Acquisition

98. In view of the need to increase the availability of land and house sites for increasing the housing stock in the country, the bank shall extend finance to public agencies and not private builders for acquisition and development of land, provided it is a part of the complete project, including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc. Such credit shall be extended by way of term loans. The project shall be completed as early as possible and, in any case, within three years. If the project covers construction of houses, credit extended therefor in respect of individual beneficiaries shall be on the same terms and conditions as stipulated for financing the beneficiary directly.

99. For valuation of properties including collaterals accepted for their exposures, the bank shall be guided by the instructions contained in of Reserve Bank of India (Small Finance Banks - Credit Risk Management), Directions, 2025.

100. For valuation of land for the purpose of financing of land acquisition as also land secured as collateral, the bank shall be guided as under:

(1) The bank may extend finance to public agencies and not to private builders for acquisition and development of land, provided it is a part of the complete project, including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc. In such limited cases where land acquisition can be financed, the finance is to be limited to the acquisition price (current price) plus

development cost. The valuation of such land as prime security shall be limited to the current market price.

(2) Wherever land is accepted as collateral, valuation of such land shall be at the current market price only.

B.5.2. Lending to Housing Finance Institutions

101. The bank granting term loans to housing finance institutions shall take into account (long-term) debt-equity ratio, track record, recovery performance and other relevant factors including the provisions of Chapter XII of these Directions.

B.5.3. Lending to Housing Boards and Other Agencies

102. The bank may extend term loans to state level housing boards and other public agencies keeping in view the past performance of these agencies in the matter of recovery from the beneficiaries and shall also stipulate that the Boards will ensure prompt and regular recovery of loan instalments from the beneficiaries.

B.5.4. Term Loans to Private Builders

103. The bank may extend credit to private builders on commercial terms by way of loans linked to each specific project.

104. The bank shall not extend fund based or non-fund based facilities to private builders for acquisition of land even as part of a housing project.

105. The period of credit for loans extended by a bank to private builders may be decided by the bank itself based on its commercial judgment subject to usual safeguards and after obtaining such security, as it shall deem appropriate.

106. Such credit may be extended to builders of repute, employing professionally qualified personnel. It shall be ensured, through close monitoring, that no part of such funds is used for any speculation in land.

107. Care shall be taken to see that prices charged from the ultimate beneficiaries do not include any speculative element, that is, prices shall be based only on the documented price of land, the actual cost of construction and a reasonable profit margin.

B.5.5. Terms and Conditions for Lending to Housing Intermediary Agencies

108. The bank may grant term loans to housing intermediary agencies against the direct loans sanctioned / proposed to be sanctioned by the latter, irrespective of the per borrower size of the loan extended by these agencies.

109. The bank may grant term loans to housing intermediary agencies against the direct loans sanctioned / proposed to be sanctioned by them to Non-Resident Indians (NRIs) also. However, the bank shall ensure that housing finance intermediary agencies being financed by it are authorised by the Reserve Bank to grant housing loans to NRIs as all housing finance intermediaries are not authorised by the Reserve Bank to provide housing finance to NRIs.

110. Lending to housing intermediary agencies shall be subject to the instructions on Commercial Real Estate exposure, as outlined in paragraphs 50 to 133 of this Direction.

B.6 Quantum of Loan

111. The bank shall abide by the following Loan to Value (LTV) and Risk Weights (RWs) while deciding the quantum of loan to be granted as housing finance:

Category of Loan	LTV Ratio (%)	Risk Weight (%)
(a) Individual Housing Loans		
Up to ₹30 lakh	≤ 80	35
	> 80 and ≤ 90	50
Above ₹30 lakh & up to ₹75 lakh	≤ 80	35
Above ₹75 lakh	≤ 75	50
(b) CRE – RH #	NA	75

CRE-RH has been defined at paragraph 131.

Provided that the LTV ratios and Risk Weights for Claims secured by residential property for loans sanctioned till June 06 2017 shall be as set out below

Category of loan	LTV ratio (%)	Risk weight (%)
(a) Individual Housing Loans		
(i) Up to ₹30 lakh	≤80	35
	>80 and ≤90	50
(ii) Above ₹30 lakh and up to ₹75 lakh	≤75	35
	>75 and ≤80	50
(iii) Above ₹75 lakh	≤75	75
(b) Commercial real estate – residential housing (CRE-RH)	N A	75
(c) Commercial Real Estate (CRE)	N A	100

112. As a counter cyclical measure, for Individual Housing Loans sanctioned on or after October 16, 2020 and up to March 31, 2023, the risk weights shall be as under:

LTV Ratio (%)	Risk Weight (%)
≤ 80	35
> 80 and ≤ 90	50

113. In order to have uniformity in the practices adopted for deciding the value of the house property while sanctioning housing loans, bank shall not include stamp duty, registration and other documentation charges in the cost of the housing property it finances so that the effectiveness of LTV norms is not diluted

Exemption: In cases where the cost of the house / dwelling units does not exceed ₹10 lakh, the bank may add stamp duty, registration and other documentation charges to the cost of the house/dwelling unit for the purpose of calculating LTV ratio.

B.7 Innovative Housing Loan Products – Upfront Disbursal of Housing Loans

114. It has been observed that some banks have introduced certain innovative Housing Loan Schemes in association with developers / builders, e.g., upfront disbursal of sanctioned individual housing loans to the builders without linking the disbursals to various stages of construction of housing project, Interest / EMI on the housing loan availed of by the individual borrower being serviced by the builders during the construction period/ specified period, etc. This might include signing of tripartite agreement between the bank, the builder and the buyer of the housing unit. These loans products are popularly known by various names like 80:20, 75:25 schemes etc.

115. Such housing loan products are likely to expose the banks as well as their home loan borrowers to additional risks e.g., in case of dispute between individual borrowers and developers / builders, default / delayed payment of interest / EMI by the developer / builder during the agreed period on behalf of the borrower, non-completion of the project on time etc. Further, any delayed payments by developers / builders on behalf of individual borrowers to banks may lead to lower credit rating / scoring of such borrowers by CICs as information about servicing of loans get passed on to the CICs on a regular basis. In cases, where bank loans are also disbursed upfront on behalf of their individual borrowers in a lump-sum to builders / developers without any linkage to stages of constructions, banks run disproportionately higher exposures with concomitant risks of diversion of funds.

116. Disbursal of housing loans sanctioned to individuals shall be closely linked to the stages of construction of the housing project / houses and upfront disbursal shall not be made in cases of incomplete / under-construction / green field housing projects.

117. However, in cases of projects sponsored by Government / Statutory Authorities, the bank may disburse the loans as per the payment stages prescribed by such authorities, even where payments sought from house buyers are not linked to the stages of constructions, provided such authorities have no past history of non-completion of projects.

118. It is emphasized that the bank while introducing any kind of product shall take into account the customer suitability and appropriateness and also ensure that the borrowers / customers are made fully aware of the risks and liabilities under such products.

B.8 Disclosure Requirements

119. In view of the observations of Hon’ble High Court of Judicature at Bombay, while granting finance to specific housing / development projects, the bank shall stipulate as a part of the terms and conditions that:

(1) the builder / developer / company shall disclose in the Pamphlets / Brochures etc., the name(s) of the bank(s) to which the property is mortgaged.

(2) the builder / developer / company shall append the information relating to mortgage while publishing advertisement of a particular scheme in newspapers / magazines etc.

(3) the builder / developer / company shall indicate in their pamphlets / brochures, that they shall provide No Objection Certificate (NOC) / permission of the mortgagee bank for sale of flats / property, if required.

(4) The bank shall ensure compliance of the above terms and conditions and funds shall not be released unless the builder / developer / company fulfils the above requirements.

(5) The above-mentioned provisions will be mutatis-mutandis, applicable to Commercial Real Estate also.

120. **Approvals from Statutory / Regulatory Authorities:**

While appraising loan proposals involving real estate, the bank shall ensure that the borrowers obtain prior permission from government / local governments / other statutory authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the government authorities.

121. **Housing Loans Under Priority Sector**

The grant of housing loan for the purpose of the priority sector lending targets including reporting requirements will additionally be subject to the instructions on "Priority Sector Lending" as amended from time to time.

122. **National Building Code (NBC)**

The Bank shall adhere to the National Building Code (NBC) formulated by the Bureau of Indian Standards (BIS), considering the importance of safety of buildings especially against natural disasters. The bank may consider incorporating this aspect in their loan policy. The bank may also adopt the guidelines issued by the National Disaster Management Authority (NDMA) and suitably incorporate them into their loan policy, procedures and documentation.

123. For pricing of housing finance, the bank shall be guided by the provisions contained in the Reserve Bank of India (Small Finance Banks – Interest Rates on Advances) Directions, 2025.

124. For Fair Lending Practices and the reset of floating interest rate on Equated Monthly Instalments (EMI) based personal loans, the bank shall be guided by the provisions of the Reserve Bank of India (Small Finance Banks – Responsible Business Conduct) Directions, 2025.

C. Loans and advances to Commercial Real Estate (CRE)

125. Definition of Commercial Real Estate (CRE) Exposure

(1) Real Estate is generally defined as an immovable asset - land (earth space) and the permanently attached improvements to it. Income-producing real estate (IPRE) has been defined in paragraph 226 of the Basel-II Framework, which is reproduced below:

"*Income-producing real estate (IPRE) refers to a method of providing funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels)* *where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset. The primary source of these cash flows would generally be lease or rental payments or the sale of the asset. The borrower may be, but is not required to be, an SPE (Special Purpose Entity), an operating company focused on real estate construction or holdings, or an operating company with sources of revenue other than real estate. The distinguishing characteristic of IPRE versus other corporate exposures that are collateralised by real estate is the strong positive correlation between the prospects for repayment of the exposure and the prospects for recovery in the event of default, with both depending primarily on the cash flows generated by a property*".

(2) An exposure shall be classified as Income-producing real estate (IPRE) / Commercial Real Estate (CRE), if it results in the creation / acquisition of real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment depend primarily on the cash flows generated by the asset itself. Additionally, the prospect of recovery in the event of default would also depend primarily on the cash flows generated from such funded asset which is taken as security, as would generally be the case. The primary source of cash flow (i.e. more than 50 per cent of cash flows) for repayment would generally be lease or rental payments or the sale of the assets as also for recovery in the event of default where such asset is taken as security.

(3) These guidelines shall also apply in cases where the exposure may not be directly linked to the creation or acquisition of CRE, but where the repayment is primarily dependent on cash flows generated by CRE. Examples include:

(i) Exposures taken against existing CRE assets, whose repayments primarily depend on rental / sale proceeds.
(ii) Guarantees extended on behalf of companies engaged in CRE activities.
(iii) Exposures on account of derivative transactions with real estate companies.
(iv) Corporate loans to real estate companies.
(v) Investments in equity or debt instruments of real estate companies.

(4) As follows from sub-paragraphs (2) and (3) above, if the repayment primarily depends on other factors such as operating profit from business operations, quality

of goods and services, tourist arrivals etc., the exposure shall not be counted as CRE.

126. The CRE exposures collateralized by eligible credit risk mitigants shall be reduced to the extent of risk mitigating effects of the collateral as per the provisions of Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025. CRE exposures to the extent secured by Commercial Real Estate would attract a risk weight of 100 %. In cases where a part of the CRE exposure is not covered by the security of commercial real estate, that part would attract a risk weight for CRE exposure or as warranted by the external rating of the borrower, whichever is higher.

D. Simultaneous classification of CRE into other regulatory categories

127. It is possible for an exposure to get classified simultaneously into more than one category, as different classifications are driven by different considerations. In such cases, the exposure would be reckoned for regulatory/ prudential exposure limit, if any, fixed by RBI or by the bank itself, for all the categories to which the exposure is assigned. For the purpose of capital adequacy, the largest of the risk weights applicable among all the categories would be applicable for the exposure. The rationale for such an approach is that, while at times certain classifications/categorizations could be driven by socio-economic considerations and may be aimed at encouraging flow of credit towards certain activities, these exposures should be subjected to appropriate risk management/prudential/capital adequacy norms so as to address the risk inherent in them. Similarly, if an exposure has sensitivity to more than one risk factor it should be subjected to the risk management framework applicable to all the relevant risk factors.

128. Similarly, if an exposure is sensitive to multiple risk factors it shall be subjected to the risk management framework applicable to all the relevant risk factors. For example:

(1) Lending to Special Economic Zones (SEZs) qualifies as 'Infrastructure Lending'. However, if the SEZ exposure also meets the definition of CRE, it shall be classified under both categories. In such cases:

(i) The risk weight applicable to CRE (100 per cent) shall be applied, regardless of borrower rating.

(ii) At the same time, the exposure shall remain eligible for all regulatory concessions extended to "Infrastructure Lending."

(2) Investments in the equity of real estate companies, or Mutual Funds / Alternate Investment Funds (AIFs) investing in the equity of real estate companies, would be sensitive to movement in real estate prices, in addition to having a correlation with the general equity market. Accordingly, such exposures shall be classified both as Capital Market Exposure (for compliance with regulatory ceilings) and Real Estate Exposure (compliance with bank's internal ceiling). These shall attract applicable risk weights for equity exposures or RW for exposures to AIFs, whichever is higher, if such risk weights are higher than the prescribed risk weight for CRE in terms of Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025. The exposure shall also be reported to the Reserve Bank under both the classifications with an appropriate footnote to avoid double counting

129. The bank shall apply the above principles to any other exposures involving potential dual classification, involving CRE exposures.

130. To enable the bank to classify exposures as CRE or otherwise, illustrative examples are provided below. The bank shall apply the principles and examples to assess other cases and record a reasoned note justifying its classification. If in doubt, the bank may refer the matter to the Department of Regulation with full details.

Illustrative Examples

(1) **Exposures which shall be classified as CRE.**

(i) **Loans extended to builders towards construction of any property which is intended to be sold or given on lease (e.g. loans extended to builders for housing buildings, hotels, restaurants, gymnasiums, hospitals, condominiums, shopping malls, office blocks, theatres, amusement parks, cold storages, warehouses, educational institutions, industrial parks)**

In such cases, the source of repayment in normal course shall be the cash flows generated by the sale / lease rentals of the property. In case of default of the loan, the recovery shall also be made from sale of the property if the exposure is secured by these assets as would generally be the case.

(ii) **Loans for multiple houses intended to be rented out**

The housing loans extended in cases where houses are rented out need to be treated differently. As per Basel 2 Framework, loans secured by a single or small number of condominium or co-operative residential housing units in a single building or complex also fall within the scope of the residential mortgage category and national supervisors may set limits on the maximum number of housing units per exposure. Therefore, such loans need not necessarily be classified as CRE Exposures. However, if the total number of such units is more than two, the exposure for the third unit onwards may be treated as CRE Exposure as the borrower may be renting these housing units and the rental income would be the primary source of repayment.

(iii) **Loans for integrated township projects**

Where the CRE is part of a big project which has small non-CRE component, it shall be classified as CRE exposure since the primary source of repayment for such exposures shall be the sale proceeds of buildings meant for sale.

(iv) **Exposures towards development of SEZ**

Bank finance for acquisition of land to private developers for setting up of SEZ is not permissible as per paragraph 98 of these Directions. The bank shall finance cost of land development, which shall be classified as CRE for the reason that the source of repayment would be the lease rentals of the developed plots / sheds.

The following, may however, be noted:

(a) In cases where there are arrangements to insulate the lease rentals from volatility in the Real Estate prices by way of lease agreements for periods not shorter than that of the loan and there is no clause which allows downward adjustment in the lease rentals, such cases shall not be treated as CRE from the time such conditions get fulfilled.

(b) Banks shall keep in mind the substance of the transaction rather than the form. For example, it is possible that a SEZ may be developed by a single company entirely or mainly for its own use. In such cases the repayment shall depend on the cash flows generated by the economic activities of the units in the SEZ and the general cash flow of the company rather than the level of real estate prices. It shall not then be classified as CRE.

(c) There can be co-developers in an SEZ who undertake a specific job such as provision of sewerage, electrical lines etc. If their repayment are not dependent on the cash flows generated by the CRE asset, such exposures shall not be classified as CRE**.** This illustratively would be the case where the co-developer is paid by the main developer based on progress in work.

(v) **Exposures to real estate companies**

In some cases exposure to real estate companies is not directly linked to the creation or acquisition of CRE, but the repayment would come from the cash flows generated by CRE. Such exposures illustratively could be:

(a) Corporate loans extended to these companies

(b) Investments made in the equity / units / debt instruments of these companies

(c) Extension of guarantees on behalf of these companies

(d) Derivatives transactions entered into with these companies.

(vi) **Exposures to MFs / AIFs investing primarily in the real estate companies**

Exposure to MFs / AIFs investing primarily in the real estate companies shall be classified as CRE exposure though the exposure would not be directly linked to the creation or acquisition of CRE, because the repayment would come from the cash flows generated by CRE.

(vii) **General purpose loans where repayment is dependent on real estate prices**

Exposures intended to be repaid out of rentals / sale proceeds generated by the existing CRE owned by the borrower, where the finance may have been extended for a general purpose.

(2) **<u>Exposures which shall not be classified as CRE</u>**

(i) **Exposures to entrepreneurs for acquiring real estate for the purpose of their carrying on business activities, which shall be serviced out of the cash flows generated by those business activities. The exposure could be secured by the real estate where the activity is carried out, as would generally be the case, or could even be unsecured.**

(a) Loans extended for construction of a cinema theatre, establishment of an amusement park, hotels and hospitals, cold storages, warehouses, educational institutions, running haircutting saloons and beauty parlours, restaurant, gymnasium etc. to those entrepreneurs who themselves run these ventures shall fall in this category. Such loans would generally be secured by these properties.

For instance, in the case of hotels and hospitals, the source of repayment in normal course would be the cash flows generated by the services rendered by the hotel and hospital. In the case of a hotel, the cash flows would be mainly sensitive to the factors influencing the flow of tourism, not directly to the fluctuations in the real estate prices. In the case of a hospital, the cash flows in normal course would be sensitive to the quality of doctors and other diagnostic services provided by the hospital. In these cases, the source of repayment might also depend to some extent upon the real estate prices to the extent the fluctuation in prices influence the room rents, but it shall be a minor factor in determining the overall cash flows. In these cases, however, the recovery in case of default, if the exposure is secured by the CRE, shall depend upon the sale price of the hotel / hospital as well as upon the maintenance and quality of equipment and furnishings.

The above principle shall also be applicable in the cases where the developers / owners of the real estate assets (hotels, hospitals, warehouses, etc.) lease out the assets on revenue sharing or profit-sharing arrangement and the repayment of exposure depends upon the cash flows generated by the services rendered, instead of fixed lease rentals.

(b) Loans extended to entrepreneurs, for setting up industrial units shall also fall in this category. In such cases, the repayment would be made from the cash flows generated by the industrial unit from sale of the material produced which would mainly depend upon demand and supply factors. The recovery in case of default may partly depend upon the sale of land and building if secured by these assets. Thus, it shall be seen that in these cases the real estate prices do not affect repayment though recovery of the loan could partly be from sale of real estate.

(ii) **Loans extended to a company for a specific purpose, not linked to a real estate activity, which is engaged in mixed activities including real estate activity.**

A company has two divisions. One division is engaged in real estate activity, and other division is engaged in power production. An infrastructure loan, for setting up of a power plant extended to such a company, to be repaid by the sale of electricity shall not be classified as CRE. The exposure may or may not be secured by plant and machinery.

(iii) **Loans extended against the security of future rent receivables**

A few banks have formulated schemes where the owners of existing real estate such as shopping malls, office premises, etc. have been offered finance to be repaid out of the rentals generated by these properties. Even though such exposures do not result in funding / acquisition of CRE, the repayment might be sensitive to fall in real estate rentals and as such generally such exposures shall be classified as CRE. However, if there are certain in-built safety conditions which have the effect of delinking the repayments from real estate price volatility like, the lease rental agreement between the lessor and lessee has a lock in period which is not shorter than the tenor of loan and there is no clause which allows a downward revision in the rentals during the period covered by the loan, the bank shall classify such exposures as non CRE. The bank shall, however, record a reasoned note in all such cases.

(iv) **Credit facilities provided to construction companies which work as contractors**

The working capital facilities extended to construction companies working as contractors, rather than builders, shall not be treated as CRE exposures because the repayment would depend upon the contractual payments received in accordance with the progress in completion of work.

(v) **Financing of acquisition / renovation of self-owned office / company premises**

Such exposures shall not be treated as CRE exposure because the repayment will come from company revenues.

(vi) **Exposures towards acquisition of units / to industrial units in SEZs**

(a) Exposures towards acquisition of units in SEZ shall not be treated as CRE Exposures where there are restrictions on transfer of such units and require Government permission, and speculative activity in sale and re-sale of units is unlikely to be there.

(b) The exposures to industrial units towards setting up of units or projects and working capital requirement, etc. shall not be treated as CRE Exposures.

(vii) **Advances to Housing Finance Companies (HFCs)**

Banks' advances to those HFCs, which are mostly lending to individuals for residential housing as per the norms fixed by National Housing Bank (NHB) and also fulfil the eligibility criteria to draw refinance from NHB, shall not be treated as CRE Exposure.

E. Loans and Advances to Commercial Real Estate - Residential Housing

131. Commercial Real Estate – Residential Housing (CRE-RH), has been carved out as a separate sub-sector from the broader CRE sector, in view of the lower risk and volatility associated with residential housing projects, as compared to CRE Sector taken as a whole. CRE-RH includes loans to builders / developers for residential housing projects (except for captive consumption) under CRE segment. Such projects shall generally not include non-residential commercial real estate. However, integrated housing projects comprising of some commercial space (e.g. shopping complex, school, etc.) may qualify as CRE-RH, provided that the commercial area in the residential housing project does not exceed 10 % of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10 %, the project loans shall be classified as CRE and not CRE-RH.

132. The CRE-RH segment shall attract a lower risk weight of 75% and lower standard asset provisioning of 0.75% as against 100% and 1.00%, respectively for the CRE segment or as updated from time to time in terms of the provisions contained in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025 and Reserve Bank of India (Small Finance Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 respectively.

133. The bank’s exposures to third dwelling unit onwards to an individual will also be treated as CRE exposures, as indicated in paragraph 128(1)(ii) of these Directions.

Chapter IX - Infrastructure Financing

A. Criteria for Financing

134. The bank shall finance technically feasible, financially viable and bankable infrastructure projects undertaken by both public sector and private sector undertakings subject to the following conditions:

(1) The bank shall have the requisite expertise for appraising technical feasibility, financial viability and bankability of projects, with particular reference to the risk analysis and sensitivity analysis.

(2) In respect of projects undertaken by public sector units, term loans shall be sanctioned only for corporate entities (i.e. public sector undertakings registered under Companies Act or a Corporation established under the relevant statute). Further, such term loans shall not be in lieu of or to substitute budgetary resources envisaged for the project. The term loan could supplement the budgetary resources if such supplementing was contemplated in the project design.

(3) While such public sector units may include Special Purpose Vehicles (SPVs) registered under the Companies Act set up for financing infrastructure projects, it shall be ensured by the bank that these loans / investments are not used for financing the budget of the State Governments.

(4) Whether such financing is done by way of extending loans or investing in bonds, the bank shall undertake due diligence on the viability and bankability of such projects to ensure that revenue stream from the project is sufficient to take care of the debt servicing obligations and that the repayment / servicing of debt is not out of budgetary resources.

(5) In the case of financing SPVs, banks and financial institutions shall ensure that the funding proposals are for specific monitorable projects.

(6) The bank may also lend to SPVs in the private sector, registered under the Companies Act for directly undertaking infrastructure projects which are financially viable and not for acting as mere financial intermediaries. The bank shall ensure that the bankruptcy or financial difficulties of the parent / sponsor shall not affect the financial health of the SPV.

B. Types of Financing by Banks

135. In order to meet financial requirements of infrastructure projects, the bank shall extend credit facility by way of working capital finance, term loan, project loan,

subscription to bonds and debentures / preference shares / equity shares acquired as a part of the project finance package which is treated as "deemed advance" and any other form of funded or non-funded facility.

136. Take-out Financing

The bank shall be guided by the Reserve Bank of India (Commercial Banks – Transfer and Distribution of Credit Risk) Directions, 2025 for instruction related to take- out financing.

137. Financing promoter's equity

The promoters' contribution towards the company's equity capital shall come from their own resources and the bank shall generally avoid granting advances for the acquisition of shares in other companies. However, in view of the importance attached to the infrastructure sector, under certain circumstances, an exception to this policy may be made. The bank may consider financing the acquisition of the promoters' shares in an existing company, engaged in implementing or operating an infrastructure project in India, subject to the following conditions:

(1) The bank finance shall be only for acquisition of shares of existing companies providing infrastructure facilities. Further, acquisition of such shares shall be in respect of companies where the existing foreign promoters (and / or domestic joint promoters) voluntarily propose to disinvest their majority shares in compliance with SEBI guidelines, where applicable.
(2) The companies to which loans are extended shall, inter alia, have a satisfactory net worth.
(3) The company financed and the promoters / directors of such companies shall not be a defaulter to banks or financial institutions.
(4) In order to ensure that the borrower has a substantial stake in the infrastructure company, bank finance shall be restricted to 50 per cent of the finance required for acquiring the promoter's stake in the company being acquired.
(5) Finance extended shall be against the security of the assets of the borrowing company or the assets of the company acquired and not against the shares of that company or the company being acquired. The shares of the borrower company / company being acquired may be accepted as additional security and not as primary security. The security charged to the banks shall be marketable.
(6) The bank shall ensure maintenance of stipulated margins at all times.

(7) The tenor of the bank loans shall not be longer than seven years. However, the Boards of banks may make an exception in specific cases, where necessary, for financial viability of the project.

(8) This financing shall be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

(9) The bank financing acquisition of equity shares by promoters shall be within the regulatory ceiling of 40 per cent of their net worth as on March 31 of the previous year for the aggregate exposure of the banks to the capital markets in all forms (both fund based and non- fund based).

(10) The proposal for bank finance shall have the approval of the Board.

C. Appraisal

138. In respect of financing of infrastructure projects undertaken by Government owned entities, the bank shall undertake due diligence on the viability of the projects. The bank shall ensure that the individual components of financing and returns on the project are well defined and assessed. State Government guarantees shall not be taken as a substitute for satisfactory credit appraisal and such appraisal requirements shall not be diluted on the basis of any reported arrangement with the Reserve Bank or any bank for regular standing instructions / periodic payment instructions for servicing the loans / bonds.

139. Infrastructure projects are often financed through Special Purpose Vehicles. Financing of these projects shall, therefore, call for distinct appraisal methodology on the part of lending agencies. Identification of various project risks, evaluation of risk mitigation through appraisal of project contracts and evaluation of creditworthiness of the contracting entities and their abilities to fulfil contractual obligations shall be an integral part of the appraisal exercise. In this connection, the bank shall consider constituting appropriate screening committees / special cells for appraisal of credit proposals and monitoring the progress / performance of the projects. Often, the size of the funding requirement would necessitate joint financing by banks or financial institutions or financing by more than one bank under consortium or syndication arrangements. In such cases, the participating bank shall, for the purpose of their own assessment, refer to the appraisal report prepared by the lead bank or financial institutions or have the project appraised jointly.

D. Prudential requirements

140. For prudential credit exposure limits, the bank shall be guided by Reserve Bank of India (Small Finance Banks – Concentration Risk Management) Directions, 2025.

141. For assignment of risk weight for capital adequacy purposes, the bank shall be guided by the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

142. **Asset-Liability Management**

The long-term financing of infrastructure projects may lead to asset – liability mismatches, particularly when such financing is not in conformity with the maturity profile of a bank's liabilities. The bank shall, therefore, exercise due caution on their asset-liability position to ensure that they do not run into liquidity mismatches on account of lending to such projects.

143. **Administrative arrangements**

Timely and adequate availability of credit is the pre-requisite for successful implementation of infrastructure projects. The bank shall, therefore, clearly delineate the procedure for approval of loan proposals and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. Multiplicity of appraisals by every institution involved in financing, leading to delays, has to be avoided and the bank shall be prepared to broadly accept technical parameters laid down by leading public financial institutions. Also, setting up a mechanism for an ongoing monitoring of the project implementation will ensure that the credit disbursed is utilised for the purpose for which it was sanctioned.

Chapter X - Discounting / Rediscounting of Bills

A bank shall adhere to the following guidelines while purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills:

144. A bank shall sanction working capital limits as also bills limit to borrowers, only after proper appraisal of their credit needs and in accordance with the Board approved policy.

145. The procedure for Board approval shall include banks' core operating process from the time the bills are tendered till these are realised. The bank shall review their core operating processes and simplify the procedure in respect of bills financing. In order to address the often-cited problem of delay in realisation of bills, the bank shall utilize improved computer / communication networks like the Structured Financial Messaging system (SFMS) and adopt the system of 'value dating' of their clients' accounts.

146. A bank shall purchase / discount / negotiate bills under LCs only in respect of genuine commercial and trade transactions of their borrower constituents who have been sanctioned regular credit facilities by the banks. The bank shall not, therefore, extend such facilities to non-constituent borrower or / and non-constituent member of a consortium / multiple banking arrangement. However, in cases where negotiation of bills drawn under LC is restricted to a particular bank, and the beneficiary of the LC is not a constituent of that bank, the bank concerned may negotiate such an LC, subject to the condition that the proceeds shall be remitted to the regular banker of the beneficiary. The prohibition regarding negotiation of unrestricted LCs of non-constituents shall continue to be in force.

147. Sometimes, a beneficiary of the LC may want to discount the bills with the LC issuing bank itself. In such cases, the bank shall discount bills drawn by beneficiary only if the bank has sanctioned regular fund- based credit facilities to the beneficiary. With a view to ensuring that the beneficiary's bank is not deprived of cash flows into its account, the beneficiaries should get the bills discounted / negotiated through the bank with whom it is enjoying sanctioned credit facilities.

148. Bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') shall be treated as an exposure on the LC issuing bank and not on the borrower. All clean negotiations as indicated above shall be assigned the risk weight as is normally applicable to inter-bank exposures, for capital adequacy purposes. In the case of negotiations 'under reserve', the exposure

shall be treated as on the borrower and risk weight assigned accordingly. However, in cases where the bills discounting / purchasing / negotiating bank and LC issuing bank are part of the same bank, i.e. where LC is issued by the Head Office or branch of the same bank, then the exposure shall be taken on the third party / borrower and not on the LC issuing bank.

149. While purchasing / discounting / negotiating bills under LCs or otherwise, banks shall establish genuineness of underlying transactions / documents.

150. The bank shall ensure that blank LC forms are kept in safe custody as in case of security items like blank cheques, demand drafts etc. and verified / balanced on daily basis. LC forms shall be issued to customers under joint signatures of the bank's authorised officials.

151. The practice of drawing bills of exchange claused 'without recourse' and issuing letters of credit bearing the legend 'without recourse' shall be discouraged because such notations deprive the negotiating bank of the right of recourse it has against the drawer under the Negotiable Instruments Act. The bank shall negotiate bills drawn under LCs, on either a 'with recourse 'or 'without recourse 'basis, based on their perception about the credit worthiness of the LC issuing bank. However, the bank shall not purchase / discount other bills (the bills not drawn under LC) on a 'without recourse 'basis.

152. The bank shall not purchase / discounted / negotiate accommodation bills. The underlying trade transactions shall be clearly identified, and a proper record thereof maintained at the branches conducting the bills business.

153. The bank shall be circumspect while discounting bills drawn by front finance companies set up by large industrial groups on other group companies.

154. Bills rediscount shall be restricted to usance bills held by other banks. The bank shall not rediscount bills earlier discounted by non-bank financial companies (NBFCs) except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.

155. The bank shall exercise its commercial judgment in discounting of bills of the services sector. However, while discounting such bills, the bank shall ensure that actual services are rendered, and accommodation bills are not discounted. Services sector bills shall not be eligible for rediscounting. Further, providing finance against

discounting of services sector bills shall be treated as unsecured advance and, therefore, shall be within the norm prescribed by the Board of the bank for unsecured exposure limit.

156. In order to promote payment discipline which would, to a certain extent, encourage acceptance of bills, all corporates and other constituent borrowers having turnover above threshold level as fixed by the bank’s Board of Directors shall be mandated to disclose ‘aging schedule’ of their overdue payables in their periodical returns submitted to banks.

157. The bank shall not enter into Repo transactions using bills discounted / rediscounted as collateral.

Chapter XI - Loans Against Financial Assets

A. Advances to individuals against Shares, Debentures, and Bonds

The bank shall grant advances against the security of shares, debentures or bonds to individuals subject to the following conditions:

158. **Purpose of the Loan**

Loan against shares, debentures, and bonds shall be granted to individuals to meet contingencies and personal needs or for subscribing to new or rights issues of shares / debentures / bonds or for purchase in the secondary market, against the security of shares / debentures/ bonds held by the individual.

159. **Amount of advance**

Loans against the security of shares, debentures, and bonds shall not exceed the limit of ₹10 lakh per individual if the securities are held in physical form and ₹20 lakh per individual if the securities are held in dematerialised form. Such loans are meant for genuine individual investors, and the bank shall not support collusive action by a large group of individuals belonging to the same corporate or their inter-connected entities to take multiple loans in order to support particular scrips or stock-broking activities of the connected firms. Such finance shall be reckoned as an exposure to capital market.

160. **Margin**

The bank shall maintain a minimum margin of 50 per cent of the market value of equity shares / convertible debentures held in physical form. In the case of shares / convertible debentures held in dematerialised form, a minimum margin of 25 per cent shall be maintained. These are minimum margin stipulations and banks may stipulate higher margins for shares whether held in physical form or dematerialised form. The margin requirements for advances against preference shares / non-convertible debentures and bonds shall be determined by the bank itself.

161. **Lending Policy**

The bank shall formulate a Board approved Loan Policy for grant of advances to individuals against shares / debentures / bonds keeping in view the RBI guidelines. The bank shall obtain a declaration from the borrower indicating the extent of loans availed of by them from other banks as input for credit evaluation. The bank shall also ensure that accommodation from different banks is not obtained against shares of a single company or a group of companies. As a prudential measure, the bank may also consider laying down appropriate aggregate sub-limits of such advances.

B. Advances to Share and Stockbrokers / Commodity Brokers

162. The bank and its subsidiaries shall not undertake financing of 'Badla' transactions.

163. Share and stockbrokers / commodity brokers shall be provided need based overdraft facilities / line of credit against shares and debentures held by them as stock-in-trade. A careful assessment of need based requirements for such finance shall be made taking into account the financial position of the borrower, operations in their own account and on behalf of clients, income earned, the average turnover period of stocks and shares and the extent to which the broker's funds are required to be involved in their business operations. Large scale investment in shares and debentures on their accounts by stock and share brokers with bank finance, shall not be encouraged. The securities lodged as collateral shall be easily marketable.

164. The ceiling of ₹10 lakh / ₹ 20 lakh for advances against shares / debentures to individuals will not be applicable in the case of share and stockbrokers / commodity brokers and the advances would be need based.

165. The bank shall grant working capital facilities to stock brokers registered with SEBI and who have complied with capital adequacy norms prescribed by SEBI / Stock exchanges to meet the cash flow gap between delivery and payment for DVP transactions undertaken on behalf of institutional clients viz. FIs, FIIs, mutual funds and banks. The duration of such a facility shall be short and based on an assessment of the financing requirements keeping in view the cash flow gaps, the broker's funds required to be deployed for the transaction and the overall financial position of the broker. The utilisation shall be monitored on the basis of individual transactions. The bank shall institute adequate safeguards and monitoring mechanisms.

166. For issue of guarantees on behalf of share and stockbrokers / commodity brokers, the bank shall be guided by the provisions on non-fund based facilities in Chapter XIV of these Directions.

167. The requirement relating to transfer of shares in bank's name in respect of shares held in physical form mentioned at paragraph 191 shall not apply in respect of advances granted to share and stockbrokers provided such shares are held as security for a period not exceeding nine months. In the case of dematerialised shares, the

depository system provides a facility for pledging and the bank shall avail itself of this facility and in such cases, there will not be need to transfer the shares in the name of the bank irrespective of the period of holding. The share and stockbrokers are free to substitute the shares pledged by them as and when necessary. In case of a default in the account, the bank shall exercise the option to get the shares transferred in its name.

168. The bank shall grant advances only to share and stockbrokers registered with SEBI and who comply with capital adequacy norms prescribed by SEBI / Stock Exchanges.

C. Bank Finance for Market Makers

169. The bank shall provide need-based finance to meet the genuine credit requirements of approved Market Makers. For this purpose, it shall lay down appropriate norms for financing them including exposure limits, method of valuation, etc. The bank shall also follow the guidelines given below:

(1) Market Makers approved by stock exchange shall be eligible for grant of advances by scheduled commercial banks.

(2) Market Making may not only be for equity but also for debt securities including State and Central Government securities.

(3) The bank shall exercise their commercial judgement in determining the need based working capital requirements of Market Markers by taking into account the Market Making operations.

(4) A uniform margin of 50 per cent shall be applied on all advances / financing of IPOs / issue of guarantees on behalf of market makers. A minimum cash margin of 25 per cent (within the margin of 50 per cent) shall be maintained in respect of guarantees issued by banks for capital market operations. .

(5) The bank shall accept, as collateral for the advances to the Market Makers, scrips other than the scrips in which the market making operations are undertaken.

(6) The bank shall ensure that advances provided for Market Making are not diverted for investment in shares other than the scrip earmarked for Market Making purpose. For this purpose, a suitable follow-up and monitoring mechanism shall be evolved.

(7) The ceiling of ₹10 lakh / 20 lakh for advances against shares / debentures to individuals will not be applicable in the case of Market Makers.

170. The bank shall lay down a detailed loan policy for granting advances to stockbrokers and Market Makers and also a policy for grant of guarantees on behalf of brokers which

shall keep in view the general guidelines given in paragraphs 183 to 196 and include, *inter alia*, the following:

(1) Purpose and use of such advances / guarantees

(2) Pricing of such advances

(3) Control features that specifically recognise the unique characteristics and risks of such financing

(4) Method of valuation of collateral

(5) Frequency of valuation of shares and other securities taken as collateral. Frequency of valuation of shares may at least be once in a quarter.

(6) Guidelines for transfer of shares in bank's name

(7) Maximum exposure for individual credits (within the prudential Single Borrower Limit prescribed by the Reserve Bank). The Board may also consider laying down a limit on the aggregate exposure of the bank to this sector.

(8) The aggregate portfolio, its quality and performance should be reviewed and put up at least on a half-yearly basis to the Board.

D. Advances to Individuals against shares to Joint holders or third-party beneficiaries

171. While granting advances against shares held in joint names to joint holders or third party beneficiaries, the bank shall ensure that the objective of the regulation is not defeated by granting advances to other joint holders or third party beneficiaries to circumvent the limits placed on loans / advances against shares and other securities.

E. Financing of Initial Public Offerings (IPOs)

172. The bank shall grant advances to individuals for subscribing to IPOs. Loans / advances to any individual from banking system against security of shares, convertible bonds, convertible debentures, units of equity oriented mutual funds and PSU bonds shall not exceed the limit of ₹10 lakh for subscribing to IPOs. The corporates shall not be extended credit by banks for investment in other companies' IPOs. Similarly, banks shall not provide finance to NBFCs for further lending to individuals for IPOs. Finance extended by a bank for IPOs should be reckoned as an exposure to capital market.

173. Follow – on Public Offers (FPOs) shall also be included under IPO.

F. Finance to assist employees to buy shares of their own companies

174. The bank shall extend finance to employees for purchasing shares of their own companies under Employees Stock Option Plan (ESOP) / reserved by way of employees' quota under IPO/FPO to the extent of 90 per cent of the purchase price of the shares or ₹20 lakh, whichever is lower. Finance extended by the bank for ESOPs / employees' quota under IPO/FPO shall be treated as an exposure to capital market within the overall ceiling of 40 per cent of its net worth. The bank shall not extend advances to their employees / Employees' Trusts set up by them for the purpose of purchasing their own banks' share under ESOPs / IPOs or from the secondary market. This prohibition shall apply irrespective of whether the advances are secured or unsecured.

175. The bank shall obtain declaration from the borrower indicating the details of the loan / advances availed against shares and other securities specified above, from any other bank(s) in order to ensure compliance with the ceilings prescribed for the purpose.

G. Advances to other borrowers against shares / debentures / bonds

176. The question of granting advances against primary security of shares and debenture including promoters' shares to industrial, corporate or other borrowers should not normally arise. However, such securities shall be accepted as collateral for secured loans granted as working capital or for other productive purposes from borrowers other than NBFCs. In such cases, the bank shall accept shares only in dematerialised form. The bank shall accept shares of promoters only in dematerialised form wherever demat facility is available.

Explanation: In this context, primary security means an asset created out of the credit facility extended to the borrower.

177. In the course of setting up of new projects or expansion of existing business or for the purpose of raising additional working capital required by units other than NBFCs, there may be situations where such borrowers are not able to find the required funds towards margin, pending mobilisation of long-term resources. In such cases, there shall be no objection to the banks obtaining collateral security of shares and debentures by way of margin. Such arrangements shall be of a temporary nature and shall not be continued beyond a period of one year. The bank shall satisfy itself regarding the

capacity of the borrower to raise the required funds and to repay the advance within the stipulated period.

H. Advances against Long-Term Bonds Issued for Financing Infrastructure Sub-sector

178. The banks may extend loans to individuals against Long-Term Bonds issued by them for financing the Infrastructure Sub-sector, under the provisions of the Reserve Bank of India (Small Finance Banks – Resource Raising Norms) Directions, 2025. The Board of the bank shall frame a policy in this regard, prescribing suitable margins, purpose of the loan, and other necessary safeguards. Such loans shall be subject to a ceiling, say, ₹10 lakh per borrower; and tenure of the loan shall not exceed the maturity period of the underlying bonds. It is also clarified that a bank shall not extend loans against such bonds issued by other banks.

I. Advances against Units of Mutual Funds

179. While granting advances against units of mutual funds, the bank shall adhere to the following guidelines:

(1) The units shall be listed in the Stock Exchanges or repurchase facility for the units of mutual fund shall be available at the time of lending.

(2) The units shall have completed the minimum lock-in-period stipulated in the relevant scheme.

(3) The amount of advances shall be linked to the Net Asset Value (NAV) / repurchase price or the market value, whichever is less and not to the face value of the units.

(4) Advance against units of mutual funds (except units of exclusively debt - oriented funds) shall attract the quantum and margin requirements as applicable to advance against shares and debentures. The quantum and margin requirement for loans / advances to individuals against units of exclusively debt-oriented mutual funds shall be in terms of the Board approved policy of the bank.

(5) The advances shall be purpose oriented, taking into account the credit requirement of the investor. Advances shall not be granted for subscribing to or boosting up the sales of another scheme of the mutual funds or for the purchase of shares / debentures / bonds etc.

J. Margin Trading

180. The bank shall extend finance to stockbrokers for margin trading. The Board of the bank shall formulate detailed guidelines for lending for margin trading, subject to the following parameters:

(1) The finance extended for margin trading shall be within the overall ceiling of 40 per cent of net worth prescribed for exposure to capital market.

(2) A minimum margin of 50 per cent shall be maintained on the funds lent for margin trading.

(3) The shares purchased with margin trading shall be in dematerialised mode under pledge to the lending bank. The bank shall put in place an appropriate system for monitoring and maintaining the margin of 50 per cent on an ongoing basis.

(4) The Board of the bank shall prescribe necessary safeguards to ensure that no "nexus" develops between inter-connected stock broking entities / stockbrokers and the bank in respect of margin trading. Margin trading should be spread out by the bank among a reasonable number of stockbrokers and stock broking entities.

181. The Audit Committee of the Board shall monitor periodically the bank's exposure by way of financing for margin trading and ensure that the guidelines formulated by the bank's Board, subject to the above parameters, are complied with. The bank shall disclose the total finance extended for margin trading in the "Notes on Account" to their Balance Sheet.

K. Arbitrage Operations

182. The bank shall not undertake arbitrage operations themselves or extend credit facilities directly or indirectly to stockbrokers for arbitrage operations in Stock Exchanges. While the bank is permitted to acquire shares from the secondary market, it shall ensure that no sale transaction is undertaken without actually holding the shares in their investment accounts.

L. General guidelines applicable to advances against shares / debentures / bonds

183. Statutory provisions regarding the grant of advances against shares contained in Sections 19(2) and (3) and 20(1) (a) of the Banking Regulation Act 1949 shall be strictly observed. Shares held in dematerialised form shall also be included for the purpose of determining the limits under Sections 19(2) and 19(3) ibid.

184. The bank shall focus on the purpose of the advances rather than merely the security against which they are granted. While considering grant of advances against shares / debentures the bank shall follow the normal procedures for the sanction, appraisal and post sanction follow-up.

185. Advances against the primary security of shares / debentures / bonds shall be kept distinct and separate and not combined with any other advance.

186. The bank shall satisfy itself about the marketability of the shares / debentures and the net worth and working of the company whose shares / debentures / bonds are offered as security.

187. Shares / debentures / bonds shall be valued at prevailing market prices when they are lodged as security for advances.

188. The bank shall exercise particular care when advances are sought against large blocks of shares by a borrower or a group of borrowers. It shall be ensured that advances against shares are not used to enable the borrower to acquire or retain a controlling interest in the company / companies or to facilitate or retain inter-corporate investments.

189. Advances against partly paid shares shall not be granted.

190. Advances to partnership / proprietorship concerns against the primary security of shares and debentures shall not be granted.

191. Whenever the limit / limits of advances granted to a borrower exceeds ₹10 lakh, it shall be ensured that the said shares / debentures / bonds are transferred in the bank's name and that the bank has exclusive and unconditional voting rights in respect of such shares. For this purpose, the aggregate of limits against shares / debentures / bonds granted by a bank at all its offices to a single borrower shall be taken into account. Where securities are held in dematerialised form, the requirement relating to transfer of shares in the bank's name shall not apply and the bank shall take their own decision in this regard. The bank shall, however, avail of the facility provided in the depository system for pledging securities held in dematerialised form under which the securities pledged by the borrower get blocked in favour of the lending bank. In case of default by the borrower and on the bank exercising the option of invocation of pledge, the shares and debentures shall get transferred in the bank's name immediately.

192. The bank shall take their own decision in regard to exercise of voting rights and may prescribe procedures for this purpose.

193. The bank shall, ensure that the scrips lodged with them as security are not stolen / duplicate / fake / benami. Any irregularities coming to their notice shall be immediately reported to the Reserve Bank.

194. The Boards of Directors shall decide the appropriate level of authority for sanction of advances against shares / debentures. They shall also frame internal guidelines and safeguards for grant of such advances.

195. Banks operating in India shall not be a party to transactions such as making advances or issuing back-up guarantees favouring other banks for extending credit to clients of Indian nationality / origin by some of their overseas branches, to enable the borrowers to make investments in shares and debentures / bonds of Indian companies.

196. A uniform margin of 50 per cent shall be applied on all advances against shares / financing of IPOs / issue of Guarantees(including market makers). A minimum cash margin of 25 per cent (within margin of 50 per cent) shall be maintained in respect of guarantees issued by banks for capital market operations. These margin requirements shall also be applicable in respect of bank finance to stockbrokers by way of temporary overdrafts for DVP transactions.

M. Advances against Fixed Deposit Receipts (FDRs)

197. The bank shall desist from sanctioning advances against FDRs, or other term deposits of other banks.

198. Grant of advance against NR(E) and FCNR(B) deposits shall be subject to the guidelines issued under Foreign Exchange Management Act, 1999.

N. Loans against Certificate of Deposits (CDs)

199. The bank shall lend against CDs and buy back their own CDs, until further notice, only in respect of CDs held by mutual funds, subject to the provisions of paragraph 44(2) of the SEBI (Mutual Funds) Regulations, 1996. Further, such finance if extended to equity-oriented mutual funds shall form part of banks' capital market exposure, as hitherto.

O. Grant of Loans for acquisition of / investing in Small Saving Instruments

200. The grant of loans for acquiring / investing in small saving schemes does not promote fresh savings and, rather, channelises the existing savings in the form of bank deposits to small savings instruments and thereby defeats the very purpose of such schemes. The bank shall, therefore, ensure that no loans are sanctioned for acquisition of / investing in Small Savings Instruments including Kisan Vikas Patras.

P. Finance for and Loans / Advances against Indian Depository Receipts (IDRs)

201. The bank shall not grant any loan / advance for subscription to Indian Depository Receipts (IDRs). Further, the bank shall not grant any loan / advance against security / collateral of IDRs issued in India.

Chapter XII - Finance to Non-Banking Financial Companies (NBFCs)

Background: Consistent with the policy of bestowing greater operational freedom to banks in the matter of credit dispensation and in the context of mandatory registration of NBFCs with the Reserve Bank, most of the aspects relating to financing of NBFCs by banks have also been deregulated. However, in view of the sensitivities attached to financing of certain types of activities undertaken by NBFCs, restrictions on financing of such activities continue to be in force. In this context, NBFCs mean the Non-Banking Financial Companies registered with the Reserve Bank of India, which shall also include Housing Finance Company (HFC) registered under Section 29A of the National Housing Bank Act, 1987.

A. Finance to NBFCs registered with RBI

202. The ceiling on bank credit linked to Net Owned Fund (NOF) of NBFCs has been withdrawn in respect of all NBFCs which are statutorily registered with the Reserve Bank and are engaged in principal business of asset financing, loan, factoring and investment activities. Accordingly, the bank shall extend need based working capital facilities as well as term loans to all NBFCs registered with the Reserve Bank and engaged in infrastructure financing, equipment leasing, hire-purchase, loan, factoring and investment activities subject to provisions of paragraph 214 of these Direction.

203. In the light of the experience gained by NBFCs in financing second hand assets, the bank shall also extend finance to NBFCs against second hand assets financed by them.

204. The bank shall formulate suitable loan policy with the approval of their Boards of Directors within the prudential guidelines and exposure norms prescribed by the Reserve Bank to extend various kinds of credit facilities to NBFCs subject to the condition that the activities indicated in paragraphs 206, 207, 210, 211and 212 are not financed by them.

B. Finance to NBFCs not requiring Registration

205. In terms of Reserve Bank of India (Non- Banking Financial Companies- Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025, few categories of NBFCs are exempted from certain provisions of the Reserve Bank of India Act, 1934, including the need for registration with the Reserve Bank. For such NBFCs which do not need registration with the Reserve Bank, the bank shall take its credit decisions on the basis of usual factors like the purpose of credit, nature and

quality of underlying assets, repayment capacity of borrowers as also risk perception, etc. Further, while financing NBFCs, which do not require registration with RBI, the banks shall also refer to the guidelines / notifications issued in this regard from time to time by the Ministry of Corporate Affairs, Government of India.

C. Activities not eligible for Bank Credit

206. The following activities undertaken by NBFCs, are not eligible for bank credit:

(1) Bills discounted / rediscounted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from sale of -

(i) commercial vehicles (including light commercial vehicles), and

(ii) two-wheeler and three-wheeler vehicles, subject to the following conditions:

(a) the bills shall be drawn by the manufacturer on dealers only.

(b) the bills shall represent genuine sale transactions as may be ascertained from the chassis / engine number; and

(c) before rediscounting the bills, the bank shall satisfy themselves about the bona fides and track record of NBFCs which have discounted the bills.

(2) Investments of NBFCs both of current and long-term nature, in any company / entity by way of shares, debentures, etc. However, Stock Broking Companies shall be provided need-based credit against shares and debentures held by them as stock-in- trade.

In this context, current investments mean the investments classified in the balance sheet of the borrower as 'current assets' and are intended to be held for less than one year and long term investments mean all types of investments other than that classified as 'current assets'.

(3) Unsecured loans / inter-corporate deposits by NBFCs to / in any company.

In this context, unsecured loans mean the loans not secured by any tangible asset.

(4) All types of loans and advances by NBFCs to their subsidiaries, group companies / entities.

(5) Finance to NBFCs for further lending to individuals for subscribing to Initial Public Offerings (IPOs) and for purchase of shares from secondary market.

207. Leased and Sub-Leased Assets

As banks can extend financial assistance to equipment leasing companies, they shall not enter into lease agreements departmentally with such companies as well as other NBFCs engaged in equipment leasing.

D. Finance to Factoring Companies

208. Notwithstanding the restrictions mentioned at paragraphs 206 above, the bank may extend financial assistance to support the factoring business of Factoring Companies, viz., 'NBFC-Factors' and 'NBFC-ICCs holding certificate of registration under the Factoring Regulation Act, 2011', subject to the following conditions:

(1) The companies qualify as factoring companies; and carry out their business under the provisions of the Factoring Regulation Act, 2011 and Notifications issued by the Reserve Bank in this regard from time to time.

(2) The financial assistance extended by the Factoring Companies is secured by hypothecation or assignment of receivables in their favour.

209. In addition to the above, NBFC-Factors must also satisfy the following criteria to be eligible for bank finance -

(1) They derive at least 50 per cent of their income from factoring activity.

(2) The receivables purchased / financed, irrespective of whether on 'with recourse' or 'without recourse' basis, form at least 50 per cent of their assets.

(3) The assets / income referred to at (1) and (2) above shall not include the assets / income relating to any bill discounting facility extended by them.

E. Other Prohibitions on Finance to NBFCs

210. Bridge loans / interim finance

The bank shall not grant bridge loans of any nature, or interim finance against capital / debenture issues and / or in the form of loans of a bridging nature pending raising of long-term funds from the market by way of capital, deposits, etc. to all categories of NBFCs. The bank shall strictly follow these instructions and ensure that they are not circumvented in any manner whatsoever by purport and / or intent by sanction of credit under a different nomenclature like unsecured negotiable notes, floating rate interest bonds, etc., as also short-term loans, the repayment of which is proposed / expected to be made out of funds to be or likely to be mobilised from external / other sources and not out of the surplus generated by the use of the asset(s).

211. Advances against collateral security of shares to NBFCs

Shares and debentures shall not be accepted as collateral securities for secured loans granted to NBFC borrowers for any purpose.

212. Restriction on guarantees for placement of funds with NBFCs

The bank shall comply with the provisions of Chapter XIV of these Directions regarding restrictions on issuing guarantees for placement of funds with NBFCs or other non-bank entities.

F. Other Instructions

213. For prudential ceilings for exposure to NBFCs, the bank shall be guided by the instructions contained in the Reserve Bank of India (Small Finance Banks – Concentration Risk Management) Directions, 2025

214. For restrictions regarding investments made by the bank in securities / instruments issued by NBFCs, it shall be guided by the instructions contained in the Reserve Bank of India (Small Finance Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

215. For risk weights for bank credit to NBFCs, the bank's exposure to NBFCs shall be subject to capital charge as per the Risk Weight prescribed in Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

Chapter XIII - Export Credit

Background: The Reserve Bank first introduced the scheme of Export Financing in 1967. The scheme is intended to make short-term working capital finance available to exporters at internationally comparable interest rates. Export credit is available both in Rupee as well as in foreign currency.

A. Rupee Pre-shipment Credit / Packing Credit

A.1 Period of Advance

216. The period of a packing credit advance shall be determined by the bank based on the specific circumstances of each case, including the time required for procuring, manufacturing or processing (as applicable) and shipping the relative goods / rendering of services. The banks shall ensure that the sanctioned period is sufficient to enable the exporter to ship the goods / render the services within a reasonable timeframe.

217. If pre-shipment advances are not adjusted by submission of export documents within 360 days from the date of advance, the advances shall cease to qualify for export credit to the exporter ab initio.

A.2 Disbursement of Packing Credit

218. Generally, each packing credit sanctioned shall be maintained as separate account for the purpose of monitoring the period of sanction and end-use of funds.

219. The bank shall release the packing credit in one lump sum or in stages as per the requirement for executing the orders / LC.

220. The bank shall maintain separate accounts for different stages of processing, manufacturing etc., depending on the types of goods / services to be exported (e.g., hypothecation, pledge). The bank shall ensure that the outstanding balance in accounts are adjusted by transfer from one account to the other and finally by proceeds of relative export documents on purchase, discount, etc.

221. The bank shall also monitor the progress made by the exporters in timely fulfilment of export orders.

A.3 Liquidation of Packing Credit

222. The packing credit / pre-shipment credit granted to an exporter shall be liquidated out of proceeds of bills drawn for the exported commodities on its purchase, discount etc., thereby converting pre-shipment credit into post-shipment credit. Further, subject

to mutual agreement between the exporter and the banker it can also be repaid / prepaid out of balances in Exchange Earners Foreign Currency A/c (EEFC A/c) as also from Rupee resources of the exporter to the extent exports have actually taken place.

223. Packing credit in excess of export value

(1) Where by-product can be exported

Where the exporter is unable to tender export bills of equivalent value for liquidating the packing credit due to the shortfall on account of wastage involved in the processing of agro products like raw cashew nuts, etc., the bank shall allow exporters, inter alia, to extinguish the excess packing credit by export bills drawn in respect of by-product like cashew shell oil, etc.

(2) Where partial domestic sale is involved

In respect of export of agro-based products like tobacco, pepper, cardamom, cashew nuts etc., the exporter has to necessarily purchase a somewhat larger quantity of the raw agricultural produce and grade it into exportable and non-exportable varieties and only the former is exported. The non-exportable balance is necessarily sold domestically. For the packing credit covering such non-exportable portion, the bank shall charge the rate of interest applicable to the domestic advance from the date of advance of packing credit.

(3) Export of deoiled / defatted cakes

The bank shall grant packing credit advance to exporters of HPS groundnut and deoiled / defatted cakes to the extent of the value of raw materials required even though the value thereof exceeds the value of the export order. The advance in excess of the export order shall be adjusted either in cash or by sale of residual by-product oil within a period not exceeding 30 days from the date of advance.

224. The bank shall, however, have operational flexibility to extend the following relaxations to their exporter clients who have a good track record:

(1) Repayment / liquidation of packing credit with proceeds of export documents shall; continue; however, this shall be with export documents relating to any other order covering the same or any other commodity exported by the exporter. While allowing substitution of contract in this way, the bank shall ensure that it is commercially necessary and unavoidable. The bank shall also satisfy itself about the valid reasons as to why packing credit extended for shipment of a particular commodity cannot be liquidated in the normal method. As far as possible, the substitution of

contract shall be allowed if the exporter maintains account with the same bank or it has the approval of the members of the consortium, if any.

(2) The existing packing credit shall also be marked-off with proceeds of export documents against which no packing credit has been drawn by the exporter. However, it is possible that the exporter might avail of EPC with one bank and submit the documents to another bank. In view of this possibility, the bank shall extend such facility after ensuring that the exporter has not availed of packing credit from another bank against the documents submitted. If any packing credit has been availed of from another bank, the bank to which the documents are submitted shall ensure that the proceeds are used to liquidate the packing credit obtained from the first bank.

(3) These relaxations shall not be extended to transactions of sister / associate / group concerns.

A.4 'Running Account' Facility

225. The pre-shipment credit to exporters is normally provided on lodgement of LCs or firm export orders. However, due to certain reasons such as (i) seasonal availability of raw materials, and (ii) time required for manufacture and shipment of goods exceeding the delivery schedule under export contracts; the exporters may need to procure raw material, manufacture goods, and keep them ready for shipment, in anticipation of receipt of letters of credit / firm export orders from the overseas buyers. In view of the foregoing, a bank may extend Pre-shipment Credit 'Running Account' facility in respect of any commodity, without insisting on prior lodgement of letters of credit / firm export orders, depending on its judgement regarding the need to extend such a facility and subject to the following conditions:

(1) 'Running Account' facility can be extended only to those exporters whose track record has been good as also to Export Oriented Units (EOUs) / Units in Free Trade Zones / Export Processing Zones (EPZs) and Special Economic Zones (SEZs).

(2) In all cases where Pre-shipment Credit 'Running Account' facility has been extended, letters of credit / firm orders shall be produced within a reasonable period of time to be decided by the bank.

(3) The bank shall mark off individual export bills, as and when they are received for negotiation / collection, against the earliest outstanding pre-shipment credit on 'First In First Out' (FIFO) basis. Needless to add that, while marking off the pre-shipment

credit in the manner indicated above, banks shall ensure that export credit available in respect of individual pre-shipment credit does not go beyond the period of sanction or 360 days from the date of advance, whichever is earlier.

(4) Packing credit shall also be marked-off with proceeds of export documents against which no packing credit has been drawn by the exporter.

226. If it is noticed that the exporter is found to be misusing the facility, the facility shall be withdrawn forthwith.

227. In cases where exporters have not complied with the terms and conditions, the advance shall not be treated as export credit ab initio.

228. Running account facility shall not be granted to sub-suppliers.

A.5 Export Credit against proceeds of cheques, drafts, etc. representing advance payment for exports

229. Where exporters receive direct remittances from abroad by means of cheques, drafts etc. in payment for exports, the bank shall grant export credit to exporters of good track record till the realisation of proceeds of the cheque, draft etc. received from abroad, after satisfying itself that it is against an export order, is as per trade practices in respect of the goods in question and is an approved method of realisation of export proceeds as per extant rules.

B. Rupee Pre-shipment Credit to specific sectors / segments

B.1 Rupee Export Packing Credit to manufacturer suppliers for exports routed through STC / MMTC / Other Export Houses, Agencies etc.

230. The bank may grant export packing credit to manufacturer suppliers who do not have export orders / letters of credit in their own name and goods are exported through the State Trading Corporation / Minerals and Metal Trading Corporation or other export houses, agencies etc.

B.2 Rupee Export Packing Credit to Sub-Suppliers

231. Packing credit may be shared between an Export Order Holder (EOH) and sub-supplier of raw materials, components etc. of the exported goods as in the case of EOH and manufacturer suppliers, subject to the following:

(1) Running Account facility is not contemplated under the scheme. The scheme shall cover the LC or export order received in favour of Export Houses / Trading Houses

/ Star Trading Houses etc. or manufacturer exporters only. The scheme shall be made available to the exporters with good track record.

(2) Banker to an EOH shall open an inland LC specifying the goods to be supplied by the sub-supplier to the EOH against the export order or LC received by it as a part of the export transaction. On the basis of such a LC, the sub-supplier's banker shall grant EPC as working capital to enable the sub-supplier to manufacture the components required for the goods to be exported. On supplying the goods, the LC opening bank shall pay to the sub-supplier's banker against the inland documents received on the basis of inland LC. Such payments will thereafter become the EPC of the EOH.

(3) It is up to the EOH to open any number of LCs for the various components required with the approval of his banker / leader of consortium of banks within the overall value limit of the order or LC received by him. Taking into account the operational convenience, it is for the LC opening bank to fix the minimum amount for opening such LCs. The total period of packing credit availed by the sub-supplier(s), individually or severally and the EOH shall be within normal cycle of production required for the exported goods. Normally, the total period will be computed from the date of first drawal of packing credit by any one of the sub-suppliers to the date of submission of export documents by EOH.

(4) The EOH shall be responsible for exporting the goods as per export order or overseas LC and any delay in the process will subject it to the penal provisions issued from time to time. Once the sub-supplier makes available the goods as per inland LC terms to the EOH, its obligation of performance under the scheme shall be treated as complied with and the penal provisions shall not be applicable to him for delay by EOH, if any.

(5) The scheme is an additional window besides the existing system of sharing of packing credit between EOH and manufacturer in respect of exported goods as detailed in paragraph 230 above. The scheme shall cover only the first stage of production cycle. For example, a manufacturer exporter shall be allowed to open domestic LC in favour of his immediate suppliers of components etc. that are required for manufacture of exportable goods. The scheme shall not be extended to cover suppliers of raw materials / components etc. to such immediate suppliers. In case the EOH is merely a trading house, the facility shall be available

commencing from the manufacturer to whom the order has been passed on by the Trading House.

(6) EOUs / EPZ / SEZ units supplying goods to another EOU / EPZ / SEZ unit for export purposes are also eligible for rupee pre-shipment export credit under this scheme. However, the supplier EOU / EPZ / SEZ unit shall not be eligible for any post-shipment facility as the scheme does not cover sale of goods on credit terms.

(7) The scheme does not envisage any change in the total quantum of advance or period. Accordingly, the credit extended under the system shall be treated as export credit from the date of advance to the sub-supplier to the date of liquidation by EOH under the inland export LC system and up to the date of liquidation of packing credit by shipment of goods by EOH. It shall be ensured that no double financing of the same leg of the transaction is involved.

(8) The bank shall approach the ECGC for availing suitable cover in respect of such advances.

(9) The scheme does not envisage extending credit by a sub-supplier to the EOH / manufacturer and thus, the payment to sub-suppliers shall be made against submission of documents by LC opening bank treating the payment as EPC of the EOH.

B.3 Rupee Pre-shipment Credit to Construction Contractors

232. The packing credit advances to the construction contractors to meet their initial working capital requirements for execution of contracts abroad shall be made on the basis of a firm contract secured from abroad, in a separate account, on an undertaking obtained from them that the finance is required by them for incurring preliminary expenses in connection with the execution of the contract e.g., for transporting the necessary technical staff and purchase of consumable articles for the purpose of executing the contract abroad, etc.

233. The advances shall be adjusted within 365 days from the date of advance by negotiation of bills relating to the contract or by remittances received from abroad in respect of the contract executed abroad.

234. The exporters undertaking project export contracts including export of services may comply with the guidelines / instructions issued by Foreign Exchange Department of the Reserve Bank from time to time.

B.4 Export of Services

235. Pre-shipment and post-shipment finance shall be provided to exporters of all the tradable services covered under the General Agreement on Trade in Services (GATS) and earning free foreign exchange as per the extant Foreign Trade Policy of Government of India. All provisions of this circular shall apply mutatis mutandis to export of services as they apply to export of goods unless otherwise specified.

236. The financing bank shall ensure that there is no double financing and the export credit is liquidated with remittances from abroad. The bank shall take into account the track record of the exporter / overseas counter party while sanctioning the export credit.

237. The statement of export receivables from such service providers shall be tallied with the statement of payables received from the overseas party.

238. The bank shall formulate their own parameters to finance the service exporters.

239. Exporters of services qualify for working capital export credit (pre and post shipment) for consumables, wages, supplies etc. The bank shall ensure the following:

(1) The proposal is a genuine case of export of services.
(2) The exporter is registered with the Electronic and software EPC or Services EPC or with Federation of Indian Export Organisations, as applicable.
(3) There is an Export Contract for the export of the service.
(4) There is a time lag between the outlay of working capital expense and actual receipt of payment from the service consumer or his principal abroad.
(5) There is a valid Working Capital gap i.e. service is provided first while the payment is received some time after an invoice is raised.
(6) The bank shall ensure that there is no double financing / excess financing.
(7) The export credit granted does not exceed the foreign exchange earned less the margins if any required, advance payment / credit received.
(8) Invoices are raised.
(9) Inward remittance is received in Foreign Exchange.
(10) Company shall raise the invoice as per the contract. Where payment is received from overseas party, the service exporter shall utilize the funds to repay the export credit availed of from the bank.

B.5 Pre-shipment Credit to Floriculture, Grapes and Other Agro-based Products

240. Floriculture and other agro-based exports shall also qualify for export credit. However, the bank shall ensure that the activities are not covered by direct / indirect finance schemes of NABARD or any other agency.

241. Export credit shall not be extended for investments, such as, import of foreign technology, equipment, land development etc. or any other item which cannot be regarded as working capital.

B.6 Export Credit to Processors / Exporters - Agri-Export Zones

242. Government of India has set up Agri-Export Zones in the country to promote Agri Exports. Agri- Export Oriented Units (processing) are set up in Agri- Export zones as well as outside the zones and to promote such units, production and processing are to be integrated. The producer has to enter into contract farming with farmers and has to ensure supply of quality seeds, pesticides, micro-nutrients and other material to the group of farmers from whom the exporter shall be purchasing the products as raw material for production of the final products for export. The Government, therefore, suggested that such export processing units may be provided packing credit under the extant guidelines for the purpose of procuring and supplying inputs to the farmers so that quality inputs are available to them which in turn will ensure that only good quality crops are raised. The exporters will be able to purchase / import such inputs in bulk, which will have the advantages of economies of scale.

243. The bank shall treat the inputs supplied to farmers by exporters as raw material for export and consider sanctioning the lines of credit / export credit to processors / exporters to cover the cost of such inputs required by farmers to cultivate such crops to promote export of agri products. The processor units shall be able to effect bulk purchases of the inputs and supply the same to the farmers as per a pre- determined arrangement.

244. The bank shall ensure that the exporters have made the required arrangements with the farmers and overseas buyers in respect of crops to be purchased and products to be exported respectively. The financing bank shall also appraise the projects in agri export zones and ensure that the tie-up arrangements are feasible and projects would take off within a reasonable period of time.

245. The bank shall also monitor the end-use of funds, viz. distribution of the inputs by the exporters to the farmers for raising the crops as per arrangements made by the exporter / main processor units.

246. The bank shall ensure that the final products are exported by the processors / exporters as per the terms and conditions of the sanction in order to liquidate the pre-shipment credit as per extant instructions.

C. Rupee Post-Shipment Export Credit

C.1 Period of Realisation of Export Proceeds

247. The period of realization of export proceeds is determined by Foreign Exchange Department of the Reserve Bank. The bank shall adhere to the direction issued under Foreign Exchange Management Act, 1999, as amended from time to time.

C.2 Types of Post-shipment Credits

248. Post-shipment advance shall mainly take the form of:

(1) Export bills purchased / discounted / negotiated.
(2) Advances against bills for collection.
(3) Advances against duty drawback receivable from Government.

C.3 Liquidation of Post-shipment Credit

249. Post-shipment credit is to be liquidated by the proceeds of export bills received from abroad in respect of goods exported / services rendered. Further, subject to mutual agreement between the exporter and the banker it can also be repaid / prepaid out of balances in Exchange Earners Foreign Currency Account (EEFC A/C) as also from proceeds of any other unfinanced (collection) bills. Such adjusted export bills shall however continue to be followed up for realization of the export proceeds and shall continue to be reported in the Export Data Processing and Monitoring System (EDPMS).

250. In order to reduce the cost to exporters (i.e. interest cost on overdue export bills), exporters with overdue export bills may extinguish their overdue post shipment rupee export credit from their rupee resources. However, the corresponding Export Declaration Form will remain outstanding and the amount shall be shown outstanding in EDPMS. The exporter’s liability for realisation shall continue till the export bill is realised.

C.4 Period of Rupee Post-Shipment Export Credit

251. In the case of demand bills, the period of advance shall be the Normal Transit Period (NTP) as specified by FEDAI.

252. In case of usance bills, credit shall be granted for a maximum duration of 365 days from date of shipment inclusive of Normal Transit Period (NTP) and grace period, if any. However, the bank shall closely monitor the need for extending post-shipment credit up to the permissible period of 365 days and it shall persuade the exporters to realise the export proceeds within a shorter period.

C.5 Advances against Undrawn Balances on Export Bills

253. In respect of export of certain commodities where exporters are required to draw the bills on the overseas buyer up to 90 to 98 per cent of the FOB value of the contract, the residuary amount being 'undrawn balance' is payable by the overseas buyer after satisfying himself about the quality / quantity of goods.

254. Payment of undrawn balance is contingent in nature. The bank shall consider granting advances against undrawn balances based on their commercial judgement and the track record of the buyer.

C.6 Advances against Retention Money

255. In the case of turnkey projects / construction contracts, progressive payments are made by the overseas employer in respect of services segment of the contract, retaining a small percentage of the progressive payments as retention money which is payable after expiry of the stipulated period from the date of the completion of the contract, subject to obtention of certificate(s) from the specified authority.

256. Retention money may also be stipulated against the supply portion of turn-key projects or sub-contracts. The bank shall treat retention money as a deferred liability, given its contingent nature.

257. Advances shall not be granted against retention money relating to services portion of the contract.

258. Exporters shall be advised to arrange, as far as possible, provision of suitable guarantees, instead of retention money.

259. The bank shall consider, on a selective basis, granting of advances against retention money relating to the supply portion of the contract taking into account, among others,

the size of the retention money accumulated, its impact on the liquid funds position of the exporter and the past performance regarding the timely receipt of retention money.

260. The payment of retention money shall be secured by LC or Bank Guarantee where possible.

261. Where the retention money is payable after a period of one year from the date of shipment, according to the terms of the contract and the corresponding advance is extended for a period exceeding one year, it shall be treated as post-shipment credit given on deferred payment terms exceeding one year, and the bank is free to decide the rate of interest.

C.7 Export on Consignment Basis

262. Export on consignment basis lends scope for a lot of misuse in the matter of repatriation of export proceeds. Therefore, export on consignment basis shall be at par with exports on outright sale basis on cash terms in matters regarding the rate of interest to be charged by banks on post-shipment credit.

263. Export of precious and semi-precious stones

Precious and semi-precious stones, etc. are exported mostly on consignment basis and the exporters are not in a position to liquidate pre-shipment credit account with remittances received from abroad within a period of 365 days from the date of advance. The bank shall, therefore, adjust packing credit advances in the case of consignment exports, as soon as export takes place, by transfer of the outstanding balance to a special (post-shipment) account which in turn, shall be adjusted as soon as the relative proceeds are received from abroad but not later than 365 days from the date of export or such extended period as may be permitted by Foreign Exchange Department of the Reserve Bank.

C.8 Export of Goods for Exhibition and Sale

264. The bank shall provide finance to exporters against goods sent for exhibition and sale abroad in the normal course in the first instance, and after the sale is completed, allow the benefit of rate of interest on such advances, if any, both at the pre-shipment stage and at the post-shipment stage, up to the stipulated periods, by way of a rebate. Such advances shall be given in separate accounts.

C.9 Post-shipment Advances against Duty Drawback Entitlements

265. The bank shall grant post-shipment advances to exporters against their duty drawback entitlements and covered by ECGC guarantee as provisionally certified by Customs Authorities pending final sanction and payment.

266. The advance against duty drawback receivables shall also be made available to exporters against export promotion copy of the shipping bill containing the EGM Number issued by the Customs Department. Where necessary, the financing bank shall have its lien noted with the designated bank and arrangements shall be made with the designated bank to transfer funds to the financing bank as and when duty drawback is credited by the Customs.

C.10 ECGC Post-shipment Guarantee Scheme

267. The bank shall, in the interest of export promotion and credit risk mitigation, consider opting for export credit insurance products offered by ECGC Ltd. The salient features of the scheme, Export Credit Insurance for Banks (ECIB), may be obtained directly from ECGC Ltd.

As the post-shipment guarantee mainly benefits the banks, the cost of premium may be borne by the banks and not passed on to the exporters.

268. However, even where the post-shipment credit is insured under an ECGC policy, the bank shall not dilute their efforts towards realisation of their dues against long outstanding export bills.

C.11 Export Credit - DTA to SEZ Units

269. As per the extant Foreign Trade Policy, goods and services going to Special Economic Zone area (SEZ) from Domestic Tariff Area (DTA) shall be treated as exports. Accordingly, the supply of goods and services from DTA to Special Economic Zone area would be eligible for export credit facilities.

D. Deemed Exports - Rupee Export Credit

270. The bank shall extend rupee pre-shipment and post-shipment export credit to parties against orders for supplies in respect of projects aided / financed by bilateral or multilateral agencies / funds (including World Bank, IBRD, IDA), as notified from time to time by Department of Economic Affairs, Ministry of Finance under the Section

"Deemed Exports" in Foreign Trade Policy, which are eligible for grant of normal export benefits by Government of India.

271. Packing Credit provided shall be adjusted from free foreign exchange representing payment for the suppliers of goods to these agencies. It shall also be repaid / prepaid out of balances in Exchange Earners Foreign Currency account (EEFC A/c), as also from the rupee resources of the exporter to the extent supplies have actually been made.

272. The bank shall also extend rupee

(1) pre-shipment credit, and

(2) post-supply credit (for a maximum period of 30 days or up to the actual date of payment by the receiver of goods, whichever is earlier),

for supply of goods specified as 'Deemed Exports' under the same Section of Foreign Trade Policy from time to time.

E. Interest on Rupee Export Credit

273. The bank shall determine interest rate on rupee export credit pre-shipment credit and post-shipment credit) as per the policy approved by their Board, subject to the regulatory provisions contained in the Reserve Bank of India (Small Finance Banks – Interest Rates on Advances) Directions, 2025.

274. If pre-shipment advances are not liquidated from proceeds of bills on purchase, discount, etc. on submission of export documents within 360 days from the date of advance, or as indicated at paragraph 217 of these Directions, the advances shall not be treated as export credit ab initio.

275. If exports do not materialise at all, the bank shall charge on relative packing credit domestic lending rate plus penal charges, if any, to be decided by the bank on the basis of a transparent policy approved by their Board.

F. Pre-shipment Credit in Foreign Currency (PCFC)

F.1 General Provisions

276. With a view to making credit available to exporters at internationally competitive rates, authorised dealers have been permitted to extend pre-shipment Credit in Foreign Currency (PCFC) to exporters for domestic and imported inputs of exported goods at Alternative Reference Rate in the currency concerned.

277. The scheme is an additional window for providing pre-shipment credit to Indian exporters at internationally competitive rates of interest. It shall be applicable to only cash exports. The instructions with regard to Rupee Export Credit shall apply to export credit in Foreign Currency mutatis mutandis, unless otherwise specified.

278. The exporter shall have the following options to avail of export finance:

(1) to avail of pre-shipment credit in rupees and then the post-shipment credit either in rupees or discounting / rediscounting of export bills under EBR Scheme mentioned in paragraph 322 to 346 of these Directions.

(2) to avail of pre-shipment credit in foreign currency and discount / rediscounting of the export bills in foreign currency under EBR Scheme.

(3) to avail of pre-shipment credit in rupees and then convert drawal into PCFC at the discretion of the bank.

279. Choice of currency

(1) The facility shall be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc.

(2) To enable the exporters to have operational flexibility, it shall be in order for banks to extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. For example, an exporter can avail of PCFC in US Dollar against an export order invoiced in Euro. The risk and cost of cross currency transaction shall be that of the exporter.

(3) The bank shall extend PCFC for exports to ACU countries.

(4) The applicable benefit to the exporters shall accrue only after the realisation of the export bills or when the resultant export bills are rediscounted on 'without recourse' basis.

F.2 Source of funds for banks

280. The foreign currency balances available with the bank in Exchange Earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency Accounts RFC(D) and Foreign Currency (Non-Resident) Accounts (Banks) Scheme may be utilised for financing the pre-shipment credit in foreign currency.

281. The bank shall also utilise the foreign currency balances available under Escrow Accounts and Exporters Foreign Currency Accounts for the purpose, subject to ensuring that the requirements of funds by the account holders for permissible

transactions are met and the limit prescribed for maintaining maximum balance in the account under broad based facility is not exceeded.

282. Foreign currency borrowings

(1) In addition, the bank may arrange for borrowings from abroad. The bank shall negotiate lines of credit with overseas banks for the purpose of grant of PCFC to exporters without the prior approval of the Reserve Bank.

(2) The bank shall avail of lines of credit from other banks in India if they are not in a position to raise loans from abroad on their own, provided the bank does not have a branch abroad. The spread between the borrowing and lending bank is left to the discretion of the banks concerned.

(3) The bank shall draw on the line of credit arranged only to the extent of loans granted by them to the exporters under the PCFC. However, where the overseas bank making available the line of credit stipulates a minimum amount for drawals which shall not be very large, the small unutilised portion shall be managed by the bank within its foreign exchange position and Aggregate Gap Limit (AGL). Similarly, any pre-payment by the exporter shall also be taken within the foreign exchange position and AGL limits.

283. In case the exporters have arranged for the suppliers' credit for procuring imported inputs, the PCFC facility shall be extended by the banks only for the purpose of financing domestic inputs for exports.

284. The bank shall use foreign currency funds borrowed in terms of Notification No. FEMA.3(R)/2018-RB dated December 17, 2018 as also foreign currency funds generated through buy-sell swaps in the domestic forex market for granting pre-shipment credit in Foreign Currency (PCFC) subject to adherence to Aggregate Gap Limit (AGL) in terms of Master Direction - Risk Management and Inter-Bank Dealings.

F.3 Interest on Export Credit in Foreign Currency

285. The bank is free to determine interest rates on export credit in foreign currency using any widely accepted Alternative Reference Rate (ARR) in the currency concerned, in accordance with their Board-approved policy and subject to the relevant guidelines contained in the Reserve Bank of India (Small Finance Banks – Interest Rates on Advances) Directions, 2025 or any other applicable direction / circular.

F.4 Period of credit

286. The PCFC shall be available for a maximum period of 360 days. Any extension of the credit shall be subject to the same terms and conditions as applicable for extension of rupee packing credit.

287. Further extension shall be subject to the terms and conditions fixed by the bank concerned and if no export takes place within 360 days, the PCFC shall be adjusted at T.T. selling rate for the currency concerned. In such cases, the bank shall arrange to remit foreign exchange to repay the loan or line of credit raised abroad and interest without prior permission of the Reserve Bank.

F.5 Export Credit in Foreign Currency to Protect Exporters from Rupee Fluctuations

288. Banks extend export credit in Indian Rupees as well as in foreign currency, such as Pre-Shipment Credit in Foreign Currency (PCFC) and Post Shipment Credit in Foreign Currency (PSCFC), as per their own internal lending policy within the overall regulatory framework prescribed by the Reserve Bank.

289. The export credit limits are calculated in Indian Rupees and the limit is apportioned between Rupee and foreign currency components depending upon the borrowers' requirement. While the overall export credit limits are fixed in Indian Rupees, the foreign currency component of export credit fluctuates based on the prevailing exchange rates.

290. It is observed that whenever there is a depreciation of Indian Rupee :

(1) the unavailed foreign currency component of export credit gets reduced.

(2) the foreign currency component of export credit already availed gets revalued at a higher value in terms of Indian Rupees resulting in the exporter being asked to reduce their exposure by part payment or where the export credit limit is not fully disbursed, the available limit for the borrower reduces, depriving exporter of funds.

291. The bank shall consider denominating export credit facilities in foreign currency to ensure that exporters are not adversely impacted by Rupee fluctuations.

292. The bank shall compute the overall export credit limits of the borrowers on an ongoing basis say monthly, based on the prevalent position of current assets, current liabilities and exchange rates and re-allocate limit towards export credit in foreign currency, as per the bank's own policy. This may result in increasing or decreasing the Indian Rupee equivalent of foreign currency component of export credit.

293. Alternatively, the bank shall denominate foreign currency (FC) component of export credit in foreign currency only with a view to ensuring that the exporters are insulated from Rupee fluctuations. The FC component of export credit, sanctioned, disbursed and outstanding will be maintained and monitored in FC. However, for translation of FC assets in the banks' book, the bank shall refer to Reserve Bank of India (Small Finance Banks – Financial Statements: Presentation and Disclosures) Directions, 2025

F.6 Disbursement of PCFC

294. In case full amount of PCFC or part thereof is utilised to finance domestic input, the bank shall apply appropriate spot rate for the transaction.

295. As regards the minimum lots of transactions, it is left to the operational convenience of the bank to stipulate the minimum lots taking into account the availability of its own resources. However, while fixing the minimum lot, the bank shall take into account the needs of their small customers also.

296. The bank shall take steps to streamline their procedures so that no separate sanction is needed for PCFC once the packing credit limit has been authorised and the disbursement is not delayed at the branches.

F.7 Liquidation of PCFC Account

297. PCFC shall be liquidated out of proceeds of export documents on their submission for discounting / rediscounting under the EBR Scheme as detailed in paragraphs 322 to 346 of these Directions or by grant of foreign currency loans (DP Bills). Subject to mutual agreement between the exporter and the banker, it shall also be repaid / prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent exports have actually taken place.

298. Packing credit in excess of F.O.B. value

In certain cases, (viz. agro based products like HPS groundnut, defatted & deoiled cakes, tobacco, pepper, cardamom, cashew nuts, etc.) where packing credit required is in excess of FOB value, PCFC shall be available only for exportable portion of the produce.

299. Substitution of order / commodity

Repayment / liquidation of PCFC shall be with export documents relating to any other order covering the same or any other commodity exported by the exporter or amount of balance in the EEFC Account. While allowing substitution of contract in this way, the bank shall ensure that it is commercially necessary and unavoidable. The bank shall also satisfy about the valid reasons as to why PCFC extended for shipment of a particular commodity cannot be liquidated in the normal method. As far as possible, the substitution of contract shall be allowed if the exporter maintains account with the same bank or it has the approval of the members of the consortium, if any.

F.8 Cancellation / non-execution of export order

300. In case of cancellation of the export order for which the PCFC was availed of by the exporter from the bank, or if the exporter is unable to execute the export order for any reason, the exporter may repay the loan together with accrued interest thereon, by purchasing foreign exchange (principal + interest) from domestic market through the bank.

301. It shall also be in order for the bank to remit the amount to the overseas bank, provided the PCFC was made available to exporter from the line of credit obtained from that bank.

302. The bank shall extend PCFC to such exporters subsequently, after ensuring that the earlier cancellation of PCFC was due to genuine reasons.

F.9 Running Account Facility for all commodities

303. The bank shall extend the ‘Running Account’ facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit, subject to the following conditions:

(1) The facility shall be extended provided the need for ‘Running Account’ facility has been established by the exporters to the satisfaction of the bank.

(2) The bank shall extend the facility only to those exporters whose track record has been good.

(3) In all cases, where pre-shipment credit ‘Running Account’ facility has been extended, the LCs or firm orders shall be produced within a reasonable period of time.

(4) The PCFC shall be marked-off on the ‘First-in-First-Out’ basis.

(5) PCFC shall also be marked-off with proceeds of export documents against which no PCFC has been drawn by the exporter.

304. The bank shall closely monitor the production of firm order or LC subsequently by exporters and also the end-use of funds. It shall be ensured that no diversion of funds is made for domestic use. In case of non-utilisation of PCFC drawals for export purposes, the penal provisions stated above shall be made applicable and the ‘Running Account’ facility shall be withdrawn for the concerned exporter.

305. The bank shall take any prepayment by the exporter under PCFC scheme within their foreign exchange position and Aggregate Gap Limit (AGL) as indicated in paragraph 282(3)of this Direction. With the extension of ‘Running Account’ facility, mismatches are likely to occur for a longer period involving cost to the banks. The bank shall charge the exporters the funding cost, if any, involved in absorbing mismatches in respect of the prepayment beyond one month period.

F.10 Forward Contracts

306. In terms of paragraph 279of these Directions, PCFC can be extended in any of the convertible currencies in respect of an export order invoiced in another convertible currency. The bank shall also allow an exporter to book forward contract on the basis of confirmed export order prior to availing of PCFC and cancel the contract (for portion of drawal used for imported inputs) at prevailing market rates on availing of PCFC.

307. The bank shall allow customers to seek cover in any permitted currency of their choice which is actively traded in the market, subject to ensuring that the customer is exposed to exchange risk in a permitted currency in the underlying transaction.

308. While allowing forward contracts under the scheme, banks shall ensure compliance of the basic Foreign Exchange Management requirement that the customer is exposed to an exchange risk in the underlying transaction at different stages of the export finance.

F.11 Sharing of EPC under PCFC

309. The rupee export packing credit may be shared between an export order holder and the manufacturer of the goods to be exported. Similarly, the bank shall extend PCFC also to the manufacturer on the basis of the disclaimer from the export order holder through its bank.

310. PCFC granted to the manufacturer can be repaid by transfer of foreign currency from the export order holder by availing of PCFC or by discounting of bills. The bank

shall ensure that no double financing is involved in the transaction and the total period of packing credit is limited to the actual cycle of production of the exported goods.

311. The facility shall be extended where the banker or the leader of consortium of banks is the same for both the export order holder and the manufacturer or, the banks concerned agree to such an arrangement where the bankers are different for export order holder and manufacturer. The sharing of export benefits shall be left to the mutual agreement between the export order holder and the manufacturer.

F.12 Supplies from One EOU/EPZ/SEZ Unit to another EOU/EPZ/SEZ Unit

312. PCFC shall be made available to both, the supplier EOU / EPZ / SEZ unit and the receiver EOU / EPZ / SEZ unit.

313. The PCFC for supplier EOU / EPZ / SEZ unit shall be for supply of raw materials / components of goods which will be further processed and finally exported by receiver EOU / EPZ / SEZ unit.

314. The PCFC extended to the supplier EOU / EPZ / SEZ unit shall have to be liquidated by receipt of foreign exchange from the receiver EOU / EPZ / SEZ unit, for which purpose, the receiver EOU / EPZ / SEZ unit may avail of PCFC.

315. The stipulation regarding liquidation of PCFC by payment in foreign exchange shall be met in such cases not by negotiation of export documents but by transfer of foreign exchange from the banker of the receiver EOU / EPZ / SEZ unit to the banker of supplier EOU / EPZ / SEZ unit. Thus, there shall not normally be any post-shipment credit in the transaction from the supplier EOU / EPZ / SEZ unit's point of view.

316. In all such cases, it shall be ensured by banks that there is no double financing for the same transaction. Needless to add, the PCFC to receiver EOU / EPZ / SEZ unit shall be liquidated by discounting of export bills.

F.13 Deemed Exports

317. PCFC shall be allowed for 'deemed exports' only for supplies to projects financed by multilateral / bilateral agencies / funds. PCFC released for 'deemed exports' shall be liquidated by grant of foreign currency loan at post-supply stage, for a maximum period of 30 days or up to the date of payment by the project authorities, whichever is earlier. PCFC shall also be repaid / prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent supplies have actually been made.

F.14 Other aspects

318. The applicable benefits such as credit of eligible percentage of export proceeds to EEFC Account etc. to the exporters shall accrue only after realisation of the export bills and not at the stage of conversion of pre-shipment credit to post-shipment credit (except when bills are discounted / rediscounted 'without recourse').

319. For the purpose of reckoning the bank's performance in extending export credit, the rupee equivalent of the PCFC shall be taken into account.

F.15 Diamond Dollar Account (DDA) Scheme

320. In terms of the extant Foreign Trade Policy, firms / companies dealing in purchase / sale of rough or cut and polished diamonds, diamond studded jewellery, with good track record of at least two years in import or export of diamonds with an annual average turnover of ₹3 crore or above during the preceding three licensing years (from April to March) are permitted to carry out their business through designated Diamond Dollar Accounts (DDAs).

321. Under the DDA Scheme, the bank shall liquidate PCFC granted to DDA holders by dollar proceeds from sale of rough, cut and polished diamonds by them to other DDA holders. (For details regarding the Diamond Dollar Accounts, bank may refer to Foreign Exchange Management (Foreign currency accounts by a person resident in India) Regulations, 2015, issued by FED vide Notification No. FEMA 10 (R) /2015-RB dated January 21, 2016, as amended from time to time.

G. Post-shipment Credit in Foreign Currency: Rediscounting of Export Bills Abroad Scheme (EBR)

322. The bank shall utilise the foreign exchange resources available with it in Exchange Earners Foreign Currency Accounts (EEFC), Resident Foreign Currency Accounts (RFC), Foreign Currency (Non-Resident) Accounts (Banks) Scheme, to discount usance bills and retain them in their portfolio without resorting to rediscounting. The bank can rediscount export bills abroad at rates linked to international interest rates at post- shipment stage.

G.1 Scheme

323. It will be comparatively easier to have a facility against bills portfolio (covering all eligible bills) than to have rediscounting facility abroad on bill-by-bill basis. There shall,

however, be no bar if rediscounting facility on bill-to-bill basis is arranged by a bank in case of any particular exporter, especially for large value transactions.

324. The bank shall arrange a "Bankers Acceptance Facility" (BAF) for rediscounting the export bills without any margin and duly covered by collateralised documents.

325. Each bank can have its own BAF limit(s) fixed with an overseas bank or a rediscounting agency or an arrangement with any other agency such as factoring agency (in case of factoring arrangement, it shall be on 'without recourse' basis only).

326. The exporters, on their own, can arrange for themselves a line of credit with an overseas bank or any other agency (including a factoring agency) for discounting their export bills direct subject to the following conditions:

(1) Direct discounting of export bills by exporters with overseas bank and / or any other agency shall be done only through the branch of an authorized dealer designated by them for this purpose.

(2) Discounting of export bills shall be routed through designated bank / authorized dealer from whom the packing credit facility has been availed of. In case, these are routed through any other bank, the latter will first arrange to adjust the amount outstanding under packing credit with the concerned bank out of the proceeds of the rediscounted bills.

327. The limits granted to banks by overseas banks / discounting agencies under BAF shall not be reckoned for the purpose of borrowing limits fixed by Foreign Exchange Department of the Reserve Bank for them.

G.2 Eligibility criteria

328. The Scheme shall cover mainly export bills with usance period up to 180 days from the date of shipment (inclusive of normal transit period and grace period, if any). There is, however, no bar to include demand bills, if overseas institution has no objection to it.

329. In case borrower is eligible to draw usance bills for periods exceeding 180 days as per the extant instructions of Foreign Exchange Department, Post-shipment Credit under the EBR shall be provided beyond 180 days.

330. The facility under the Scheme of Rediscounting shall be offered in any convertible currency.

331. The bank can extend the EBR facility for exports to ACU countries.

332. For operational convenience, the BAF Scheme shall be centralised at a branch designated by the bank. There shall, however, be no bar for other branches of the bank to operate the scheme as per the bank's internal guidelines / instructions.

G.3 Source of On-shore funds

333. In the case of demand bills [subject to paragraph 328 of these Directions], these shall be routed through the existing post-shipment credit facility or by way of foreign exchange loans to the exporters out of the foreign currency balances available with banks in the Schemes ibid.

334. To facilitate the growth of local market for rediscounting export bills, establishment and development of an active inter-bank market is desirable. It is possible that the bank holds bills in their own portfolio without rediscounting. However, in case of need, the bank shall also have access to the local market, which will enable the country to save foreign exchange to the extent of the cost of rediscounting. Further, as different banks may be having BAF for varying amounts, it shall be possible for a bank which has balance available in its limit to offer rediscounting facility to another bank which may have exhausted its limit or could not arrange for such a facility.

335. The bank shall avail of lines of credit from other banks in India if they are not in a position to raise loans from abroad on their own or they do not have branches abroad.

336. The bank shall also use foreign currency funds borrowed in terms of Notification No. FEMA.3(R)/2018-RB dated December 17, 2018 as also foreign currency funds generated through buy - sell swaps in the domestic forex market for granting facility of rediscounting of Export Bills Abroad (EBR) subject to adherence to Aggregate Gap Limit (AGL) in terms of Master Direction - Risk Management and Inter-Bank Dealings.

G.4 Facility of Rediscounting 'with recourse' and 'without recourse'

337. It is recognized that it will be difficult to get ‘without recourse’ facility from abroad under BAF or any other facility. Therefore, the bills may be rediscounted ‘with recourse’. However, if an AD is in a position to arrange ‘without recourse’ facility on competitive terms, it shall avail itself of such a facility.

G.5 Accounting aspects

338. The rupee equivalent of the discounted value of the export bills shall be payable to the exporter and the same shall be utilised to liquidate the outstanding export packing credit.

339. As the discounting of bills / extension of foreign exchange loans (DP bills) shall be in actual foreign exchange, the bank shall apply appropriate spot rate for the transactions.

340. The rupee equivalents of discounted amounts / foreign exchange loan shall be held in the bank's books distinct from the existing post-shipment credit accounts.

341. In case of overdue bills, the bank shall charge interest from the due date to the date of crystallization as per the interest rate policy of the bank.

342. In the event of export bill not being paid, the bank shall remit the amount equivalent to the value of the bill earlier discounted, to the overseas bank / agency which had discounted the bill, without the prior approval of the Reserve Bank.

G.6 Restoration of limits and availability of export benefits such as EEFC Account

343. As stated in paragraph 337 of these Directions, 'without recourse' facility may not generally be available. Thus, the restoration of exporter's limits and the availability of export benefits, such as credit to EEFC accounts, in case of 'with recourse' facility, shall be effected only on realisation of export proceeds and not on the date of discounting / rediscounting of the bills, However, if the bills are rediscounted 'without recourse', the restoration of exporter's limits and availability of export benefits shall be given effect immediately on rediscounting.

G.7 ECGC cover

344. In the case of export bills rediscounted 'with recourse', there shall not be any change in the existing system of coverage provided by ECGC Ltd as the liability of the exporter continues till the relative bill is retired / paid. In other cases, where the bills are rediscounted 'without recourse', the liability of ECGC ceases as soon as the relative bills are rediscounted.

G.8 Export credit performance

345. Only the bills rediscounted abroad 'with recourse' basis and outstanding shall be taken into account for the purpose of export credit performance. The bills rediscounted abroad 'without recourse' shall not count for the export credit performance.

346. Bills rediscounted 'with recourse' in the domestic market could get reflected only in the case of the first bank discounting the bills as that bank alone will have recourse to the exporter and the bank rediscounting shall not reckon the amount as export credit.

H. Gold Card Scheme for exporters

347. The bank shall lay down the criteria for issuing Gold Cards under the scheme to creditworthy exporters having good track record, including those in MSME sector. The bank shall clearly specify the benefits it shall be offering to Gold Card holders, based on the following salient features of the scheme.

348. All creditworthy exporters, including those in small and medium sectors, with good track record shall be eligible for issue of Gold Card by the bank as per the criteria laid down by it.

349. The scheme shall not be applicable for exporters placed in Specific Approval List (SAL) by ECGC or having overdue bills in excess of 10% of the previous year's turnover.

350. Gold Card holder exporters, depending on their track record and credit worthiness, shall be granted better terms of credit including rates of interest than those extended to other exporters by the bank.

351. Applications for credit shall be processed at norms simpler and under a process faster than for other exporters.

352. The bank shall clearly specify the benefits it shall be offering to Gold Card holders.

353. The charges schedule and fee-structure in respect of services provided by the bank to exporters under the Scheme shall be relatively lower than those provided to other exporters.

354. The sanction and renewal of the limits under the Scheme shall be based on a simplified procedure to be decided by the bank. Taking into account the anticipated export turnover and track record of the exporter the bank shall determine need-based finance with a liberal approach.

355. 'In-principle' limits shall be sanctioned for a period of three years with a provision for automatic renewal subject to fulfilment of the terms and conditions of sanction.

356. A stand-by limit of not less than 20 per cent of the assessed limit shall be additionally made available to facilitate urgent credit needs for executing sudden orders. In the case of exporters of seasonal commodities, the peak and off-peak levels shall be appropriately specified.

357. In case of unanticipated export orders, norms for inventory shall be relaxed, taking into account the size and nature of the export order.

358. Requests from card holders shall be processed quickly by the bank within 25 days / 15 days and seven days for fresh applications / renewal of limits and ad hoc limits, respectively.

359. Gold Card holders shall be given preference in the matter of granting of packing credit in foreign currency.

360. The bank may consider waiver of collaterals and exemption from the ECGC's ECIB schemes on the basis of card holder's creditworthiness and track record.

361. The facility of further value addition to their cards through supplementary services like ATM, Internet banking, international debit / credit cards may be decided by the issuing bank.

362. The applicable rate of interest to be charged under the Gold Card Scheme shall not be more than the general rate for export credit in the respective bank. In keeping with the spirit of the Scheme, the bank shall endeavour to provide the best rates possible to Gold Card holders on the basis of their rating and past performance.

363. Gold Card holders, on the basis of their track record of timely realization of export bills, shall be considered for issuance of foreign currency credit cards for meeting urgent payment obligations, etc.

364. The bank shall ensure that the PCFC requirements of the Gold Card holders are met by giving them priority over non-export borrowers with regard to granting loans out of their FCNR(B) funds, etc.

365. The bank shall consider granting term loans in foreign currency in deserving cases out of their FCNR(B), RFC, etc. funds (other than from their overseas borrowing limits prescribed by FED, RBI).

366. The instructions relating to the Gold Card Scheme for Exporters shall be strictly implemented and the branch level functionaries suitably sensitised in this regard. Further, the bank shall also provide adequate publicity to the Scheme for the benefit of exporters.

I. 'On line' credit to exporters

367. Banks provide 'Line of Credit' normally for one year which is reviewed annually. In case of delay in renewal, the sanctioned limits shall be allowed to continue uninterrupted and urgent requirements of exporters shall be met on ad hoc basis.

368. In case of established exporters having satisfactory track record, the bank shall consider sanctioning a 'Line of Credit' for a longer period, say, three years, with in-built flexibility to step-up / step-down the quantum of limits within the overall assessed outer limits. The step-up limits will become operative on attainment of pre-determined performance parameters by the exporters. The bank shall obtain security documents covering the outer limit sanctioned to the exporters for such longer period.

369. In case of export of seasonal commodities, agro-based products, etc., the bank shall sanction Peak / Non-peak credit facilities to exporters.

370. The bank shall permit interchangeability of pre-shipment and post- shipment credit limits.

371. Assessment of export credit limits shall be 'need based' and not directly linked to the availability of collateral security. As long as the requirement of credit limit is justified on the basis of the exporter's performance and track record, the credit shall not be denied merely on the grounds of non-availability of collateral security.

J. Other Provisions

372. Waiver of submission of orders or LCs for availing pre-shipment credit

The bank shall waive, ab initio, submission of order / LC in respect of exporters with good track record and put in place the system of obtaining periodical statement of outstanding orders / LCs on hand. The same shall be incorporated in the sanction proposals as well as in the sanction letters issued to exporters and appropriately brought to the notice of ECGC. Further, if such waivers are permitted at a time subsequent to sanction of export credit limits with the approval of the appropriate authority, the same shall be incorporated in the terms of sanction by way of amendments and communicated to ECGC.

373. Fast track clearance of export credit

Where feasible, the bank shall set up a 'Credit Committee' at specialized branches and at administrative offices, for sanctioning working capital facilities to exporters. The 'Credit Committee' shall have sufficiently higher sanctioning powers.

374. Pre-shipment credit to Diamond Exporters - Conflict Diamonds - Implementation of Kimberley Process Certification Scheme (KPCS)

India, among other countries, has adopted a UN mandated new Kimberley Process Certification Scheme to ensure that no rough diamonds mined and illegally traded enter the country. Therefore, import of diamonds into India shall be accompanied by Kimberley Process Certificate (KPC). Similarly, exports from India shall also be accompanied by the KPC to the effect that no conflict / rough diamonds have been used in the process. The KPCs shall be verified / validated in the case of imports / exports by the Gem and Jewellery Export Promotion Council. In order to ensure the implementation of Kimberley Process Certification Scheme, the bank shall obtain an undertaking in the format given in Annex - III from such of the clients who have been extended credit for doing any business relating to diamonds.

375. Consortium Finance – Sanction of Credit

In the case of consortium finance, once the consortium has approved the assessment, member banks shall simultaneously initiate their respective sanction processes.

376. Credit Monitoring Arrangement - Export Credit

(1) The bank shall ensure that the credit requirements of the export sector are promptly met and, additional credit needs of exporters for implementing export orders, shall be met in full even if sanction of such additional credit exceeds MPBF.

(2) The bank shall take certain steps to ensure timely flow of need-based credit to their exporter-clients as also to inform us the action taken in this regard besides monitoring the flow of credit to the export sector as also performance of such exporter-clients.

(3) The bank shall reach a certain minimum level of export credit, viz., equivalent to ten per cent of each bank's net credit. Strict enforcement of this may please be ensured.

(4) The bank shall ensure that there is a system of monitoring the flow of export credit as also whether the export credit disbursement is in tune with the export performance of your exporter-borrowers.

377. Compliance of Foreign Exchange Management Act, 1999

The bank shall adhere to the directions issued under Foreign Exchange Management Act, 1999 as amended from time to time.

K. Special Measures

378. Trade Relief Measures

To mitigate the burden of debt servicing brought about by trade disruptions caused by global headwinds and to ensure the continuity of viable businesses, banks extending export credit finance may provide relief measures to eligible borrowers, as specified under Reserve Bank of India (Trade Relief Measures) Directions, 2025 dated November 14, 2025. The Directions *inter alia* include a defined sunset clause for the measures.

Chapter XIV - Non-Fund Based (NFB) Credit Facilities

Background: Non-fund based (NFB) facilities like guarantees, letters of credit, co-acceptances etc. facilitate effective credit intermediation and smooth business transactions. In order to harmonize and consolidate guidelines covering these facilities and to broaden the funding sources for infrastructure financing, the Reserve Bank had issued the following guidelines on NFB facilities.

379. Within this Chapter, the term Regulated Entity (RE) or Regulated Entities (REs) shall refer to:

(1) Commercial Banks (including Regional Rural Banks and Local Area Banks).

(2) Primary (Urban) Co-operative Banks (UCBs)/ State Co-operative Banks (StCBs)/ Central Co-operative Banks (CCBs).

(3) All India Financial Institutions (AIFIs).

380. The Directions in this Chapter shall not apply to the derivative exposures of the bank(wherever permitted under specific regulatory framework issued by RBI), other than the General Conditions as laid down in this Chapter.

381. The Directions in this Chapter shall come into force from April 1, 2026, or from any earlier date as decided by the bank as per its internal policy ("effective date"). Extension of any new NFB facility and renewal of an existing NFB facility after the effective date, shall be governed in terms of these Directions. All existing NFB facilities extended / renewed till the effective date shall continue to be governed by the existing instructions as listed in the Annex - IV.

A. General Conditions

382. The credit policy of the bank shall incorporate suitable provisions for issue of NFB facilities, *inter alia,* covering aspects relating to type of NFB facilities, limits granted, credit appraisal, security requirement, fraud prevention, overall monitoring mechanism including post-sanction monitoring, delegation matrix, audit and internal controls, compliance to uniform standards issued by standard setting bodies and other safeguards.

383. The bank shall issue a NFB facility only on behalf of a customer having funded credit facility from the bank.

Provided that this clause shall not be applicable in respect of:

(1) Derivative contracts entered into by the bank with counterparty.
(2) Partial Credit enhancement facility, as permitted under this Chapter.
(3) NFB facilities issued based on the counter guarantee of another RE, as permitted under this Chapter.
(4) NFB facilities on behalf of an obligor who has not availed any fund based facility from any RE in India.
(5) NFB facilities extended by the bank against No Objection Certificate issued by the RE / REs which has / have provided fund based facility to the obligor.
(6) NFB facilities which are fully secured by eligible financial collateral.

Explanation: The eligible financial collateral specified herein shall be as defined under Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025d.

384. The bank shall not issue a NFB facility to any entity assuring redemption / repayment of funds raised by any entity *via* deposits, issuance of bonds, or in any other form, unless specifically permitted under any regulatory guidelines / directions issued by the Reserve Bank.

385. Once a NFB facility devolves and is converted into a fund based facility, then the prudential norms shall be as applicable to fund based facilities.

B. Guarantees

386. In general, a guarantee (or a counter-guarantee) issued by the bank (guarantor) shall be irrevocable (i.e., there shall be no clause in the contract that would allow the guarantor to unilaterally cancel the same), unconditional (i.e. there shall be no clause in the contract that could prevent the bank from being obliged to pay out in a timely manner in the event that the original counterparty fails to meet its obligation), incontrovertible and shall contain a clear mechanism for honouring the same without demur as and when invoked.

387. The bank shall put in place suitable internal aggregate / individual ceilings for issuance of guarantees in general and unsecured guarantees in particular.

388. The provisions of the internal policy relating to guarantees shall, *inter alia,* address aspects related to invocation and settlement mechanism, claim period, tenor, fee / commission / applicable charges, timelines for release of security, renewal, fraud prevention measures etc.

389. A Bank shall honour the guarantee issued by it as and when invoked in accordance with the terms and conditions of the guarantee deed unless there is court order restraining the same.

C. Usage of electronic-Guarantee

390. Wherever the bank issues an electronic Guarantee, it shall frame a standard operating procedure (SOP) aimed at minimization of manual intervention; meeting system integration requirements; ensuring technological compatibility between the bank's interface and the electronic Guarantee platforms, audit and internal controls etc. The SOP shall, *inter alia*, consider the aspects mentioned at paragraphs 391 to 395of these Directions.

391. **Policy and SOP for issuance of Electronic Guarantees**

(1) The bank shall have suitable enabling provisions in its credit policy which shall, inter alia, envisage the adoption of electronic Guarantees, the risk controls to be put in place, delegation of authority, the monitoring process, etc.

(2) The bank shall put in place appropriate SOPs for user reference, detailing all the steps to be followed during the entire electronic Guarantee lifecycle. Electronic Guarantees shall not be issued without ensuring that the underlying transaction has been duly reflected in the Core Banking System (CBS)/ Trade Finance System (TFS).

392. Integration of the systems with regard to issuance of Electronic Guarantees

(1) The bank shall have a strong control environment covering the policies, processes and systems; sound internal controls; and appropriate risk mitigation strategies for all operations pertaining to electronic Guarantees.

(2) The bank shall ensure that all features relating to the entire lifecycle events of electronic Guarantees such as issuance, amendment, invocation, cancellation etc. shall be available on its platform through suitable integration with the electronic Guarantee service provider.

(3) The CBS / TFS shall be integrated with the APIs and other related messaging platforms offered by the electronic Guarantee service provider, in Straight Through Processing (STP) mode, without any manual intervention.

393. User Roles for issuance of Electronic Guarantees

(1) The bank shall have an efficient system of ‘Maker, Checker and Authorizer’ for issuance and monitoring of electronic Guarantees, while ensuring strict access control and an effective segregation of the role and accountability.

(2) No role involved in electronic Guarantee issuance lifecycle shall violate principle of segregation of duties, four / six eye principle and no employee shall be allocated roles / privileges across systems, applications that are conflicting in nature or in violation of four/ six eye principle.

(3) The system access shall be provided only to specified users, and access through generic user IDs shall not be permitted. User review shall be continuous, at defined periodicity and identifiable at any point of time with respective rights and privileges. The user privileges shall be decided on "need to know/ need to do" basis.

394. Control Measures for issuance of Electronic Guarantees

(1) The bank shall have in place a system of periodical review and reconciliation of all the electronic Guarantees issued / modified / cancelled, during the specified period.

(2) The issuance of electronic Guarantees shall be mandatorily covered within the scope of concurrent audit and RBIA of the bank.

395. Other aspects pertaining to issuance of Electronic Guarantees

(1) The robustness of the electronic Guarantee systems shall be part of the Vulnerability Assessment / Penetration Testing (VA / PT), Information Systems Audit.

(2) Dependence on the vendors for day-to-day transactions shall be avoided. Access to production systems shall be provided to vendors only in a controlled environment, and audit trail shall be maintained.

(3) Security Incident and Event Management (SIEM) tool shall be integrated with the concerned servers and consoles / PCs connected to electronic Guarantee related critical systems directly in its VLAN to generate automatic alerts.

(4) The bank shall integrate electronic Guarantee systems with Privileged User Management Systems / Identity and Access Management systems. The logs of the same shall be monitored through Security Operation Centre (SOC) setup.

(5) Business Continuity Measures and contingency plans for system failures, shall be put in place by the bank.

D. Guarantee favouring another RE

396. The bank shall, not provide a guarantee favouring another RE to enable it to provide any fund based credit facility to an obligor, unless specifically permitted by RBI.

Provided that this clause shall not be applicable in case of credit facilities extended against guarantees pertaining to trade related transactions.

397. However, the bank may provide a guarantee favouring another RE for a NFB facility extended by the latter. Such guarantee issued by a RE shall be treated as an exposure on the obligor on whose behalf the guarantee has been issued by it, for all purposes including for the calculation of capital adequacy. The exposure of the RE extending credit facility against a guarantee shall be treated as a claim / exposure on the RE which is providing the counter guarantee.

E. Co-acceptances

398. Only genuine trade bills shall be co-accepted, and it shall be ensured that the goods covered by bills co-accepted are actually received in the stock accounts of the borrowers.

399. Proper records of the bills co-accepted for each customer shall be maintained, so that the commitments for each customer and the total commitments at a branch can be readily ascertained, and these shall be part of internal audit.

400. The bank shall not co-accept bills drawn by another lender or where the buyer / seller has received funding for the underlying trade transaction from any lender.

F. Guarantee and related business involving overseas current or capital account transaction

401. The banks permitted as Authorized Dealer (AD) may extend NFB facilities as permitted under the extant regulations / Directions issued under Foreign Exchange Management Act, 1999, for bonafide current or capital account transaction including guarantees in respect of debt or other liability incurred by an exporter on account of exports from India.

They are also permitted to issue guarantee to or on behalf of a foreign entity, or any of its step-down subsidiary in which an Indian entity has acquired control through the foreign entity, which is backed by a counter-guarantee or collateral by the Indian entity or its group company. Provided that such guarantees shall not be issued by banks, including overseas branches/ subsidiaries of Indian banks, for the purpose of raising loans/ advances of any kind by the foreign entity except in connection with the ordinary course of business overseas. Further while extending such guarantees, banks shall ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities.

G. Guarantees on behalf of Stock / Commodity Brokers

402. Only Scheduled Commercial Banks (SCBs) may issue guarantees on behalf of stock/ commodity brokers in favour of stock/ commodity exchanges in lieu of security deposit to the extent it is acceptable in the form of bank guarantee as laid down by exchanges. SCBs may also issue guarantees in lieu of margin requirements as per exchange regulations read along with other instructions issued by Reserve Bank in this regard from time to time.

H. Partial Credit Enhancement – Salient Features

403. The bank may provide Partial Credit Enhancement (PCE) to bonds issued by corporates / special purpose vehicles (SPVs) for funding all types of projects and to bonds issued by Non-deposit taking NBFCs with asset size of ₹1,000 crore and above registered with RBI (including HFCs). PCE may also be provided to bonds issued by Municipal Corporations subject to adherence to, *inter alia,* paragraph 134 of these Directions as amended from time to time. The objective behind allowing banks to extend PCE is to enhance the credit rating of the bonds issued so as to enable corporates to access the funds from the bond market on better terms.

404. The credit policy of the bank shall incorporate suitable provisions for issue of PCE, covering issues such as quantum of PCE, underwriting standards, assessment of risk, pricing, setting limits, etc.

405. PCE shall be a subordinated facility provided in the form of an irrevocable contingent line of credit which will be drawn in case of shortfall in cash flows for

servicing the bonds and thereby may improve the credit rating of the bond issue. The contingent facility may, at the discretion of the PCE providing bank, be made available as a revolving facility.

406. A clear agreement documenting all aspects of this arrangement shall be signed between the promoter (bond issuer), the PCE providing bank, the bondholders (through the Trustee) and all other lenders to the project. The agreement to this effect shall be in the nature of a legally binding contract. The documentation for the facility shall clearly define the circumstances under which the facility would be drawn upon.

407. The PCE exposure limit by a single bank shall be 50 per cent of the bond issue size. The aggregate exposure limit of all PCE providers towards the PCE for a given bond issue has also been capped at 50 per cent of the bond issue size.

408. The PCE facility shall be provided at the time of the bond issue and shall be irrevocable. PCE cannot be provided by way of guarantee.

409. As the purpose of PCE by bank is to enable wide investor participation in the corporate bond market, bank shall not invest in corporate bonds which are credit enhanced by any Regulated Entity of the Reserve Bank. They may, however, provide other need based credit facilities (funded and / or non-funded) to the corporate / SPV.

410. Bank may offer PCE only in respect of bonds whose pre-enhanced rating are not lower than “BBB” minus as issued by accredited External Credit Assessment Institutions (ECAI).

411. To be eligible for PCE, corporate bonds shall be rated by a minimum of two ECAI at all times.

412. The rating reports, both initial and subsequent, shall disclose both standalone credit rating (i.e., rating without taking into account the effect of PCE) as well as the enhanced credit rating (taking into account the effect of PCE).

413. So long as the exposure of the bank to a project loan is classified as standard and the borrower is not in any financial distress (Refer to Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025 for indicative list of signs of financial difficulty), providing a commercially priced PCE

to enhance the rating of a bond issue, whose proceeds replace, in whole or in part, the bank's project loan, would not amount to restructuring.

414. The PCE shall be available only for servicing the bond and not for any other purpose (such as funding acquisition of additional assets by the corporate, meeting part of the project cost or meeting recurring expenses of the corporate or servicing other lenders / creditors to the project etc.), irrespective of the seniority of claims of other creditors in relation to the bond holders.

415. In case the PCE facility is partly drawn and interest accrues on the same, the unpaid accrued interest shall be excluded from the calculation of the remaining amount available for drawing.

416. In a waterfall mechanism, Credit Enhancement (CE) gets drawn only in a contingent situation of cash flow shortfall for servicing a debt / bond etc., and not in the normal course of business. Hence, such an event is indicative of financial distress of the project. Keeping this aspect in view, a drawn tranche of the contingent PCE facility shall be required to be repaid within 30 days from the date of its drawal (due date). The facility shall be treated as NPA if it remains outstanding for 90 days or more from the due date and provided for as per the usual asset classification and provisioning norms. In that event, the bank's other facilities to the borrower shall also be classified as NPA as per extant guidelines.

417. The PCE providing bank shall observe the following exposure limits:

(1) PCE exposure by the bank to a single counterparty or group of counterparties shall be within the overall regulatory exposure limits applicable to the bank.
(2) The aggregate PCE exposure of the bank shall not exceed 20 per cent of its Tier 1 capital.

I. Additional conditions for providing PCE to bonds of NBFCs and HFCs

418. The tenor of the bond issued by NBFCs / HFCs for which PCE is provided shall not be less than three years.

419. The proceeds from the bonds backed by PCE from banks shall only be utilized for refinancing the existing debt of the NBFCs / HFCs. The bank shall introduce appropriate mechanisms to monitor and ensure that the end-use condition is met.

420. The exposure of a bank by way of PCEs to bonds issued by each such NBFC / HFC shall be restricted to one percent of capital funds of the RE within the extant single / group borrower exposure limits.

J. Other Aspects of PCE

421. The effect of the PCE on the bond rating shall be disclosed in the bond offer document i.e., the rating of the bond without and with the PCE shall be disclosed.

422. The bank shall ensure that the project assets, created out of the bond issue for which PCE has been provided by them, and the cash flows from the project are ring fenced through an escrow account mechanism administered under a bond trustee arrangement. The manner in which security interest in the project assets would be shared by the lenders to the project, bond holders and banks providing the PCE and the manner in which the project cash flows would be shared for servicing loans, if any, and the bonds and PCE, shall be decided and agreed upon before the issue of bonds and shall be properly documented.

423. The project shall have a robust and viable financial structure even before the credit enhancement is taken into account. Nevertheless, while providing PCE, the bank shall exercise necessary due diligence and credit appraisal, including making their own internal credit analysis/ rating.

424. The bank shall honour the full PCE commitment irrespective of the asset classification of the concerned borrower’s credit facilities.

425. All extant regulatory prescriptions for credit and investment exposures by the banks, unless specified otherwise in this Direction, shall continue to apply.

426. For disclosure of the details of NFB credit facilities, the bank shall be guided by Reserve Bank of India (Small Finance Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

427. The directions in this Chapter have been issued without prejudice to Directions under Foreign Exchange Management Act (FEMA), 1999; Foreign Exchange Management (Guarantees) Regulations, 2000, notified *vide* Notification No. FEMA 8/2000-RB dated May 03, 2000; as amended from time to time.

428. Notwithstanding paragraph 427 above, bank shall comply with all the related regulatory norms including Reserve Bank of India (Small Finance Banks – Concentration Risk Management) Directions, 2025.

Chapter XV - Miscellaneous Provisions

A. Bank finance to Government owned entities

429. While extending finance to Government owned entities, banks shall specifically ensure adherence with paragraphs 96, 134, 138, and 431 of these Directions, and ensure that bank finance is not in lieu of or a substitute for budgetary resources envisaged for a project, and that finance is not extended against receivables from Governments

B. Loans and advances to Micro, Small & Medium Enterprises (MSMEs)

430. Lending to MSMEs by the bank shall be guided by Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector.

C. Bridge Loans

431. The bank shall not extend bridge loans against amounts receivable from Central / State Governments by way of subsidies, refunds, reimbursements, capital contributions, etc. The following exemptions are, however, made:

(1) The bank is permitted to finance subsidy receivable under current fertilizer subsidy schemes of the Government of India that are akin to the erstwhile Retention Price Scheme (RPS) for periods up to 60 days in case of fertilizer industry. It is clarified that the facility is being allowed as a purely temporary measure and the fertilizer companies should strengthen their financial position gradually so that they do not depend on the banks for finance against subsidy. No other subsidy receivables such as, those in respect of claims raised by units on the basis of expected revision in retention price because of escalation in costs of inputs and in respect of freight, etc., shall be financed by the bank.

(2) The bank may continue to grant finance against receivables from Government by exporters (viz. Duty Draw Back and IPRS) to the extent covered by the existing instructions.

Chapter XVI - Repeal and other provisions

A. Repeal and saving

432. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to credit facilities for Small Finance Banks stand repealed, as communicated vide circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025. The Directions, instructions and guidelines already repealed shall continue to remain repealed.

433. 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. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

(1) any right, obligation or liability acquired, accrued, or incurred thereunder.
(2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder.
(3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

434. 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

435. 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.

Vaibhav Chaturvedi
Chief General Manager

Annex - I

Digital Lending -

Data to be submitted on the CIMS portal

Sl. No.	Name of the DLA	Name of the owner of DLA (Self-owned/ name of LSP in case DLA is of LSP)	Available on (Website/ Name of app store)	Link to DLA#	Name of Grievance Redressal Officer	Email id of Grievance Redressal Officer	Telephone number of Grievance Redressal Officer	Mobile number of Grievance Redressal Officer	Website of RE

**Each DLA to be reported as a separate line item. In case any DLA is available on multiple app stores, each entry is required to be reported separately with specific links to the DLA on the app store*

 # In case DLA is a website, provide link to the website, or in case DLA is an app hosted on one of the app-stores, provide the link of the DLA on the app-store

Annex – II

Lending Against Gold and Silver Collateral

A. Loan to Value Ratio

1.Loans (including bullet repayment loans) sanctioned by banks against pledge of gold ornaments and jewellery for non-agricultural purposes should not exceed 75 per cent of the value of gold ornaments and jewellery. Further, LTV of 75 per cent shall be maintained throughout the tenure of the loan for all loans extended against pledge of gold ornaments and jewellery for non-agricultural end uses. The LTV ratio shall be computed against the total outstanding in the account, including accrued interest, and current value of gold jewellery accepted as security/ collateral, determined as given below.

2. In order to standardize the valuation and make it more transparent to the borrower, gold ornaments and jewellery accepted as security / collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)] or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission on a consistent manner as per their Board approved policy. If the gold is of purity less than 22 carats, the bank should translate the collateral into 22 carat and value the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately.

B. Loans extended against pledge of gold ornaments and jewellery for other than agricultural purposes, where both interest and principal are due for payment at maturity of the loan will be subject to the following conditions:

1. Banks, as per their Board approved policy, may decide upon the ceiling with regard to the quantum of loans that may be granted against the pledge of gold jewellery and ornaments for non-agricultural end uses.

2. The tenor of the loans shall not exceed 12 months from the date of sanction.

3. Interest will be charged to the account at monthly rests and may be recognised on accrual basis provided the account is classified as 'standard' account. This will also apply to existing loans.

4. Such loans shall be governed by extant norms pertaining to income recognition, asset classification and provisioning which shall be applicable once the principal and interest become overdue.

C. Hallmarking of gold jewellery ensures the quality of gold used in the jewellery as to caratage, fineness and purity. Therefore, banks would find granting of advances against the security of such hallmarked jewellery safer and easier. Preferential treatment of hallmarked jewellery is likely to encourage practice of hallmarking which will be in the long-term interest of consumer, lenders and the industry. Therefore, banks while considering granting advances against jewellery may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon.

Annex - III

Undertaking from Diamond Clients

Form of an undertaking to be obtained by
banks from the clients who have been extended
credit for doing any business relating to diamonds

"I hereby undertake:

(i) not to knowingly do any business in the conflict diamonds as have been banned vide UN Security Council Resolutions No. 1173, 1176 and 1343(2001) or the conflict diamonds which come from any area in Africa including Liberia controlled by forces rebelling against the legitimate and internationally recognised Government of the relevant country.

(ii) not to do direct or indirect import of rough diamonds from Sierra Leone and/or Liberia whether or not such diamonds originated in Liberia in terms of UN Security Council Resolution No.1306 (2000) which prohibits the direct or indirect import of all rough diamonds from Sierra Leone and UN Security Council Resolution No.1343 (2001) which prevents such import of all rough diamonds from Sierra Leone and UN Security Council Resolution No.1343(2001) which prevents such import from Liberia.

(iii) to follow Kimberley Process Certification Scheme for dealing in diamonds.

I am also giving my consent to the withdrawal of all my credit entitlements, if at any time, I am found guilty of knowingly having conducted business in such diamonds".

Annex - IV

Non-Fund Based Credit facilities

A. General Guidelines

1. The bank issuing guarantees, generally confine itself to the provision of financial guarantees and exercise due caution with regard to performance guarantee business.
2. As regards maturity, as a rule, bank shall guarantee shorter maturities and leave longer maturities to be guaranteed by other institutions.
3. No bank guarantee shall normally have a maturity of more than 10 years. However, where the bank extends long term loans for periods longer than 10 years for various projects, it can also issue guarantees for periods beyond 10 years. While issuing such guarantees, the bank shall take into account the impact of very long duration guarantees on its Asset Liability Management. Further, banks may evolve a policy on issuance of guarantees beyond 10 years as considered appropriate with the approval of their Board of Directors Bank shall, in general, refrain from issuing non-fund based facilities to/on behalf of constituents who do not enjoy credit facilities with it. However, it can grant non-fund based facilities, including partial credit enhancement, to those customers, who do not avail any fund based facility from any bank in India. Provision of such facilities shall be in terms of a comprehensive Board approved policy for grant of non-fund based facility to such borrowers. The bank shall ensure that the borrower has not availed any fund based facility from any bank operating in India. However, at the time of granting non-fund based facilities, the bank shall obtain declaration from the customer about the non- fund based credit facilities already enjoyed by them from other banks. The bank shall undertake the same level of credit appraisal as has been laid down for fund based facilities. The instructions related to KYC / AML / CFT, submission of credit information to Credit Information Companies and other prudential norms applicable to banks, including exposure norms, issued by RBI from time to time, shall be adhered to in respect of all such facilities. However, the bank is prohibited from negotiating unrestricted LCs of non-constituents. In cases where negotiation of bills drawn under LC is restricted to a particular bank and the beneficiary of the LC is not a constituent of that bank, the bank shall have the

option to negotiate such LCs, subject to the condition that the proceeds are remitted to the regular banker of the beneficiary.

4. The scheduled commercial bank may issue BG /LC to the clients of co- operative banks against counter guarantee of the co-operative bank as permitted hitherto. In such cases, the bank shall be guided by the provisions of paragraph D of this Annex. Further, in such cases, the bank shall satisfy itself that the concerned co-operative banks have sound credit appraisal and monitoring systems as well as robust Know Your Customer (KYC) regime. Before issuing BG/LCs to specific constituents of co-operative banks, the bank shall satisfy itself that KYC check has been done properly in these cases.
5. The guarantee of parent companies may be obtained by the bank at its discretion, in the case of subsidiaries whose own financial condition is not considered satisfactory. However, the bank may not take the decision to lend merely because of the availability of the guarantee issued by the parent company.
6. The bank shall also ensure compliance with A.P. (DIR Series) Circular No. 18 dated October 04, 2024, regarding 'Due diligence in relation to non-resident guarantees availed by persons resident in India'.

B. Guidelines relating to conduct of guarantee business

B.1 Norms for unsecured advances & guarantees

7. Banks' Boards have been given the freedom to fix their own policies on their unsecured exposures. "Unsecured exposure" is defined as an exposure where the realisable value of the security, as assessed by the bank/ approved valuers / Reserve Bank's inspecting officers, is not more than 10 per cent, ab-initio, of the outstanding exposure. Exposure shall include all funded and non-funded exposures (including underwriting and similar commitments). 'Security' will mean tangible security properly charged to the bank and will not include intangible securities like guarantees (including State government guarantees), letter of comfort, etc
8. For determining the amount of unsecured advances , charged to the banks as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security. Banks, may however, treat annuities under build-operate –transfer (BOT) model in respect of road/highway projects and toll collection rights where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities, subject to the

condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.

9. All exemptions allowed for computation of unsecured advances stand withdrawn.

B.2 Precautions for issuing guarantees

10. The bank shall adopt the following precautions while issuing guarantees on behalf of its customers.

    (1) As a rule, the bank shall avoid giving unsecured guarantees in large amounts and for medium and long-term periods. It shall avoid undue concentration of such unsecured guarantee commitments to particular groups of customers and/or trades.

    (2) Unsecured guarantees on account of any individual constituent shall be limited to a reasonable proportion of the bank's total unsecured guarantees. Guarantees on behalf of an individual shall also bear a reasonable proportion to the constituent's equity.

    (3) In exceptional cases, the bank may, at its discretion, give deferred payment guarantees on an unsecured basis for modest amounts to first class customers who have entered into deferred payment arrangements in consonance with Government policy.

    (4) Guarantees executed on behalf of any individual constituent, or a group of constituents, shall be subject to the prescribed exposure norms.

    (5) It is essential to realise that guarantees contain inherent risks and that it would not be in the bank's interest or in the public interest, generally, to encourage parties to over-extend their commitments and embark upon enterprises solely relying on the easy availability of guarantee facilities.

B.3 Precautions for averting frauds

11. While issuing guarantees on behalf of customers, the following safeguards shall be observed by the bank:

    (1) At the time of issuing financial guarantees, banks shall be satisfied that the customer would be in a position to reimburse the bank in case the bank is required to make payment under the guarantee.

    (2) In the case of performance guarantee, banks shall exercise due caution and have sufficient experience with the customer to satisfy themselves that the customer has the necessary experience, capacity and means to

perform the obligations under the contract and is not likely to commit any default.

B.4 Ghosh Committee Recommendations

12. The bank shall implement the following recommendations made by the High Level Committee constituted in October 1991 (Chaired by Shri A. Ghosh, the then Dy. Governor of RBI):

    (1) In order to prevent unaccounted issue of guarantees, as well as fake guarantees, as suggested by IBA, bank guarantees shall be issued in serially numbered security forms.

    (2) Banks shall, while forwarding guarantees, caution the beneficiaries that they shall , in their own interest, verify the genuineness of the guarantee with the issuing bank.

B.5 Internal control systems

13. Bank guarantees issued for ₹50,000/- and above shall be signed by two officials jointly. A lower cut-off point, depending upon the size and category of branches, may be prescribed by banks, where considered necessary. Such a system will reduce the scope for malpractices/ losses arising from the wrong perception/ judgement or lack of honesty/ integrity on the part of a single signatory. The bank shall evolve suitable systems and procedures, keeping in view the letter and spirit of these instructions and allow deviation from the two signatures discipline only in exceptional circumstances. The responsibility for ensuring the adequacy and effectiveness of the systems and procedures for preventing perpetration of frauds and malpractices by their officials would, in such cases, rest on the top management of the bank. In case, exceptions are made for affixing of only one signature on the instruments, the bank shall devise a system for subjecting such instruments to special scrutiny by the auditors or inspectors at the time of internal inspection of branches.

<u>B.6 Guarantees on behalf of Banks' Directors</u>

2. Section 20 of the Banking Regulation Act, 1949 prohibits banks from granting loans or advances to any of their directors or any firm or company in which any of their directors is a partner or guarantor. However, certain facilities which, inter alia, include issue of guarantees, are not regarded as 'loan and advances' within the meaning of Section 20 of the Act, ibid. In this regard, it is pertinent to note with particular reference to banks giving guarantees on behalf of their directors, that in the event of the principal debtor committing default in discharging his liability and the bank being called upon to honour its obligation under the guarantee, the relationship

between the bank and the director could become one of creditor and debtor. Further, directors would also be able to evade the provisions of Section 20 by borrowing from a third party against the guarantee given by the bank. These types of transactions are likely to defeat the very purpose of Section 20 of the Act, if banks do not take appropriate steps to ensure that the liabilities there under do not devolve on them.

3. In view of the above, banks should, while extending non-fund based facilities such as guarantees, etc. on behalf of their directors and the companies/firms in which the director is interested, ensure that:
4. (i) adequate and effective arrangements have been made to the satisfaction of the bank that the commitments would be met out of their own resources by the party on whose behalf guarantee was issued and
5. (ii) the bank will not be called upon to grant any loan or advance to meet the liability, consequent upon the invocation of the guarantee.
6. In case, such contingencies arise as at (ii) above, the bank will be deemed to be a party to the violation of the provisions of Section 20 of the Banking Regulation Act, 1949.

B.7 Bank Guarantee Scheme of Government of India

(1) The Bank Guarantee Scheme formulated by the Government of India for the issuance of bank guarantees in favour of Central Government Departments, in lieu of security deposits, etc. by contractors, has been modified from time to time. Under the scheme, it is open to Government Departments to accept freely guarantees, etc. from all scheduled commercial banks.

(2) The bank shall adopt the Model Form of Bank Guarantee Bond given in Annex 7. The Government of India has advised all the Government departments/ Public Sector Undertakings, etc. to accept bank guarantees in the Model Bond and to ensure that alterations/additions to the clauses whenever considered necessary are not one-sided and are made in agreement with the guaranteeing bank. The bank shall mention in the guarantee bonds and its correspondence with the various State Governments, the names of the beneficiary departments and the purposes for which the guarantees are executed. This is necessary to facilitate prompt identification of the guarantees with the concerned departments. In regard to the guarantees furnished by the bank in favour of Government Departments in the name of the President of India, any

correspondence thereon shall be exchanged with the concerned ministries/ departments and not with the President of India.

B.8 Guarantees on behalf of Share and Stock Brokers/ Commodity Brokers

1. The bank issuing guarantees on behalf of share and stock brokers in favour of stock exchanges in lieu of security deposit, shall do so, to the extent it is acceptable in the form of bank guarantee as laid down by stock exchanges. The bank may also issue guarantees in lieu of margin requirements as per stock exchange regulations. The bank shall obtain a minimum margin of 50 percent while issuing such guarantees. A minimum cash margin of 25 per cent (within the above margin of 50 per cent) shall be maintained in respect of such guarantees issued by the bank . The above minimum margin of 50 percent and minimum cash margin requirement of 25 percent (within the margin of 50 percent) will also apply to guarantees issued by banks on behalf of commodity brokers in favour of the commodity exchanges, registered with Securities and Exchange Board of India (SEBI), in lieu of margin requirements as per the commodity exchange regulations. The bank shall assess the requirement of each applicant and observe usual and necessary safeguards including the exposure ceilings.

B.9 Irrevocable Payment Commitments – Financial Guarantees

2. The bank issuing Irrevocable Payment Commitment (IPCs) to various Stock Exchanges on behalf of Mutual Funds and FPIs shall adopt the following risk mitigation measures:

   Only the custodian bank shall be permitted to issue IPCs, which has a clause in the Agreement with its clients which gives it an inalienable right over the securities to be received as payout in any settlement. However, in cases where transactions are pre-funded i.e. there are clear INR funds in the customer's account and, in case of FX deals, the bank's nostro account has been credited before the issuance of the IPC by custodian banks, the requirement of the clause of inalienable right over the security to be received as payout in the agreement with the clients will not be insisted upon.

3. As regards calculation of Capital Market Exposure (CME), the relevant instructions are contained in Reserve Bank of India (Small Finance Banks – Credit Risk Management) Directions, 2025.

B.10 Guidelines relating to obtaining of personal guarantees of promoters, directors, other managerial personnel, and shareholders of borrowing concerns

4. The bank shall take personal guarantees of promoters, directors, other managerial personnel or major shareholders for the credit facilities granted to corporates, public or private, only when absolutely warranted after a careful examination of the circumstances of the case and not as a matter of course. In order to identify the circumstances under which the guarantee may or may not be considered necessary, banks shall be guided by the following broad considerations:

(1) Where guarantees need not be considered necessary

(i) Ordinarily, in the case of public limited companies, when the lending institution is satisfied about the management, its stake in the concern, economic viability of the proposal and the financial position and capacity for cash generation, no personal guarantee need be insisted upon. In fact, in the case of widely owned public limited companies, which may be rated as first class and satisfying the above conditions, guarantees may not be necessary even if the advances are unsecured. Also, in the case of companies, whether private or public, which are under professional management, guarantees may not be insisted upon from persons who are connected with the management solely by virtue of their professional/technical qualifications and not consequent upon any significant shareholding in the company concerned.

(ii) Where the lending institution is not so convinced about the aspects of loan proposals mentioned above, it shall seek to stipulate conditions to make the proposals acceptable without such guarantees. In some cases, more stringent forms of financial discipline like restrictions on distribution of dividends, further expansion, aggregate borrowings, creation of further charge on assets and stipulation of maintenance of minimum net working capital may be necessary. Also, the parity between owned funds and capital investment and the overall debt-equity ratio may have to be taken into account.

(2) Where guarantees may be considered helpful

(i) Personal guarantees may be helpful in respect of companies, whether private or public, where shares are held closely by a person or connected persons or a group (not being professionals or Government), irrespective of other factors, such as financial condition, security available, etc. The exception being in respect of companies where, by court or statutory order, the management of the company is vested in a person or persons, whether called directors or by any other name, who are not required to be elected by the shareholders. Where personal guarantee is considered necessary, the guarantee should preferably be that of the principal members of the group holding shares in the borrowing company rather than that of the director/managerial personnel functioning as director or in any managerial capacity.

(ii) Even if a company is not closely held, there may be justification for a personal guarantee of directors to ensure continuity of management. Thus, a lending institution could make a loan to a company whose management is considered good. Subsequently, a different group could acquire control of the company, which could lead the lending institution to have well-founded fears that the management has changed for the worse and that the funds lent to the company are in jeopardy. One way by which lending institutions could protect themselves in such circumstances is to obtain guarantees of the directors and thus ensure either the continuity of the management or that the changes in management take place with their knowledge. Even where personal guarantees are waived, it may be necessary to obtain an undertaking from the borrowing company that no change in the management would be made without the consent of the lending institution. Similarly, during the formative stages of a company, it may be in the interest of the company, as well as the lending institution, to obtain guarantees to ensure continuity of management.

(iii) Personal guarantees may be helpful with regard to public limited companies other than those which may be rated as first class, where the advance is on an unsecured basis.

(iv) There may be public limited companies, whose financial position and/or capacity for cash generation is not satisfactory even though the relevant advances are secured. In such cases, personal guarantees are useful.

(v) Cases where there is likely to be considerable delay in the creation of a charge on assets, guarantee may be taken, where deemed necessary, to cover the interim period between the disbursement of loan and the creation of the charge on assets.

(vi) Personal guarantees are relevant where the balance sheet or financial statement of a company discloses interlocking of funds between the company and other concerns owned or managed by a group.

(3) Worth of the guarantors, payment of guarantee commission, etc

Where personal guarantees of directors are warranted, they should bear reasonable proportion to the estimated worth of the person. The system of obtaining guarantees should not be used by the directors and other managerial personnel as a source of income from the company. The bank shall obtain an undertaking from the borrowing company as well as the guarantors that no consideration whether by way of commission, brokerage fees or any other form, would be paid by the former or received by the latter, directly or indirectly. This requirement shall be incorporated in the bank's terms and conditions for sanctioning of credit limits. During the periodic inspections, the bank's inspectors shall verify that this stipulation has been complied with. There may, however, be exceptional cases where payment of remuneration may be permitted e.g. where assisted concerns are not doing well and the existing guarantors are no longer connected with the management but continuance of their guarantees is considered essential because the new management's guarantee is either not available or is found inadequate.

(4) Personal guarantees in the case of stressed units

As the personal guarantees of promoters/ directors generally instil greater accountability and responsibility on their part and prompt the managements to conduct the running of the assisted units on sound and healthy lines and to ensure financial discipline, the bank, may in its discretion, at the time of renewal obtain guarantees from directors (excluding the nominee directors) and other managerial personnel in their individual capacities if the exposure exhibits signs of stress as per the assessment of the bank. In case, for any reasons, a guarantee is not considered expedient by the bank at the time of sanctioning the advance, an undertaking shall be obtained from the individual directors and a covenant shall invariably be incorporated in the loan agreement that in case the borrowing unit shows cash losses or adverse current ratio or diversion of fund, the directors would be under an obligation to execute guarantees in their individual capacities, if required by the bank. Banks may also obtain guarantees from the parent/holding company when credit facilities are extended to borrowing units in the same Group.

B.11 Guarantees of State Government

5. The guidelines laid down in paragraph D.2.9 above, for taking personal guarantees of directors and other managerial personnel, shall also be followed in respect of proposal of State Government undertakings/projects and guarantees may not be insisted upon unless absolutely warranted. In other words, the bank could obtain guarantees of State Governments on merits and only in circumstances absolutely necessary after thorough examination of the circumstances of each case, and not as matter of course.

C. Other stipulations – Issuing bid bonds and performance guarantees for export

6. With a view to boost exports, the bank shall adopt a flexible approach in the matter of obtaining cover and earmarking of assets/ credit limits, drawing power, while issuing bid bonds and performance guarantees for export purposes. The bank may, however, safeguard its interests by obtaining coverage from Export Credit Guarantee Corporation of India Ltd. (ECGC), wherever considered necessary. The bank may consider sanctioning separate limits for issue of bid bonds. Within the limits so sanctioned, bid bonds against individual contracts may be issued, subject to usual considerations.

C.1 Unconditional Guarantees in favour of Overseas Employers/Importers on behalf of Indian Exporters

7. While agreeing to give unconditional guarantee in favour of overseas employers/importers on behalf of Indian Exporters, the bank shall obtain an

undertaking from the exporter to the effect that when the guarantee is invoked, the bank would be entitled to make payment, notwithstanding any dispute between the exporter and the importer. Although, such an undertaking may not prevent the exporter from approaching the Court for an injunction order, it might weigh with the Court in taking a view whether injunction order should be issued.

8. The bank shall, while issuing guarantees, keep the above points in view and incorporate suitable clauses in the agreement, in consultation with their legal advisers. This is considered desirable as non-honouring of guarantees on invocation might prompt overseas banks not to accept guarantees of Indian banks, thus hampering the country's export promotion effort.

N.3.2Certain precautions in case of Project Exports

9. As per the provisions on 'Export Credit' captured in these Directions , AD banks/Exim Bank have been authorized to consider according post- award approvals for high value overseas project exports. However, the responsibility of project appraisal and that of monitoring the project lies solely on the lending bank.
10. The bank shall examine the project proposals thoroughly with regard to the capacity of the contractor/ sub-contractors, protective clauses in the contracts, adequacy of security, credit ratings of the overseas sub-contractors, if any, etc.
11. The bank shall thoroughly assess the financial and technical requirements of the proposals vis-à-vis the capability of the contractors (including sub-contractors) as well as the overseas employers, given the high value of export projects and exposure to foreign exchange risks.
12. While bid bonds and performance guarantees cannot be avoided, it is to be considered whether guarantees should be given by the banks in all cases of overseas borrowings for financing overseas projects. Such guarantees shall not be executed as a matter of course, merely because of the participation of Exim Bank and availability of counter-guarantee of ECGC. Appropriate arrangements shall also be made for post-award follow-up and monitoring of the contracts.

C.3 Guarantees for Export Advance

13. Guarantees are permitted in respect of debt or other liability incurred by an exporter on account of exports from India. It is therefore intended to facilitate execution of export contracts by an exporter and not for other purposes. In terms

of extant instructions banks have also been advised that guarantees contain inherent risks, and that it would not be in the banks' interest or in the public interest generally to encourage parties to over-extend their commitments and embark upon enterprises solely relying on the easy availability of guarantee facilities. Banks shall , therefore, be careful while extending guarantees against export advances so as to ensure that no violation of FEMA regulations takes place and banks are not exposed to various risks the export advances received by the exporters are in compliance with the regulations / directions issued under the Foreign Exchange Management Act, 1999. It will be important for the banks to carry out due diligence and verify the track record of such exporters to assess their ability to execute such export orders.

14. Further, the bank shall also ensure that the export advances received by the exporters are in compliance with the regulations/ directions issued under the Foreign Exchange Management Act, 1999.
15. It is reiterated that export performance guarantees, where permitted to be issued, shall strictly be in the nature of performance guarantee and shall not contain any clauses which may in effect allow such performance guarantees to be utilized as financial guarantees/Standby Letters of Credits.
16. Banks shall also ensure compliance with A.P. (DIR Series) Circular No. 20 dated March 13, 2018 regarding ‘Discontinuance of Letters of Undertaking (LoUs) and Letters of Comfort (LoCs) for Trade Credits’.

C.4 Review of banks’ procedures

17. Banks may periodically review the position regarding delegation of powers and their procedures, and take such action as may be necessary with a view to expediting decision on export proposals. They may also consider designating a specified branch, equipped with adequately qualified and trained staff, in each important centre to deal expeditiously with all export credit proposals at the centre.

C.5 Overseas Investment – Guarantee on behalf of a Foreign Entity or any of its Step Down Subsidiary

18. In order to enhance the scale and scope of business operations of Indian entrepreneurs by providing global opportunities for growth, Indian entities have

been permitted, subject to certain limits, to inter alia make non-fund based financial commitments. For this purpose, the bank can issue guarantees to or on behalf of a foreign entity, or any of its step down subsidiary in which an Indian entity has acquired control through the foreign entity, which is backed by a counter-guarantee or collateral by the Indian entity or its group company. However, the bank, including its overseas branches / subsidiaries, shall not issue such guarantees for the purpose of raising loans / advances of any kind by the foreign entity except in connection with the ordinary course of overseas business. Further while extending such guarantees, the bank should ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities.

D. Restrictions on guarantees for placement of funds with NBFCs or other non-bank entities

19. The bank shall not execute guarantees for enabling placement of funds with NBFCs or other non-banking entities directly or indirectly, including inter-company deposits/ loans. This stipulation will apply to all sources of funds raised by such entities, e.g. deposits/ loans received from trusts and other institutions.
20. Transactions of the following types are in the nature of guarantees executed by a bank in respect of funds made available by one non-banking entity to another non-banking entity and the bank shall therefore, desist from such practices:
    (1) A seller drew bills, normally of 120 to 180 days usance, on the buyer which were accepted by the buyer and co-accepted by his banker. The bills were discounted by the seller with the accommodating company, which retained the bills till the due date. The bank which gave co-acceptance invariably earmarked funds for the liability under the bills against the drawing power in respect of stocks held in the cash credit account of its client, the buyer, or
    (2) The accommodating company kept deposits for a specific period with the bank's borrowers under a guarantee executed by the bank. In such a case also, the bank earmarked the amount against drawing power available in the cash credit account.
21. The bank issuing guarantees favouring other banks/ FIs/ other lending agencies for the loans extended by the latter, shall ensure strict compliance with the following conditions

(1) The Board of Directors should reckon the integrity/ robustness of the bank's risk management systems and, accordingly, put in place a well-laid out policy in this regard. The Board approved policy should, among others, address the following issues:
   (i) Prudential limits, linked to bank's Tier I capital, up to which guarantees favouring other banks/FIs/other lending agencies may be issued
   (ii) Nature and extent of security and margins
   (iii) Delegation of powers
   (iv) Reporting system
   (v) Periodical reviews
(2) The guarantee shall be extended only in respect of borrower constituents and to enable them to avail of additional credit facility from other banks/FIs/lending agencies.
(3) The guaranteeing bank shall assume a funded exposure of at least 10% of the exposure guaranteed.
(4) The bank shall not extend guarantees or letters of comfort in favour of overseas lenders including those assignable to overseas lenders. However, AD bank may also be guided by the provisions contained in Notification No. FEMA 8/2000-RB dated May 3, 2000 and subsequent amendments thereof.
(5) The guarantee issued by the bank will be an exposure on the borrowing entity on whose behalf the guarantee has been issued and will attract appropriate risk weight, as per the extant guidelines.
(6) Of late, certain banks have been issuing guarantees on behalf of corporate entities in respect of non-convertible debentures issued by such entities. It is clarified that the extant instructions apply only to loans and not to bonds or debt instruments. Guarantees by the banking system for a corporate bond or any debt instrument not only have significant systemic implications but also impede the development of a genuine corporate debt market. Banks are advised to strictly comply with the extant regulations and in particular, not to provide guarantees for issuance of bonds or debt instruments of any kind. However, banks are permitted to provide partial credit enhancement (PCE) to bonds issued by corporates /special purpose vehicles (SPVs), NBFC-ND-SIs and Housing Finance Companies (HFCs) subject to conditions stipulated in this

Annex. The PCE shall be provided only in the form of a non-funded irrevocable contingent line of credit.

D.1 Lending banks

22. The bank extending credit facilities against the guarantees issued by other banks/FIs shall ensure strict compliance with the following :

(1) The exposure assumed by the bank against the guarantee of another bank/FI will be deemed as an exposure on the guaranteeing bank/FI and will attract appropriate risk weight as per the extant guidelines.

(2) Exposures assumed by way of credit facilities extended against the guarantees issued by other banks/FI should be reckoned within the inter bank exposure limits prescribed by the Board of Directors. Since the exposure assumed by the bank against the guarantee of another bank/FI will be for a fairly longer term than those assumed on account of inter-bank dealings in the money market, foreign exchange market and securities market, the Board of Directors should fix an appropriate sub-limit for the longer term exposures, since these exposures attract greater risk.(iii) The bank shall monitor the exposure assumed on the guaranteeing bank/ FI, on a continuous basis and ensure strict compliance with the prudential limits/ sub limits prescribed by its Board and the prudential single borrower limits prescribed by RBI for banks/FIs.

D.5 Exceptions

23. In regard to resolution of stressed units, in exceptional cases, where banks are unable to participate in rehabilitation packages on account of temporary liquidity constraints, the concerned banks could provide guarantees in favour of the banks which take up their additional share. Such guarantees will remain extant until such time that the banks providing additional finance against guarantees are re-compensated.

24. In cases of Sellers Line of Credit Scheme (since renamed as Direct Discounting Scheme) operated by IDBI Bank Ltd. and all India financial institutions like SIDBI, PFC, etc for sale of machinery, the primary credit is provided by the seller’s bank to the seller through bills drawn on the buyer and the seller’s bank has no access to the security covered by the transaction which remains with the

buyer. As such, buyer's banks are permitted to extend guarantee/ co-acceptance facility for the bills drawn under seller's line of credit.

25. Similarly, guarantees can be issued in favour of HUDCO/ State Housing Boards and similar bodies/ organisations for the loans granted by them to private borrowers who are unable to offer clear and marketable title to property, provided banks are otherwise satisfied with the capacity of the borrowers to adequately service such loans.

26. The bank issuing guarantees in favour of various Development Agencies/Boards, like Indian Renewable Energy Development Agency, National Horticulture Board, etc. for obtaining soft loans and/or other forms of development assistance from such Agencies/Boards with the objective of improving efficiency, productivity, etc., shall be subject to the following conditions:

(1) It shall satisfy itself , on the basis of credit appraisal, regarding the technical feasibility, financial viability and bankability of individual projects and/or loan proposals i.e. the standard of such appraisal shall be the same, as is done in the case of a loan proposal seeking sanction of term finance/loan.

(2) It shall conform to the prudential exposure norms prescribed from time to time for an individual borrower/group of borrowers.

(3) It shall suitably secure itself before extending such guarantees.

D.6 Infrastructure projects

27. Keeping in view the special features of lending to infrastructure projects viz., the high degree of appraisal skills on the part of lenders and availability of resources of a maturity matching with the project period, banks have been given discretion in the matter of issuance of guarantees favouring other lending agencies, in respect of infrastructure projects alone, subject to the following conditions:

(1) The bank issuing the guarantee takes a funded share in the project at least to the extent of 5 percent of the project cost and undertakes normal credit appraisal, monitoring and follow-up of the project.

(2) The guarantor bank has a satisfactory record in compliance with the prudential regulations, such as, capital adequacy, credit exposure, norms relating to income recognition, asset classification and provisioning, etc.

E. Payment of invoked guarantees

28. Where guarantees are invoked, payment shall be made to the beneficiaries without delay and demur. An appropriate procedure for ensuring such immediate honouring of guarantees shall be laid down so that there is no delay on the pretext that legal advice or approval of higher authorities is being obtained.
29. Delays on the part of banks in honouring the guarantees when invoked tend to erode the value of the bank guarantees, the sanctity of the scheme of guarantees and image of banks. It also provides an opportunity to the parties to take recourse to courts and obtain injunction orders. In the case of guarantees in favour of Government departments, this not only delays the revenue collection efforts but also gives an erroneous impression that banks are actively in collusion with the parties, which tarnishes the image of the banking system.
30. There shall be an effective system to ensure that the persons on whose behalf the guarantees are issued will be in a position to perform their obligations in the case of performance guarantees and honour their commitments out of their own resources, as and when needed, in the case of financial guarantees.
31. The top management of the bank shall bestow their personal attention to the need to put in place a proper mechanism for making payments in respect of invoked guarantees promptly, so that no room is given for such complaints. When complaints are made, particularly by the Government departments for not honouring the guarantees issued, the top management of the bank, including its Chief Executive Officer or chairman, shall personally look into such complaints.
32. In this regard, the Delhi High Court has made adverse remarks against certain banks in not promptly honouring the commitment of guarantees when invoked. It has been observed that a bank guarantee is a contract between the beneficiary and the bank. When the beneficiary invokes the bank guarantee and a letter invoking the same is sent in terms of the bank guarantee, it is obligatory on the bank to make payment to the beneficiary.
33. The Supreme Court had observed [U.P. Co-operative Federation Private Ltd. versus Singh Consultants and Engineers Private Ltd. (1988 IC SSC 174)] that the commitments of the banks must be honoured, free from interference by the courts. The relevant extract from the judgement of the Supreme Court in a case is as under:

'We are, therefore, of the opinion that the correct position of law is that commitment of banks must be honoured free from interference by the courts and it is only in exceptional cases, that is, to say, in case of fraud or any case where irretrievable injustice would be done if bank guarantee is allowed to be encashed, the court should interfere'.

34. In order to avoid such situations, it is absolutely essential for the bank to appraise the proposals for guarantees with the same diligence, as in the case of fund based limits, and obtain adequate cover by way of margin so as to prevent the constituents to develop a tendency of defaulting in payments when invoked guarantees are honoured by the banks.
35. The bank is required to ensure that the guarantees issued by it are honoured without delay and hesitation when they are invoked in accordance with the terms and conditions of the guarantee deed, unless there is a Court order restraining the bank.
36. Any decision not to honour the obligation under the guarantee invoked may be taken after careful consideration, at a fairly senior level, and only in the circumstances where the bank is satisfied that any such payment to the beneficiary would not be deemed a rightful payment in accordance with the terms and conditions of the guarantee under the Indian Contract Act, 1872.
37. The Chief Executive Officer/chairman of the bank shall assume personal responsibility for such complaints received from Government departments. Sufficient powers shall be delegated to the line functionaries so that delay on account of reference to higher authorities for payment under the guarantee does not occur.
38. For any non-payment of guarantee in time, staff accountability shall be fixed and stern disciplinary action including award of major penalty such as dismissal, shall be taken against the delinquent officials at all levels.
39. Where the bank has executed bank guarantees in favour of Customs and Central Excise authorities to cover differential duty amounts in connection with interim orders issued by High Courts, the guarantee amount shall be released immediately when they are invoked on vacation of the stay orders by Courts. The bank shall not hold back the amount on the pretext that it would affect their liquidity position.

40. There have also been complaints by Ministry of Finance that some of the departments such as Department of Revenue, Government of India are finding it difficult to execute judgements delivered by various Courts in their favour as banks do not honour their guarantees, unless certified copies of the Court judgements are made available to them. In this regard, the bank shall follow the following procedure:

(1) Where the bank is a party to the proceedings initiated by Government for enforcement of the bank guarantee and the case is decided in favour of the Government by the Court, the bank shall not insist on production of certified copy of the judgement, as the judgement/ order is pronounced in open Court in presence of the parties/ their counsels and the judgement is known to the bank and a copy of the judgement is available on websites of the Courts.

(2) In case the bank is not a party to the proceedings, a signed copy of the minutes of the order certified by the Registrar/ Deputy or Assistant Registrar of the High Court or the ordinary copy of the judgement/ order of the High Court, duly attested to be true copy by Government Counsel, shall be sufficient for honouring the obligation under guarantee, unless the guarantor bank decides to file any appeal against the order of the High Court.

(3) The bank shall honour the guarantees issued by it as and when they are invoked in accordance with the terms and conditions of the guarantee deeds. In case of any disputes, such honouring can be done under protest, if necessary, and the matters of dispute pursued separately.

(4) The Government, on their part, have advised the various Government departments, etc. that the invocation of guarantees should be done after careful consideration at a senior-level that a default has occurred in accordance with the terms and conditions of the guarantees and as provided in the guarantee deed.

(5) Non-compliance of the instructions in regard to honouring commitments under invoked guarantees will be viewed by Reserve Bank very seriously and Reserve Bank will be constrained to take deterrent action against the banks.

F. **Co-acceptance of bills**

56. Safeguards - The bank co accepting bills of their customers or discounting bills co accepted by other banks shall adhere to the following safeguards:

(1) While sanctioning co-acceptance limits to their customers, the need therefore shall be ascertained, and such limits should be extended only to those customers who enjoy other limits with the bank.

(2) Only genuine trade bills shall be co-accepted and the bank shall ensure that the goods covered by bills co-accepted are actually received in the stock accounts of the borrowers.

(3) The valuation of the goods as mentioned in the accompanying invoice shall be verified to see that there is no over-valuation of stocks.

(4) The bank shall not extend its co-acceptance to house bills/ accommodation bills drawn by group concerns on one another.

(5) The bank discounting such bills, co-accepted by other banks, shall also ensure that the bills are not accommodation bills and that the co-accepting bank has the capacity to redeem the obligation in case of need.

(6) Bank-wise limits shall be fixed, taking into consideration the size of each bank for discounting bills co-accepted by other banks, and the relative powers of the officials of the other banks shall be registered with the discounting banks.

(7) The bank shall ensure that the co-acceptance liability of any bank is not disproportionate to its known resources position.

(8) A system of obtaining periodical confirmation of the liability of co-accepting banks in regard to the outstanding bills shall be introduced.

(9) Proper records of the bills co-accepted for each customer shall be maintained, so that the commitments for each customer and the total commitments at a branch can be readily ascertained, and these shall be scrutinised by Internal Inspectors and commented upon in their reports.

(10) The discounting bank shall advise the Head Office/ Controlling Office of the bank, which has co-accepted the bills, whenever such transactions appear to be disproportionate or large.

(11) Proper periodical returns shall be prescribed so that the Branch Managers report such co-acceptance commitments entered into by them to the Controlling Offices.

(12) Such returns shall also reveal the position of bills that have become overdue, and which the bank had to meet under the co-acceptance obligation. This will enable the Controlling Offices to monitor such co-acceptances furnished by the branches and take suitable action in time, in difficult cases.

(13) Co-acceptances in respect of bills for Rs.10,000/- and above shall be signed by two officials jointly, deviation being allowed only in exceptional cases, e.g. non- availability of two officials at a branch.

(14) Before discounting/ purchasing bills co-accepted by other banks for Rs. 2 lakh and above from a single party, the bank shall obtain written confirmation of the concerned Controlling (Regional/ Divisional/ Zonal) Office of the accepting bank and a record of the same shall be kept.

(15) When the value of the total bills discounted/ purchased (which have been co- accepted by other banks) exceeds Rs. 20 lakh for a single borrower/ group of borrowers, prior approval of the Head Office of the co-accepting bank shall be obtained by the discounting bank in writing or on registered e-mail.

41. In addition to the above safeguards to be observed by banks in co-accepting the bills, it shall be noted that the banks are precluded from co-accepting bills drawn under Buyers Line of Credit Schemes introduced by IDBI Bank Ltd. and all India financial institutions like SIDBI, Power Finance Corporation Ltd. (PFC), etc. Similarly, banks shall not co-accept bills drawn by NBFCs. In addition, banks are advised not to extend co-acceptance on behalf of their buyers/constituents under the SIDBI Scheme.

42. However, banks may co-accept bills drawn under the Sellers Line of Credit Schemes (since renamed as Direct Discounting Scheme) operated by IDBI Bank Ltd. and all India financial institutions for Bill Discounting operated by IDBI Bank Ltd. and all India financial institutions like SIDBI, PFC, etc. without any limit, subject to the buyer’s capability to pay, and compliance with the exposure norms prescribed by the bank for individual/ group borrowers.

Note: The schemes which were being operated by the erstwhile IDBI is being continued by IDBI Bank Ltd

43. There have been instances where branches of banks open L/Cs on behalf of their constituents and also co-accept the bills drawn under such L/Cs. Legally, if a

bank co- accepts a bill drawn under its own L/C, the bill so co-accepted becomes an independent document. The special rules applicable to commercial credits do not apply to such a bill and the bill is exclusively governed by the law relating to Bills of Exchange, i.e. the Negotiable Instruments Act. The negotiating bank of such a bill is not under any obligation to check the particulars of the bill with reference to the terms of the L/C. This practice is, therefore, superfluous and defeats the purpose of issuing the L/C. The discounting banks should first ascertain from the co-accepting banks, the reason for such co-acceptance of bills drawn under their own L/C and only after satisfying themselves of genuineness of such transactions, they may consider discounting such bills.

44. It shall be ensured that the branch officials strictly adhere to the above referred instructions at the time of co-acceptance of bills. It would be advisable to determine clear accountability in this respect and officials found to be not complying with the instructions must be dealt with sternly.

G. Precautions to be taken in the case of Letter of Credit

45. In the case of LCs for import of goods, banks shall be very vigilant while making payment to the overseas suppliers on the basis of shipping documents. They shall exercise precaution and care in comparing the clients. The payments shall be released to the foreign parties only after ensuing that the documents are strictly in conformity with the terms of the LCs. There have been many irregularities in the conduct of LC business, such as the LC transactions not being recorded in the books of the branch by officials issuing them, the amount of LCs being much in excess of the powers vested in the officials, fraudulent issue of LCs involving a conspiracy/collusion between the beneficiary and the constituent. In such cases, the banks shall take action against the concerned officials as well as the constituent on whose behalf the LCs were opened and the beneficiary of LCs, if a criminal conspiracy is involved.

46. Settlement of claims under Letter of Credits

In case the bills drawn under LCs are not honoured, it would adversely affect the character of LCs and the relative bills as an accepted means of payment. This could also affect the credibility of the entire payment mechanism through banks and affect the image of the banks. Banks shall , therefore, honour their commitments under LCs and make payments promptly.

Part B: Partial Credit Enhancement to Corporate Bonds

A. **General Instructions**

47. The objective behind allowing banks to extend Partial Credit Enhancement (PCE) is to enhance the credit rating of bonds issued by corporates, thereby enabling them to access funds from the bond market on better terms. PCE will facilitate investments by long-term providers of funds such as insurance companies, provident and pension funds, as well as other investors, in bonds issued for funding projects by corporates or Special Purpose Vehicles (SPVs).
48. Banks should have a Board approved policy on PCE, covering issues such as quantum of PCE, underwriting standards, assessment of risk, pricing, setting limits, etc.
49. Banks may provide Partial Credit Enhancement (PCE) to a project as a non-funded subordinated facility in the form of an irrevocable contingent line of credit which will be drawn in case of shortfall in cash flows for servicing the bonds and thereby improve the credit rating of the bond issue.
50. Banks can also provide partial credit enhancement (PCE) to bonds issued by the NBFC in Middle and Upper Layer registered with the RBI and Housing Finance Companies (HFCs) registered with NHB subject to the following conditions:
    (1) The tenor of the bonds issued by NBFCs in Middle and Upper Layer including HFCs for which PCEs are provided shall not be less than three years.
    (2) With reference to paragraph 27 of circular ibid, the proceeds from the bonds backed by PCE from banks shall only be utilized for refinancing the existing debt of the NBFCs in Middle and Upper Layer including HFCs. Banks shall introduce appropriate mechanisms to monitor and ensure that the end-use condition is met.
    (3) The exposure of a bank by way of PCEs to bonds issued by each such NBFCs in Middle and Upper Layer including HFC shall be restricted to one percent of capital funds of the bank within the extant single/group borrower exposure limits. and

(4) The exposure of banks to NBFCs in Middle and Upper Layer including HFCs by way of PCEs shall be within the aggregate PCE exposure limit of 20 percent as provided in paragraph 24(b) of the circular ibid.

B. Salient features of the PCE facility

51. The aggregate PCE provided by the banking system for a given bond issue shall be limited to 50 per cent of the bond issue size, with a limit up to 20 per cent of the bond issue size for an individual bank. The PCE facility shall be provided at the time of the bond issue and will be irrevocable.
52. Banks may offer PCE only in respect of bonds whose pre-enhanced rating is BBB minus or better.
53. Banks cannot provide PCE by way of guarantee.
54. Banks providing PCE to bonds issued by a corporate/SPV will not be eligible to invest in those bonds. They can, however, provide other need based credit facilities (funded and/or non-funded) to the corporate/SPV.
55. So long as the exposure of a bank to a project loan is classified as standard and the borrower is not in any financial distress (see the Non-Exhaustive Indicative List of Signs of Financial Difficulty in Reserve Bank of India (Small Finance Banks - Resolution of Stressed Assets) Directions, 2025), providing a commercially priced PCE to enhance the rating of a bond issue, whose proceeds replace, in whole or in part, the bank's project loan, would not amount to restructuring.
56. The documentation for the facility must clearly define the circumstances under which the facility would be drawn upon.
57. The contingent PCE will be available only for servicing the bond and not for any other purpose (such as funding acquisition of additional assets by the corporate, meeting part of the project cost or meeting recurring expenses of the corporate or servicing other lenders/ creditors to the project etc.), irrespective of the seniority of claims of other creditors in relation to the bond holders. A clear agreement documenting all aspects of this arrangement will need to be signed between the promoter (bond issuer), the PCE providing bank/s and all other lenders to the project. The agreement to this effect is to be in the nature of a legally binding contract. The operational details in this regard, including timing etc., of drawal, are to be decided by the PCE providing banks as per the Board approved policy.

58. In case the PCE facility is partly drawn and interest accrues on the same, the unpaid accrued interest will be excluded from the calculation of the remaining amount available for drawing.
59. The contingent facility may, at the discretion of the PCE providing bank, be made available as a revolving facility.
60. In the event of the project failure / bankruptcy, in terms of repayment priority, the PCE must rank below the claims of the enhanced bond holders.

C. Balance sheet treatment, capital requirements, exposure and asset classification norms for exposures arising on account of providing PCE

61. PCE facilities to the extent drawn should be treated as an advance in the balance sheet. Undrawn facilities would be an off-balance sheet item and reported under 'Contingent Liability – Others'.
62. The aggregate capital required to be maintained by the banks providing contingent PCE for a given bond issue for their exposure on account of PCE provided will be computed, as if the entire bond issue was held by banks, as the difference between (a) the capital required on the entire bond amount, corresponding to its pre-credit enhanced rating and (b) the capital required on the bond amount corresponding to its post-credit enhanced rating, as per the risk weights applicable to claims on corporates in the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.
63. To illustrate, assume that the total bond size is ₹100 for which PCE to the extent of ₹.20 is provided by a bank. The pre-enhanced rating of the bond is BBB which gets enhanced to AA with the PCE. In this scenario –a) At the pre-enhanced rating of BBB (100% risk weight), the capital requirement on the total bond size (₹100) is ₹9.00.
    a. The capital requirement for the bond (₹.100) at the enhanced rating (AA, i.e., 30% risk weight)) would be ₹2.70.
    b. As such, the PCE provider will be required to hold the difference in capital i.e., ₹6.30 (₹9.00 – ₹2.70).
64. The above illustration is based on the assumption that the entire quantum of eligible PCE (20% of the bond issue size) is provided by a single bank.

Where the PCE to a bond issue is provided by more than one bank within the overall limit indicated in this Annex, each bank will maintain capital as illustrated above in proportion to the quantum of PCE provided by it.

65. It is possible that the credit rating of the bond changes during the lifetime of the bond, necessitating a change in the capital requirement. Therefore, the rating of the bond must be monitored regularly and capital requirement adjusted in the following manner:

(i) For this purpose, the capital calculation must take into account, at all times, the difference in rating notches between the pre-enhanced and enhanced rating as arrived at the time of bond issue. Illustratively, if, at the time of the bond issue, the difference between the pre-enhanced and the enhanced rating was four notches (taking into account the rating qualifiers) and the enhanced rating subsequently undergoes a change, the notional reference rating will be arrived at by deducting four notches from the changed rating, The absolute value of the difference between the capital requirement corresponding to the notional reference rating thus arrived at, and the current/ revised rating of the bond will give the aggregate capital required to be maintained by the PCE providing banks, subject to a floor, i.e., the capital requirement on the PCE at the time of issuance of the PCE enhanced bonds.

Additionally, corporate bonds, to be eligible for PCE from banks, shall be rated by a minimum of two external credit rating agencies at all times. The rating reports, both initial and subsequent, shall disclose both standalone credit rating (i.e., rating without taking into account the effect of PCE) as well as the enhanced credit rating (taking into account the effect of PCE).

Further, regarding the purpose of capital computation in the books of PCE provider, lower of the two standalone credit ratings and the corresponding enhanced credit rating of the same rating agency shall be reckoned. Where the reassessed standalone credit rating at any time during the life of the bond shows improvement over the corresponding rating at the time of bond issuance, the capital requirement may be recalculated on the basis of the reassessed standalone credit rating and the reassessed enhanced credit rating, without reference to the constraints of capital floor and difference in notches.

(ii) As long as the bond outstanding amount exceeds the aggregate PCE (drawn and contingent non- funded) offered, the capital held should not be less than the amount required to be held at the time of issuance of the PCE enhanced bond. However, once the bond outstanding has amortised below the aggregate PCE amount, the capital can be computed taking into account the outstanding bond amount.

(iii) In situations where the notional pre-enhanced rating of the bond, slips below investment grade (BBB minus), capital must be maintained as per risk weight of 1250% on the amount of PCE provided.

66. In all circumstances, the capital computed for PCE as mentioned above and required to be maintained by the PCE provider, will be capped by the total amount of credit enhancement provided.
67. In a waterfall mechanism, Credit Enhancement (CE) gets drawn only in a contingent situation of cash flow shortfall for servicing a debt / bond etc., and not in the normal course of business. Hence, such an event is indicative of financial distress of the project. Keeping this aspect in view, a drawn tranche of the contingent PCE facility will be required to be repaid within 30 days from the date of its drawal (due date). The facility will be treated as NPA if it remains outstanding for 90 days or more from the due date and provided for as per the usual asset classification and provisioning norms. In that event, the bank’s other facilities to the borrower will also be classified as NPA as per extant guidelines.
68. The PCE providing bank will observe the following exposure limits:
    (1) PCE exposure to a single counterparty or group of counterparties shall not exceed 5 per cent of the bank’s Single Borrower / Group Borrower limit to the counterparty to whom the PCE is provided,
    (2) The aggregate PCE exposure of a bank shall not exceed 20 per cent of its Tier 1 capital.

C. Other Aspects

69. The effect of the PCE on the bond rating must be disclosed in the bond offer document i.e., the rating of the bond without and with the PCE should be disclosed.
70. There would be no prohibition in providing the PCE facility to bonds issued for funding projects by corporates/SPVs even if the latter are not the regular

constituent/s of the PCE providing bank. As such, the prohibition on banks regarding extending non-fund based facilities or additional/ad-hoc credit facilities to parties who are not their regular constituents, will not apply in this case.

71. Banks should ensure that the project assets, created out of the bond issue for which PCE has been provided by them, and the cash flows from the project are ring fenced through an escrow account mechanism administered under a bond trustee arrangement. The manner in which security interest in the project assets would be shared by the lenders to the project, bond holders and banks providing the PCE and the manner in which the project cash flows would be shared for servicing loans, if any, and the bonds and PCE, should be decided and agreed upon before the issue of bonds and should be properly documented.
72. The project should have a robust and viable financial structure even before the credit enhancement is taken into account. Nevertheless, while providing PCE, banks should exercise necessary due diligence and risk appraisal, including making their own internal credit analysis/rating and should not entirely rely on the ratings of external agencies. Banks should strengthen their internal rating systems which should also include building up of a system of regular (quarterly or half-yearly) tracking of the financial position of the issuer with a view to ensuring continuous monitoring of the rating migration of the issuers/issues.
73. Banks must honour the full PCE commitment made ab-initio in respect of a bond issue irrespective of the asset classification of the concerned borrower's credit facilities.
74. All extant regulatory prescriptions for credit and investment exposures by banks, unless specified otherwise in this circular, will continue to apply.

Model Form of Bank Guarantee Bond

GUARANTEE BOND

1. In consideration of the President of India (hereinafter called 'the Government') having agreed to exempt ________________________________ [hereinafter called 'the said Contractor(s)'] from the demand, under the terms and conditions of an Agreement dated___________ made between ____and_____________ ________________________for_____________ (hereinafter called 'the said Agreement'), of security deposit for the due fulfilment by the said Contractor(s)

of the terms and conditions contained in the said Agreement, on production of a bank Guarantee for Rs. __________ (Rupees_____________________________________ Only) We,____ ___, (hereinafter referred (indicate the name of the bank) to as 'the Bank') at the request of____ [contractor(s)] do hereby undertake to pay to the Government an amount not exceeding Rs. ______________ against any loss or damage caused to or suffered or would be caused to or suffered by the Government by reason of any breach by the said Contractor(s) of any of the terms or conditions contained in the said Agreement.

7. 2.We ____ (indicate the name of the bank) do hereby undertake to pay the amounts due and payable under this guarantee without any demur, merely on a demand from the Government stating that the amount claimed is due by way of loss or damage caused to or would be caused to or suffered by the Government by reason of breach by the said contractor(s) of any of the terms or conditions contained in the said Agreement or by reason of the contractor(s)' failure to perform the said Agreement. Any such demand made on the bank shall be conclusive as regards the amount due and payable by the Bank under this guarantee. However, our liability under this guarantee shall be restricted to an amount not exceeding Rs. _______________.

8. 3.We undertake to pay to the Government any money so demanded notwithstanding any dispute or disputes raised by the contractor(s)/supplier(s) in any suit or proceeding pending before any Court or Tribunal relating thereto our liability under this present being absolute and unequivocal.
9. The payment so made by us under this bond shall be a valid discharge of our liability for payment thereunder and the contractor(s)/supplier(s) shall have no claim against us for making such payment.

10. 4

We,____ __ (indicate the name of bank) further agree that the guarantee herein contained shall remain in full force and effect during the period that would be taken for the performance of the said Agreement and that it shall continue to be enforceable till all the dues of the Government under or by virtue of the said Agreement have been fully paid and its claims satisfied or discharged or till__________________________________ Office/Department/Ministry of________________________________ certifies that the terms and conditions of the said

11. Agreement have been fully and properly carried out by the said contractor(s) and accordingly discharges this guarantee. Unless a demand or claim under this guarantee is made on us in writing on or before the ____ we shall be discharged from all liability under this guarantee thereafter.

12. 5. We, ____ (indicate the name of bank) further agree with the Government that the Government shall have the fullest liberty without our consent and without affecting in any manner our obligations hereunder to vary any of the terms and conditions of the said Agreement or to extend time of performance by the said contractor(s) from time to time or to postpone for any time or from time to time any of the powers exercisable by the Government against the said Contractor(s) and to forbear or enforce any of the terms and conditions relating to the said agreement and we shall not be relieved from our liability by reason of any such variation, or extension being granted to the said Contractor(s) or for any forbearance, act or omission on the part of the Government or any indulgence by the Government to the said Contractor(s) or by any such matter or thing whatsoever which under the law relating to sureties would, but for this provision, have effect of so relieving us. s6. This guarantee will not be discharged due to the change in the constitution of the Bank or the Contractor(s)/Supplier(s).

13. 7. We, ____ (indicate the name of bank) lastly undertake not to revoke this guarantee during its currency except with the previous consent of the Government in writing.

14. 8. Dated the ____________ day of ___________ _____ for ______________________________ (indicate the name of the Bank).