

**Appendices of Section B –
Bank Branch Audit of the
Guidance Note on Audit of Banks
(2026 Edition)**

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APPENDIX I

Text of Section 6 of the Banking Regulation Act, 1949

- (1) In addition to the business of banking, a banking company may engage in any one or more of the following forms of business, namely:
 - (a) the borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security; the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scripts and other instruments, and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, traveller's cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling, of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities;
 - (b) acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a [managing agent or secretary and treasurer "managing agent" (w.e.f. 1st October, 1959)] of a company;
 - (c) contracting for public and private loans and negotiating and issuing the same;
 - (d) the effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of shares, stock, debentures, or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;
 - (e) carrying on and transacting every kind of guarantee and indemnity business;

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- (f) managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;
 - (g) acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security;
 - (h) undertaking and executing trusts;
 - (i) undertaking the administration of estates as executor, trustee or otherwise;
 - (j) establishing and supporting or aiding in the establishment and support of association, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;
 - (k) the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;
 - (l) selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;
 - (m) acquiring and undertaking the whole or any part of the business of any person or company, when such business is of nature enumerated or described in this sub-section;
 - (n) doing such other things as are incidental or conducive to the promotion or advancement of the business of the company;
 - (o) any other form of business which the Central Government may by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.
- (2) No banking company shall engage in any form of business other than those referred to in sub-section (1).

APPENDIX II

The Third Schedule to the Banking Regulation Act, 1949

(See Section 29)

FORM 'A'

Form of Balance Sheet

Balance Sheet of _____ (here enter name of the Banking Company)

Balance Sheet as on 31st March – (Year) _____ (000's omitted)

	<i>Schedule</i>	<i>As on 31.3__</i> <i>(current year)</i>	<i>As on 31.3__</i> <i>(previous year)</i>
Capital & Liabilities			
Capital	1		
Reserves and Surplus	2		
Deposits	3		
Borrowings	4		
Other liabilities and provisions	5		
Total		_____	_____
Assets			
Cash and Balances with Reserve	6		
Bank of India			
Balances with banks and money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
Total		_____	_____
Contingent Liabilities	12		
Bills for Collection			

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**Schedule I
Capital**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. For Nationalised Banks Capital (Fully owned by Central Government)		
II. For Banks Incorporated Outside India Capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head). Amount of deposit kept with RBI under section 11(2) of the Banking Regulation Act, 1949		
Total	_____	_____
III. For Other Banks Authorised Capital (..... shares of Rs.... each) Issued Capital (..... shares of Rs..... each) Subscribed Capital (.....shares of Rs..... ..each) Called-up Capital (..... shares of Rs... each) Less: Calls unpaid Add: Forfeited shares		
Total	_____	_____

**Schedule 2
Reserves and Surplus**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. Statutory Reserves Opening Balance Additions during the year Deductions during the year		
II. Capital Reserves Opening Balance Additions during the year Deductions during the year		

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III.	Share Premium		
	Opening Balances		
	Additions during the year		
	Deductions during the year		
IV.	Revenue and Other Reserves		
	Opening Balance		
	Additions during the year		
	Deductions during the year		
V.	Balance in Profit and Loss Account		
	Total (I, II, III, IV and V)		

**Schedule 3
Deposits**

		<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
A.	I. Demand Deposits		
	(i) From banks		
	(ii) From others		
	II. Savings Bank Deposits		
	III. Term Deposits		
	(i) From banks		
	(ii) From others		
	Total (I, II and III)		
B.	(i) Deposits of branches in India		
	(ii) Deposits of branches outside India		
	Total		

**Schedule 4
Borrowings**

		<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I.	Borrowings in India		
	(i) Reserve Bank of India		
	(ii) Other banks		
	(iii) Other institutions and agencies		

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II. **Borrowings outside India**

Total (I & II)

Secured borrowings included in I & II above – Rs.

**Schedule 5
Other Liabilities and Provisions**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Bills payable		
II. Inter-office adjustments (net)		
III. Interest accrued		
IV. Others (including provisions)*		
Total		

Provisions towards Standard Assets shall not be netted from gross advances and shown separately as 'Provisions against Standard Assets' under 'Others' in Schedule 5 of the Balance Sheet.

**Schedule 6
Cash and Balances with Reserve Bank of India**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Cash in hand (including foreign currency notes)		
II. Balances with Reserve Bank of India		
(i) in Current Account		
(ii) in Other Accounts		
Total (I & II)		

**Schedule 7
Balances with Banks and Money at Call & Short Notice**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. In India		
(i) Balances with banks		

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	(a) in current accounts		
	(b) in other deposit accounts		
(ii)	Money at call and short notice		
	(a) with banks		
	(b) with other institutions		
	Total (i & ii)		
II. Outside India			
(i)	in current accounts		
(ii)	in other deposit accounts		
(iii)	Money at call and short notice		
	Total (i, ii & iii)		
	Grand Total (I & II)		

**Schedule 8
Investments**

		As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Investments in India in			
(i)	Government securities		
(ii)	Other approved securities		
(iii)	Shares		
(iv)	Debentures and bonds		
(v)	Subsidiaries and/or joint ventures		
(vi)	Others (to be specified)		
	Total		
II. Investments Outside India in			
(i)	Government securities (including local authorities)		
(ii)	Subsidiaries and/or joint ventures abroad		
(iii)	Other investments(to be specified)		
	Total		
	Grand Total (I & II)		

**Schedule 9
Advances**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
A. (i) Bills purchased and discounted		
(ii) Cash credits, overdrafts and loans repayable on demand		
(iii) Term loans		
Total	_____	_____
B. (i) Secured by tangible assets		
(ii) Covered by bank/Government guarantees		
(iii) Unsecured		
Total	_____	_____
C. I. <i>Advances in India</i>		
(i) Priority sectors		
(ii) Public sector		
(iii) Banks		
(iv) Others		
Total	_____	_____
II. <i>Advances outside India</i>		
(i) Due from banks		
(ii) Due from others		
(a) Bills purchased and discounted		
(b) Syndicated loans		
(c) Others		
Total	_____	_____
Grand Total (C.I. & C.II)	_____	_____

**Schedule 10
Fixed Assets**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. Premises		
At cost as on 31 st March of the preceding year		

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Additions during the year
Deductions during the year
Depreciation to date

II. Other Fixed Assets
(including furniture and fixtures)

At cost as on 31st March of the
preceding year

Additions during the year
Deductions during the year
Depreciation to date

Total (I & II)

Schedule 11
Other Assets

	<i>As on 31.3__</i> <i>(current year)</i>	<i>As on 31.3__</i> <i>(previous year)</i>
I. Inter-office adjustments (net)		
II. Interest accrued		
III. Tax paid in advance/tax deducted at source		
IV. Stationery and stamps		
V. Non-banking assets acquired in satisfaction of claims		
VI. Others*		
Total	_____	_____

* In case there is any unadjusted balance of loss the same may be shown under this item with appropriate footnote.

Schedule 12
Contingent Liabilities

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Claims against the bank not acknowledged as debts		
II. Liability for partly paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantees given on behalf of constituents		
(a) In India		
(b) Outside India		
V. Acceptances, endorsements and other obligations		
VI. Other items for which the bank is contingently liable		
Total	_____	_____

Form 'B'
Form of Profit & Loss Account
for the year ended 31st March _____

(000's omitted)

	Schedule	Year ended 31.3__ (current year)	Year ended 31.3__ (previous year)
I. Income			
Interest earned	13		
Other income	14		
Total		_____	_____
II. Expenditure			
Interest expended	15		
Operating expenses	16		
Provisions and contingencies			
Total		_____	_____
III. Profit / Loss			
Net profit/loss (–) for the year		_____	_____

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Profit/loss (-) brought forward	_____	_____
Total	_____	_____
IV. Appropriations		
Transfer to statutory reserves		
Transfer to other reserves		
Transfer to -		
Government/Proposed		
dividend		
Balance carried over to		
balance sheet	_____	_____
Total	_____	_____

**Schedule 13
Interest Earned**

	<i>Year ended</i>	<i>Year ended</i>
	31.3__	31.3__
	<i>(current year)</i>	<i>(previous year)</i>
I. Interest/discount on advances/bills		
II. Income on investments		
III. Interest on balances with Reserve Bank of India and other inter-bank funds		
IV. Others	_____	_____
Total	_____	_____

**Schedule 14
Other Income**

	<i>Year ended</i>	<i>Year ended</i>
	31.3__	31.3__
	<i>(current year)</i>	<i>(previous year)</i>
I. Commission, exchange and brokerage		
II. Profit on sale of investments		
<i>Less: Loss on sale of investments</i>		
III. Profit on revaluation of investments		
<i>Less: Loss on revaluation of investments</i>		

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IV.	Profit on sale of land, buildings and other assets		
	<i>Less:</i> Loss on sale of land, buildings and other assets		
V.	Profit on exchange transactions		
	<i>Less:</i> Loss on exchange transactions		
VI.	Income earned by way of dividends etc. from subsidiaries, /companies and/or joint ventures abroad/in India		
VII.	Miscellaneous income		
	Total	_____	_____

Note: Under items II to V, loss figures may be shown in brackets.

**Schedule 15
Interest Expended**

	<i>Year ended</i>	<i>Year ended</i>
	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I.	Interest on deposits	
II.	Interest on Reserve Bank of India/inter-bank borrowings	
III.	Others	
	Total	_____

**Schedule 16
Operating Expenses**

	<i>Year ended</i>	<i>Year ended</i>
	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I.	Payments to and provisions for employees	
II.	Rent, taxes and lighting	
III.	Printing and stationery	
IV.	Advertisement and publicity	
V.	Depreciation on bank's property	
VI.	Directors' fees, allowances and expenses	

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VII.	Auditors' fees and expenses (including branch auditors' fees and expenses)		
VIII.	Law charges		
IX.	Postage, telegrams, telephones, etc.		
X.	Repairs and maintenance		
XI.	Insurance		
XII.	Other expenditure		
	Total	_____	_____
		_____	_____

Auditors should also refer to RBI Master Direction No. RBI/DOR/2025-26/164 DOR.STR.REC. 83./ 21.04.048/ 2025-26 dated November 28, 2025, on Financial Statements - Presentation and Disclosures.

APPENDIX III

Illustrative Format of Report of the Branch Auditor of a Nationalised Bank Independent Branch Auditor's Report

To,
The Statutory Central Auditors
_____ Bank

Report on the Audit of the Financial Statements

Opinion

1. We have audited the Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, the Profit and Loss Account for the year then ended and other explanatory information [*in which are included the returns for the year ended on that date*].

In our opinion, and to the best of our information and according to the explanations given to us, read with the Memorandum of Changes (mentioned in paragraph 7 below), the aforesaid financial statements give the information required by the Banking Regulation Act, 1949, in the manner so required for bank and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs in case of the Balance Sheet of the branch as at March 31, 20XX and true balance of profit/loss for the year ended on that date.

Basis for Opinion

2. We conducted our audit in accordance with the Standards on Auditing (SAs) issued by ICAI. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with ethical requirements that are relevant to our audit of the financial statements, in [jurisdiction] and we have fulfilled our other ethical responsibilities in accordance with these requirements and the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for the Financial Statements

3. The Bank's management is responsible with respect to the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Bank in accordance with the accounting principles generally accepted in India, including the applicable Accounting Standards, and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

4. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may

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involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances¹.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Report that the audit at branch level is not able to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained at branch, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

5. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

- (a) Memorandum of Changes
- (b) Provision for Non Performing Advances (if applicable)

¹ When a branch is not scoped in for audit of IFCoFR this paragraph should be replaced as follows: "To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control".

- (c) Provision for Restructured Advances
- (d) Provision for Standard Advances
- (e) Provisions for Contingencies
- (f) Provision for Other Assets including expired leases and frauds
- (g) Provision for Un-hedged Foreign Currency Exposure
- (h) Provision for Step Down subsidiaries
- (i) Provision for Country Risk
- (j) Profit/Loss on Revaluations/Restatements as per Accounting Standard 11 “The effects of changes in Foreign Exchange Rates”.
- (k) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- (l) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of ‘AS 15 (Revised)–Employee Benefits’ issued by the Institute of Chartered Accountants of India;
- (m) Arrears of salary/wages/allowances, if any, payable to staff;
- (n) Staff welfare contractual obligations;
- (o) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office adjustments;
- (p) Interest on overdue term deposits;
- (q) Depreciation on fixed assets;
- (r) Auditors’ fees and expenses;
- (s) Taxation (Current Tax and Deferred Tax);
- (t) Any other provision made by Head Office.

6. The following is a summary of Memorandum of Changes submitted by us to the branch management².

Memorandum of Changes (summary)
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² Where applicable.

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	No.	Increase	Decrease
a) In respect of Income			
b) In respect of expenditure			
c) In respect of Assets			
d) In respect of Liabilities			
e) In respect of Gross NPAs			
f) In respect of Provision on NPAs ³			
g) In respect of Classification of Advances			
h) In respect of Risk Weighted Assets			
i) Other items (if any)			

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949;

8. Subject to the limitations of the audit indicated in Paragraphs 4 to 6 above and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, and subject also to the limitations of disclosure required therein, we report that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit and have found them to be satisfactory;
- b. The transactions of the branch which have come to our notice have been within the powers of the Bank;
- c. The returns received from the branch have been found adequate for the purposes of our audit.

9. As required by the RBI's letter no. DOS.ARG.No.6270 /08.91.001/2019-20 dated March 17, 2020 (as amended), we report that:

- a. ⁴The observation or comments on financial transactions or matters which have any adverse effect on the functioning of the bank are as follows:
 - i.

³Applicable in cases where banks determine provision at Branch level.

⁴ In case if there are no such observations, the SBA would state the same accordingly.

- ii.
 - b. ⁵The qualification, reservation or adverse remarks relating to the maintenance of accounts and other matters connected therewith are as follows:
 - i.
 - ii.
 - c. ⁶Our audit report on the operating effectiveness of the Branch's internal financial controls over financial reporting is given in **Annexure A** to this report. Our report expresses an unmodified opinion on the operating effectiveness of internal financial controls over financial reporting of the Branch as at _____ (balance sheet date)."
10. We further report that:
- a. in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
 - b. the Balance Sheet, and the Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - c. In our opinion, the Balance Sheet, and the Profit and Loss Account comply with the applicable Accounting Standards, to the extent they are not inconsistent with the accounting policies prescribed by RBI.

For ABC and Co.
Chartered Accountants
Firm Registration No.

Signature
(Name of the Member Signing the Audit Report)
(Designation)⁷
Membership Number
UDIN

Place of Signature
Date

⁵ In case if there are no qualifications / reservations / adverse remarks, the SBA would state the same accordingly.

⁶ This reporting will be required only when a branch is scoped in for audit of IFCoFR.

⁷ Partner or proprietor as the case may be.

ANNEXURE “A” TO THE INDEPENDENT AUDITOR’S REPORT

(Referred to in Paragraph 9(c) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date)

Report on the Operating Effectiveness of Internal Financial Controls Over Financial Reporting as required by the Reserve Bank of India (the “RBI”) Letter DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended), (the “RBI communication”)

We have audited the operating effectiveness of the internal financial controls over financial reporting of ___ Branch (“the Branch”) of ___Bank (“the Bank”) as of March 31, 20XX in conjunction with our audit of the standalone financial statements of the Branch for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

The Bank’s management is responsible for establishing and maintaining internal financial controls based on ____ [for example, “the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”] These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Banking Regulation Act, 1949 and the circulars and guidelines issued by the Reserve Bank of India.

Auditor’s Responsibility

Our responsibility is to express an opinion on the operating effectiveness of internal financial controls over financial reporting of the Branch based on our audit. Our audit of internal financial controls over financial reporting did not include an evaluation of the adequacy of the design and implementation of such internal financial controls over financial reporting since those aspects are audited by the Statutory Central Auditors of the Bank.

We conducted our audit based on the instructions provided by the Statutory Central Auditors of the Bank and in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”)

issued by the Institute of Chartered Accountants of India (the “ICAI”) and the Standards on Auditing (SAs) issued by the ICAI, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether internal financial controls over financial reporting operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the operating effectiveness of the internal financial controls over financial reporting of the Branch. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the operating effectiveness of the Branch’s internal financial controls over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A Bank’s internal financial controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank’s internal financial controls over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank’s assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial controls over financial reporting may become inadequate because of changes in

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conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, and to the best of our information and according to the explanations given to us, the Branch has, in all material respects, internal financial controls over financial reporting that were operating effectively as at March 31, 20XX, based on _____ [for example, “the criteria for internal control over financial reporting established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”].

For XYZ & Co
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁸)
(Membership No.)
UDIN

Place of Signature:
Date:

⁸ Partner or Proprietor, as the case may be.

APPENDIX IV

Illustrative Format of Report of the Branch Auditor of a Banking Company Independent Bank Branch Auditor's Report

To,
The Statutory Central Auditors
_____ Bank Limited

Report on the Audit of the Financial Statements

Opinion

1. We have audited the Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, the Statement of Profit and Loss, and other explanatory information [*in which are included the Returns for the year ended on that date*].

In our opinion, and to the best of our information and according to the explanations given to us, read with the Memorandum of Changes (mentioned in Paragraph 7 below), the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs in case of the Balance Sheet of the branch as at March 31, 20XX and its profit/loss for the year ended on that date.

Basis for Opinion

2. We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

3. The Management of the Branch is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Branch in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Branch and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the Financial Statements

4. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive

to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the bank has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Report that the audit at branch level is not be able to conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained at branch, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

5. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

- (a) Memorandum of Changes
- (b) Provision for Non Performing Advances (if applicable)

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- (c) Provision for Restructured Advances
- (d) Provision for Standard Advances
- (e) Provisions for Contingencies
- (f) Provision for Other Assets including expired leases and frauds
- (g) Provision for Un-hedged Foreign Currency Exposure
- (h) Provision for Step Down subsidiaries
- (i) Provision for Country Risk
- (j) Profit/Loss on Revaluations/Restatements as per Accounting Standard 11 "The effects of changes in Foreign Exchange Rates
- (k) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- (l) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 (Revised)–Employee Benefits' issued by the Institute of Chartered Accountants of India;
- (m) Arrears of salary/wages/allowances, if any, payable to staff;
- (n) Staff welfare contractual obligations;
- (o) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments;
- (p) Interest on overdue term deposits;
- (q) Depreciation on fixed assets;
- (r) Auditors' fees and expenses;
- (s) Taxation (Current Tax and Deferred Tax);
- (t) Any other provision made by Head Office.

6. The following is a summary of Memorandum of Changes submitted by us to the branch management⁹.

Memorandum of Changes (summary)			
	No.	Increase ₹	Decrease ₹
a) In respect of Income			
b) In respect of expenditure			

⁹Where Applicable.

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c) In respect of Assets			
d) In respect of Liabilities			
e) In respect of Gross NPAs			
f) In respect of Provision on NPAs ¹⁰			
g) In respect of Classification of Advances			
h) In respect of Risk Weighted Assets			
i) Other items (if any)			

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Act.

8. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:

- (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and have found them to be satisfactory.
- (b) The transactions of the branch which have come to my/our notice have been within the powers of the Bank.
- (c) The returns received from the branch have been found adequate for the purposes of our audit.
- (d) the profit and loss account shows a true balance [of profit or loss] for the year then ended.

9. Further, as required by section 143(3) of the Act, we report that:

- (a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) in our opinion, proper books of account as required by law have been kept by the branch so far as appears from our examination of those books;

¹⁰Applicable in cases where banks determine provision at Branch level.

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- (c) the Balance Sheet, and the Statement of Profit and Loss, dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
- (e) with respect to the adequacy of the internal financial controls over financial reporting of the Branch and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”;
- (f) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - (i) The Branch has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule XX / Note XX to the financial statements; *(or the Branch does not have any pending litigations which would impact its financial position¹¹)*
 - (ii) The Branch has made provision, as required under the applicable law or Accounting Standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts -Refer Schedule XX / Note XX to the financial statements; *(or the Branch did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses¹²)* and
 - (iii) There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Branch *(or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Branch or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Branch¹³).*
 - The management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the branch to or in any other person(s) or entity(ies), including foreign

¹¹ As may be applicable.

¹² As may be applicable.

¹³ As may be applicable.

entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries¹⁴;

- The management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the branch from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the branch shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries¹⁵; and
 - Based on such audit procedures that were considered reasonable and appropriate by us in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) contain any material misstatement¹⁶.
- (iv) Clause (f) of Rule 11 of the Companies (Audit and Auditors) Rules, 2014 is not applicable to the branch as the branch has not declared or paid dividend during the year¹⁷.
- (v) The branch has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention¹⁸.

For ABC and Co.
Chartered Accountants
Firm Registration No. _____

¹⁴ To be commented as applicable.

¹⁵ To be commented as applicable.

¹⁶ To be commented as applicable.

¹⁷ To be commented as applicable.

¹⁸ To be commented as applicable.

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Signature
(Name of the Member Signing the Audit Report)
(Designation)¹⁹
Membership Number
UDIN

Place of Signature
Date

¹⁹ Partner or proprietor as the case may be.

Annexure A to the independent auditor’s report of even date on the financial statements of _____ Branch of _____ Bank Limited

[Referred to in Paragraph 9(e) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date]

Report on the Internal Financial Controls over Financial Reporting under Clause (i) of Sub-section (3) of Section 143 of the Companies Act, 2013

1. We have audited the internal financial controls over financial reporting of _____ Branch of _____ Bank Limited (‘the Branch’) as at 31 March 20XX in conjunction with our audit of the financial statements of the Branch for the year ended on that date.

Management’s Responsibility for Internal Financial Controls over Financial Reporting

2. The Management of the Branch is responsible for establishing and maintaining internal financial controls based on _____ [for example, “the internal control over financial reporting criteria established by the Branch considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (‘the Guidance Note’) issued by the Institute of Chartered Accountants of India (‘the ICAI’)”]. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Branch’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 (‘the Act’).

Auditor’s Responsibility

3. Our responsibility is to express an opinion on the Branch’s internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (‘the Guidance Note’) and the Standards on Auditing (‘the Standards’), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls over financial reporting, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Branch's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

6. A branch's internal financial controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A branch's internal financial controls over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the branch; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the branch are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the branch's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial controls over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Branch has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 201X, based on _____ [for example, “the internal control over financial reporting criteria established by the Branch considering the essential components of internal control stated in the Guidance Note issued by the ICAI”].

For ABC and Co.
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation)²⁰
Membership Number
UDIN

Place of Signature
Date of Report

²⁰Partner or proprietor, as the case may be.

APPENDIX V

Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor

{The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances relevant to the engagement.}

The Branch Head

(or the appropriate representative of senior management).

[Date]

Subject: Engagement Letter

Dear Sirs,

1. The Objective and Scope of the Audit

We refer to the letter No. datedreceived from(Name of the relevant authority) informing us about our appointment to carry out the statutory audit of the (name of the branch) branch of your Bank for the financial year beginning April 1, 20XX and ending 31st March 20YY, including Tax Audit, issuance of the Long Form Audit Report and, as a part of the audit, verification and/ or certification of certain specific aspects pertaining to these branches, as listed in your aforementioned letter.

The purpose of this letter is to confirm our understanding of our mutual responsibilities arising as a result of our appointment as the statutory auditors of the Branch for the year March 31, 20XX. These terms will remain effective in respect of audit unless amended, in writing, with the agreement of both parties.

Scope of the engagement

- For the purpose of clarity our engagement would cover the following services:
 - Statutory audit of the financial statements of the branch for the year ended March 31, 20XX,
 - Long Form Audit Report (LFAR) for the year ending March 31, 20XX
 - Tax audit of the branch under section 44AB of the Income-tax Act, 1961 (if applicable)

- Other certifications and services as defined in aforesaid appointment letter

Our audit of the financial statements of this branch will be conducted with the objective of our expressing an opinion on the financial statements of the branch. These financial statements include the Balance Sheet, wherein we express our opinion on the true and fair view of the state of affairs as at 31st March 20XX and the Profit and Loss Account, wherein we express our opinion on the true balance of the profit/ loss for the year ended on 31st March 20XX. The objective and scope of our audit, *inter alia*, includes reporting in conjunction whether the branch's internal financial controls over financial reporting were operating effectively as at balance sheet date²¹ in terms of RBI's letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended).

Further, the objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing (SAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

2. The Responsibilities of the Auditor

- i) We will conduct our audit in accordance with the Standards on Auditing (SAs) and any other applicable pronouncements issued by the Institute of Chartered Accountants of India (ICAI), as well as the requirements of the Banking Regulation Act, 1949, and the guidelines/ directions issued by the Reserve Bank of India under the said statutes, from time to time. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than

²¹This reporting will be required only when a branch is scoped in for audit of Internal Financial Controls over Financial Reporting.

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for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. We will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the Financial Statements that we have identified during the audit.²²
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ii) Because of the inherent limitations of an audit, including the possibility of collusion or improper management override of controls, there is an unavoidable risk that material misstatements due to fraud or error may occur and not be detected, even though the audit is properly planned and performed in accordance with SAs.
- iii) We invite your attention to the fact that, in terms of RBI Circular No. DBS.FGV.(F).No.BC 12/ 23.08.001/2001-02 dated May 3, 2002 relating to implementation of recommendations of the Committee on Legal Aspects of Bank Frauds (Mitra Committee) and the recommendations of the High Level

²²when a branch is not scoped in for audit of internal financial controls over financial reporting, this paragraph should be replaced as follows:

"Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control".

Group set-up by the Central Vigilance Commission applicable to all scheduled commercial banks (excluding RRBs) we are required to report to the RBI anything susceptible to fraud or fraudulent activity or any act of excess power or any foul play in any transaction.

- iv) During the course of performance of our duties, if there is any reason to believe that an offence involving fraud is being or has been committed against the Bank by officers or employees of the Bank, we shall report the matter.
- v) ²³We invite your attention to the fact that in terms of RBI's letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended), we are required to also report on the following matters in our report:
 - a) Whether the financial statements comply with the applicable accounting standards.
 - b) The observations or comments on financial transactions or matters which have any adverse effect on the functioning of the branch.
 - c) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.
 - d) Whether the branch's internal financial controls over financial reporting were operating effectively as at balance sheet date²⁴ (The terms of reference for our audit of the internal financial controls over financial reporting carried out in conjunction with our audit of the Branch's financial statements will be as stated in the separate engagement letter for conducting such audit and should be read in conjunction with this letter).
 - e) In accordance with the provisions of Section 360 of "Code of Ethics, 2019 Volume I" as issued by Institute of Chartered Accountants of India, if in the course of performance of our duties as auditor, we or any individual Professional Accountant associated with us, encounters or is made aware of information concerning non-compliance or suspected non-compliance with laws and regulations, we are required to comply with "Responsibilities of Professional Accountant" in accordance with

²³To be considered if the same is communicated by SCA / Bank in the scope of work communicated as per the appointment letter.

²⁴This reporting will be required only when a branch is scoped in for audit of Internal Financial Controls over Financial Reporting.

the provisions under the above mentioned Section, which may extend to reporting to appropriate authority. Such reporting will be made in good faith and, therefore, cannot be considered as breach of maintenance of Entity's confidentiality requirements or be subject to any suit, prosecution, or other legal proceeding.

3. The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our assignment will be conducted on the basis that the branch management and, where appropriate, those charged with governance of the bank acknowledge and understand that they have responsibility:

- i) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Framework. This includes:
 - proper maintenance of accounts and other matters connected therewith;
 - Ensuring that the transactions of the Branch are within the powers of the Branch;
 - Compliance with the requirements of the relevant laws and regulations applicable to the Bank
 - the responsibility for the preparation of financial statements in accordance with the applicable accounting standards and providing proper explanation relating to any material departures from those accounting standards on a going concern basis;
 - the responsibility for selection and consistent application of appropriate accounting policies, including implementation of applicable Accounting Standards, along with proper explanation relating to any material departures from those Accounting Standards;
 - devising proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively;
 - The accounting software, related systems, and tools used for maintaining its books of accounts (together 'the accounting system') has a feature of recording the audit trail/edit log of all transactions.
 - The feature of audit trail has been effectively operated throughout the year for all the transactions recorded in the accounting system.

- The audit trail feature of the accounting system has not been tampered with, and the audit trail has been preserved as per the statutory requirements for record retention. The responsibility for making judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the branch at the end of the financial year and true balance of the profit or loss of the branch for that period.
- ii) for such internal controls, as the branch management determines, are necessary to enable the preparation of financial statements, that are free from material misstatement, whether due to fraud or error. The responsibility for internal controls also implicitly enshrines the responsibility for compliance with the relevant directions/ circulars of the Reserve Bank of India, including for those aspects which have been specifically listed for verification/ certification by us in your aforementioned letter;
- iii) Identifying and informing us of financial transactions or matters that may have an adverse effect on the functioning of the branch.
- iv) Informing us that any fraud or suspected fraud including suspicious activities, transactions or operating circumstances in the Bank that indicate reasons to believe that an offence is being or has been committed against the Bank by officers or employees of the Bank. Additionally, as per Circular No. NF-25013/2/2023 dated June 26,2023 by National Financial Reporting Authority in case of a fraud involving or expected to involve individually an amount of Rs. 1.00 crore or above, the management is responsible to provide any reply/ observations from the Board/Audit Committee within 45 days.
- v) The Bank management is responsible for the availability and accuracy of the data, in such manner and form that the extracted data from the live server, represents the same form and manner and contains the same particulars as that of the live server
- vi) Informing us of facts that may affect the financial statements, of which Management may become aware during the period from the date of our report to the date the financial statements are issued.
- vii) to provide us with:
 - a. access to all information, including the books, accounts, vouchers, internal policies and circulars, and other records and documentation, of the branch, whether kept at the branch office or elsewhere, of which the branch management is aware, that is relevant to the preparation of the financial statements and internal financial controls such as records, documentation and other matters;
 - b. additional information that we may request from the branch

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- management for the purpose of the audit, including any internal audit, concurrent audit, revenue audit, stock audit, Reserve Bank of India's Inspection report; and their latest updated compliance position.
- c. unrestricted access to persons within the branch, from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the branch such information and explanations, as we may think necessary for the performance of our duties as auditor.
 - d. All information, such as internal policies and circulars, records and documentation, and other matters that are relevant to our assessment of internal financial controls.
 - e. All the required support to discharge our duties as the statutory central auditor as stipulated under the Act/ ICAI Standards on Auditing and applicable guidance.
 - f. Informing us of significant changes in the design or operation of the Bank's internal financial controls that occurred during or subsequent to the date being reported on, including proposed changes being considered;
 - g. As part of our audit process, we will request from the Management, written confirmation concerning representations made to us in connection with the audit, including confirmations in respect of the balances held by the Bank with other banks, and such other items on the financial statements of the Bank, as may be considered necessary by us for the purpose of our assignment. It may also be noted that non-submission of a written confirmation containing representations asked for or non-provision of any information/ confirmation, requested by us from the management, may result in limitation on the scope of our assignment and may possibly invite qualifications in the auditor's report.
 - h. Unrestricted access of "view only" rights in respect of all functions in Core Banking Solution (CBS) environment and all other applicable IT applications in use in the Bank to enable us to perform the audit.
 - i. The management is also responsible for adjusting the financial statements to correct material uncorrected misstatements brought to its attention by us and affirming to us in the representation letter that the effects of any uncorrected misstatements brought to its attention by us

- are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The results of our audit tests, the responses to our inquiries and the written representations of management comprise the evidential matter upon which we intend to rely in forming our opinion on financial statements.
- j. All relevant circulars, guidelines, clarifications etc., issued by RBI from time to time.
 - k. For identifying and informing us of:
 - i. All the pending litigations and confirming that the impact of the pending litigations on the Bank's financial position has been disclosed appropriately in its Financial Statements;
 - ii. Any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank;
 - iii. Any delay in transferring amounts, required to be transferred, to the Depositor Education and Awareness Fund (DEAF).

4. Other Matters

As part of our assignment, we will request from the branch management, written confirmation concerning representations made to us in connection with the audit, in accordance with Standard on Auditing 580 – “Written Representations”, issued by the ICAI including confirmations in respect of the balances held by the Branch with other banks and such other items on the financial statements of the Branch, as may be considered necessary by us for the purpose of our assignment.

It may also be noted that non-submission of the written confirmation to the representations asked for or non-provision of any information/ confirmation, requested by us from the branch management, may result in limitation on the scope of our assignment and possibly invite necessary qualification in our auditor's report.

We also wish to invite your attention to the fact that our audit process is subject to 'peer review'/ 'quality review' under the Chartered Accountants Act, 1949, to be conducted by an independent reviewer. The reviewer may inspect, examine or take abstracts of our working papers, in the course of the peer review / quality review.

5. Audit Working Papers

The working papers, files and other electronic documents prepared in conjunction with our audits are the sole property of the Audit Firm, constitute confidential information and will be retained by us in accordance with our policies and procedures. However, we hereby acknowledge that the details or data received from you for preparation of these working papers are confidential information of the branch and will not be disclosed by us to any third party, except as set out elsewhere in this letter or when required by legislation, without the prior written consent from the Bank.

During the course of rendering audit services, our working papers (physical and electronic) may be created on the Bank's technology environment. The working papers belong to the firm and will be shared by the Bank with us without delay on a periodic basis. We will coordinate with the Bank to develop a protocol for porting of such working papers from the Bank's environment to us.

6. Peer Review and Regulatory Reviews

- In accordance with the *Statement on Peer Review* issued by the Institute of Chartered Accountants of India or as may be required or mandated by any other competent regulator, our services covered by this letter may be subject to a review to be conducted by an independent reviewer who can inspect, examine or take abstract of our working papers including those provided by you. Similarly review of our records and audit working papers may be conducted as per directions issued by any Regulatory Authority.
- Neither party shall have any confidentiality obligations with respect to any information that is disclosed pursuant to applicable laws, regulations, other legal process or professional obligations, or in connection with the enforcement of the recipient's rights under this Agreement.
- Notwithstanding the foregoing, confidentiality information shall not include any data, information or device that is: a) in our possession prior to its disclosure by the Bank and not subject to other restriction on disclosure b) independently developed by us without use of information disclosed to us pursuant to this Engagement Letter c) publicly disclosed by the Bank d) rightfully received by us from a third party without restriction on disclosure e) where confidential information properly enters the public domain f) no longer remains confidential without our default or g) approved for unrestricted release or unrestricted disclosure by the Bank.

- Our Firm collectively / or any staff / partner of the Firm in their individual capacity shall be bound by the confidentiality obligation and no information of the Bank whether financial or otherwise shall be revealed or used for the benefit of the Firm, staff or partners of the Firm or otherwise unless any information is required to be disclosed pursuant to applicable law, regulations, other legal process, legal advisors or in connection with the enforcement of the recipient's rights under the Engagement Letter.

7. Updating UDIN

We also wish to highlight that pursuant to the ICAI requirements, we are required to update certain relevant details of the operations of the Bank in the Unique Document Identification Number (UDIN) Portal of the ICAI for generating the UDIN reference number, which is required to be stated in the report / certificates issued by us to or on behalf of the branch.

We look forward to full cooperation from your staff during our audit.

Our fees for the said audits (excluding fees for Tax Audit and the travelling expenses will be as specified in Letter of Appointment.

Our fees for audit of Non Business Offices/ CMS Branches, as well as the tax audit fees of the branches, would be as specified in your aforementioned letter.

This letter should be read in conjunction with our letter dated ___ for the Audit of Internal Financial Controls Over Financial Reporting in terms of RBI's letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended), in respect of which separate fees have been fixed/will be as mutually agreed.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our aforementioned assignment/s including our respective responsibilities (Kindly also mark a copy of such acknowledgement to the concerned official/s of the respective branch managements).

8. Limitation of liability and indemnity

- We shall not be liable to anyone else other than the Bank, unless specifically responsible under the applicable laws and regulations. Except to the extent finally determined by the court of law to have resulted from our gross negligence or willful misconduct, <the name firm>' maximum aggregate liability to the Bank in respect of the performance of the Services agreed herein shall be limited to the fees paid to us for the respective Service which gave rise to such liability.

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- The Bank agrees to indemnify and hold us and its personnel harmless from all expenses, damages, losses, harm, injury suffered or incurred by us, and any third-party claims, liabilities, costs and expenses on us, arising out of:
 - our Services under this Engagement Letter, if any, arising for reason other than our gross negligence or wilful misconduct as finally determined by the court of law.
 - breach of any of the terms of this agreement by the Bank.
- The Firm shall also not be liable for any loss incurred by the Bank on account of or arising out of any act of fraud, misrepresentation or default committed by the Bank or by its Directors, or any of its officers, employees, or any other representatives or incorrect, incomplete or false information provided by the Bank or by any of its officers, employees, or any other representatives. The Bank shall be responsible for any loss caused to the Firm and cost incurred by the Firm in such cases.

9. Jurisdiction

This Engagement Letter shall be governed by, and construed in accordance with, the laws of India. Any dispute arising out of the Services or this Engagement Letter shall be subject to the exclusive jurisdiction of the courts of _____, to which the parties hereby agree to submit for these purposes.

10. Our Fees

- Our fees for the audits of financial statements over financial reporting as at [state Balance Sheet date] have been fixed by the Bank at Rs. _____, plus out-of-pocket expenses and indirect taxes.

We will bill as the work progresses. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate of fees and discuss with you any additional fees, as necessary.

This letter should be read in conjunction with our letter dated ____ for the audit of financial statements of the Branch and the terms and conditions specified in the said letter will extend to this letter.

We look forward to full cooperation from your staff during our audit.

XYZ & Co.
Chartered Accountants

.....
(Signature)

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(Name of the Member)
Designation²⁵

Date:

Place:

Acknowledged on behalf of Branch ofBank

.....

(Signature)

Name and Designation

Date

Attached: Letter of Acceptance duly signed by us.

²⁵Partner or proprietor, as the case may be.

APPENDIX VI

Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor (Separate only for Audit of Internal Financial Controls Over Financial Reporting)²⁶

(Name of the Branch and Address)

Dear Sirs,

The Objective and Scope of the Audit

You have requested that we carry out an audit of the operating effectiveness of the internal financial controls over financial reporting of _____ Branch (“the Branch”) of ____ Bank (the ‘Bank’) as at March 31, 20YY [balance sheet date] in conjunction with our audit of the standalone financial statements of the Branch for the year ended on that date.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of expressing our opinion as required by letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 on “Appointment of Statutory Central Auditors (SCAs) in Public Sector Banks – Reporting obligations for SCAs from FY 2019-20”, read with subsequent communication dated May 19, 2020 issued by the RBI (the “RBI communication”), on the adequacy of internal financial controls over financial reporting and the operating effectiveness of such controls as at March 31, 20YY based on the internal control criteria established by you.

Our audit of internal financial controls over financial reporting will not include an evaluation of the adequacy of design and implementation of such internal financial controls over financial reporting since those aspects are audited by the Statutory Central Auditors of the Bank.

²⁶ This Appendix will be required only when a branch is scoped in for audit of IFCoFR.

Audit of Internal Financial Controls Over Financial Reporting

We will conduct our audit of the internal financial controls over financial reporting in accordance with the instructions provided by the Statutory Central Auditors of the Bank and in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (“the Guidance Note”) issued by the Institute of Chartered Accountants of India (the “ICAI”) and the Standards on Auditing (SAs) issued by the ICAI, to the extent applicable to an audit of internal financial controls over financial reporting. The Guidance Note and Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about the operating effectiveness of the internal financial controls over financial reporting as at the balance sheet date.

An audit of the operating effectiveness of internal financial controls over financial reporting involves performing procedures to obtain audit evidence about the operating effectiveness of the internal financial controls over financial reporting.

The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Inherent limitations in an Audit of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper Management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projection of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial controls over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management’s Responsibility

Our audit will be conducted on the basis that Management and those charged with governance (Audit Committee / Board) acknowledge and understand that they have responsibility:

- (a) For establishing and maintaining adequate and effective internal financial controls based on the [state criteria] [for example, “the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of

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Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”] for ensuring the orderly and efficient conduct of its business, including adherence to Bank’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Banking Regulation Act, 1949.

- (b) To provide us, *inter alia*, with:
- (i) Management’s evaluation and assessment of the adequacy and effectiveness of the Bank’s internal financial controls, based on the control criteria [mention the control criteria] and all deficiencies, significant deficiencies and material weaknesses in the design or operations of internal financial controls identified as part of Management’s evaluation;
 - (ii) Access, at all times, to all information, including the books, account, vouchers and other records and documentation, of the Bank, whether kept at the head office of the Bank or elsewhere, of which Management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (iii) All information, such as records and documentation, and other matters that are relevant to our assessment of internal financial controls;
 - (iv) Additional information that we may request from Management for the purpose of the audit;
 - (v) Unrestricted access to persons within the Bank from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the Bank such information and explanations as we may think necessary for the performance of our duties as auditor;
 - (vi) Any communication from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices;
 - (vii) Management’s conclusion over the Bank’s internal financial controls based on the control criteria set above as at the balance sheet date [insert date];

- (viii) Informing us of significant changes in the design or operation of the Bank's internal financial controls that occurred during or subsequent to the date being reported on, including proposed changes being considered; and
 - (ix) All the required support to discharge our duties as the statutory auditors as stipulated under the Banking Regulation Act, 1949 / ICAI Auditing Standards and Guidance Notes.
- (c) As part of our audit process, we will request from Management and those charged with governance, written confirmation concerning representations made to us in connection with the audit.

We also wish to invite your attention to the fact that our audit process is subject to 'peer review' / 'quality review' under the Chartered Accountants Act, 1949 and in accordance with our Firm's policies to be conducted by independent reviewer(s). The reviewer(s) may inspect, examine or take abstract of our working papers during the course of the peer review/quality review.

Reporting

Our reports will be issued pursuant to the requirements of the RBI communication. The form and content of our reports may need to be amended in the light of our audit findings.

Our Fees

- Our fees for the audits of the internal financial controls over financial reporting as at [state Balance Sheet date] have been fixed by the RBI at Rs. _____, plus out-of-pocket expenses and indirect taxes.

We will bill as the work progresses. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate of fees and discuss with you any additional fees, as necessary.

This letter should be read in conjunction with our letter dated ____ for the audit of financial statements of the Branch and the terms and conditions specified in the said letter will extend to this letter.

We look forward to full cooperation from your staff during our audit.

Please sign and return the attached copy of this letter after placing the same with the Audit Committee or the Board of Directors together with your acknowledgement of, and agreement with, the arrangements for our audit of the

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internal financial controls over financial reporting including our respective responsibilities.

Yours faithfully,

For _____
Chartered Accountants
(Firm Registration No. _____)

Place:

Date:

Xxxxxx
Partner

Copy to: Chairman, Audit Committee

Acknowledged on behalf of <<Name of the Branch>>

Name and Designation: _____

Date: _____

APPENDIX VII

Illustrative Format of Written Representation Letter²⁷ to be obtained from the Branch Management

M/s XYZ & Co.,
Chartered Accountants,
Place

Dear Sir(s),

Sub.: Audit for the year ended March 31, 20XX

This representation letter is provided in connection with your audit of the financial statements of _____ branch of _____ bank, for the year ended March 31, 20XX, for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the state of affairs of _____ branch of _____ bank as of March 31, 20XX, and of the results of operations for the year then ended. We acknowledge our responsibility for preparation of financial statements, in accordance with the financial reporting framework applicable to the Bank, including the regulatory requirements of the Reserve Bank of India.

We confirm, to the best of our knowledge and belief, the following representation.

1. Accounting Policies

The accounting policies, as approved by the board of directors of the Bank, have been duly followed. There are no changes in the accounting policies followed by the branch during the current year.

2. Assets

- 2.1 All the assets owned by the bank and transferred to the branch and such other asset/s, as has/ have been acquired by the branch, has/have been duly accounted for, and none of the assets is encumbered except those assets in respect of which appropriate disclosures are made in the financial statements.
- 2.2 Fixed assets held by branches have been properly accounted from the date the asset is purchased and put to use and have been physically verified with entries in the books of accounts and the fixed assets register, at the year

²⁷ Also refer Standard on Auditing (SA) 580, "Written Representations".

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end. No discrepancies have been noticed on such verification. Depreciation on these assets has been adequately provided as per the policy of the bank.

- 2.3 We confirm that the Branch does not hold any immovable property, howsoever acquired, for a period exceeding seven years from the date of acquisition, except such as is required for the Bank's own use other than those for which RBI approval is obtained.
- 2.4 We have also reviewed the depreciation and amortisation methods and concluded that the methods are as per accounting policy of the bank.
- 2.5 We confirm none of the assets have been revalued during the period under review.
- 2.6 In respect of assets other than fixed assets, the same have not been impaired and do not have a value lower than realizable value.
- 2.7 The branch is operating from a leased premise and there is no dispute with respect to the tenancy and lease charges.
- 2.8 The Branch has not got any notice from the landlord for evacuation or redevelopment of the premises which may possibly necessitate shifting the branch premises in the near future.

3. Capital Commitments

At the balance sheet date, outstanding commitments for capital expenditure have been duly depicted in the financial statements.

4. Cash and Bank Balances

The cash balance (including cash in ATM) as on March 31, 20XX is Rs. _____ and has been physically verified by us. Internal guidelines on periodic cash verification have been duly followed.

The branch is adequately covered by way of insurance. In case of breach of cash retention limit, the same is appropriately approved by the approving authority.

The branch has passed all necessary entries for unreconciled material entries in the Bank reconciliation statement to reflect appropriate bank balances of the Bank.

Fake notes received by the Branch have been duly impounded and relevant guidelines of RBI thereon have been complied.

Effective dual custody of cash has been maintained at all times during the financial year.

5. Liabilities and Deposits

- a) The branch has adequate monitoring and control process over dormant or in-operative accounts and re-activation of accounts is carried as per the approved process.
- b) The Branch has provided interest expenses as per approved interest rate applicable from time to time and credited to respective deposits/interest accrued till the date of Balance Sheet for all the category of deposits.
- c) The Branch has charged interest from saving accounts wherein there is Debit Balance or in case of overdraft facility or any other specific circumstances.
- d) The Branch has deducted TDS on all interest credited/accrued for deposits as per the requirements of Income Tax Act, 1961, as applicable.
- e) All matured and unclaimed term deposits are classified as Demand Deposits. Further, interest has been accrued on the basis of Savings Accounts interest rate on such unclaimed deposits.
- f) All savings and current accounts having debit balances are shown as Advances.
- g) The branch has recorded all known and anticipated liabilities in the financial statements and there are no other unrecorded liabilities, which require provision or any other disclosure in the Financials. Liabilities on account of GST have been correctly recorded.

6. Contingent Liabilities

- 6.1 The branch has fully disclosed in the notes to the financial statements;
 - (a) Guarantees that we have given to third parties;
 - (b) Letters of Credits (Local/ Import);
 - (c) Letters of Comfort (Local/ Import);
 - (d) Deferred Payment Credits/ Guarantees (Local/ Import); and
 - (e) Other contingent liabilities.
- 6.2 The list of letters of credits devolved, guarantees invoked and bills overdue, provided to you is complete and there are no omissions in the same. Further, no provision is required to be made for guarantees invoked not funded by the branch.
- 6.3 Other than for advances, there are no matters involving the branch in any claims in litigation, arbitration or other disputes, in which there may be some financial implications, including for staff claims, branch rentals, municipal

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taxes, local levies, etc., except for those which have been appropriately included under contingent liabilities.

- 6.4 None of the contingent liabilities disclosed and other than provided for are likely to result in a further loss, requiring adjustment of assets or liabilities or provisions in the books of accounts.
- 6.5 There have been no violations or possible violations of laws or regulations, the effect of which should be considered for provision in the Financial Statement as the basis for recording a contingent loss.
- 6.6 Frivolous claims from customers / third parties have not been included in Contingent liabilities.
- 6.7 There are no other claims on banks not acknowledged as debt, other than those disclosed in the financial returns.

7. Provision for Claims and Losses

Provision has been made in the accounts for all known losses and claims of material amounts.

8. Balancing of Books

The books of the accounts are computerised and hence the subsidiary records are automatically balanced with the relevant control records. In the case of manual sub-ledgers maintained, we confirm that they duly match with the general ledger balances.

9. Overdue/Matured Term Deposits

All overdue/ matured term deposits are held as matured term deposits.

10. Advances

- In respect of the advances and income thereon, the income recognition and asset classification norms prescribed by the Reserve Bank of India have been complied with.
- We confirm that the parameters fixed for identification of NPAs by the system are in accordance with the various norms issued by RBI from time to time.
- We confirm that automated controls, logics in automated systems and customization in CBS for restructuring of borrower's accounts under Resolution Framework, OTR, Covid and MSME have been put in place.

- We confirm that there is no account requiring provision to be made on accelerated basis as stipulated by RBI in Master Circular on IRAC norms except those already provided for.
- We have computed unhedged foreign currency exposure of our borrowers by including all exposures including off balance sheet exposure.
- The branch has created an enforceable security charge in respect of all non-performing assets where security value has been considered for computing provision, and this value is supported by a valid valuation report as required by RBI guidelines. As per RBI circular on 'Fair Practices Code for Lenders - Charging of Interest', interest is to be charged from the date of handover of cheque or demand draft and not from the date of actual disbursement. RBI has directed the banks to review their practices regarding mode of disbursal of loans, application of interest and other charges and take corrective action, including system level. We confirm that the Bank is fully compliant with the said guidelines.
- The loan accounts classified as NPAs are upgraded as 'standard' assets only if entire arrears of interest and principal of all loan accounts of the borrower are paid, and not on partial repayment of principal or interest
- We confirm that in the cases where there is security creation pending in terms of Credit Assessment Memo, the Bank has the contractual right to cause or require the borrower to create the necessary security as per the relevant Credit Assessment Memo

11. Outstanding in Suspense/ Sundry Account

- The year-wise/ entry-wise break up of amounts outstanding in Sundry deposits/ Sundry assets, as on March 31, 2024 have already been submitted to you along with explanation of the nature of the amounts in brief, and supporting evidences relating to the existence of such amounts in the aforesaid accounts.
- We have ensured that none of the securities in the nature of investments have been parked in the branches, except for the following:
 - _____
 - _____

12. Interest Provision

Interest provision has been made on deposits, etc., in accordance with the extant instructions of the Head Office.

The interest provision for Head Office interest shall be made at the Head Office.

13. Internal Financial Control over Financial Reporting

- 13.1 All material transactions pertaining to the Branch have been accurately and timely recorded in the accounting records and are being reflected properly in the financial statements.
- 13.2 Internal control system designed by the Bank's head office, which is required to be operated at the Branch has been meticulously followed particularly with respect to granting fund based as well non fund based credit facilities, acceptance of deposits, purchase of fixed assets, computation and accounting of those income and expenditure which is required to be computed and/or accounted by the Branch, preparation of annual closing returns including the financial statements and the closure process of financial statements to the extent the same is required to be carried out at the Branch. No material or significant weakness was observed in the operation of internal control system designed by the Bank's Head office and all such internal controls were operating effectively throughout the year. Further, there is no failure to correct any major weakness in internal control system.
- 13.3 We are responsible for establishing and maintaining adequate and effective internal financial controls, except to the extent such internal control are centrally designed and maintained, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India ('ICAI') and the preparation and presentation of the financial statements as set out in the terms of the audit engagement dated XXXXXXXXXX and, in particular, the assertions to you on the internal financial controls in accordance with the criteria mentioned above.
- 13.4 We have performed an evaluation and made an assessment of the adequacy and effectiveness of the Branch's internal financial controls based on the criteria mentioned in Paragraph 13.3 above for the year ended March 31, 20XX. Those evaluations do not include the procedures performed by you during the audit of internal financial controls over financial reporting as part

of the basis for our assessment of the effectiveness of internal financial controls.

13.5 All internal audit reports and concurrent audit reports of the Branch for the audits conducted and completed during the year have been made available to you. Further, exceptions/observations noted by the internal auditors/concurrent auditors have been either adequately addressed or are in the process of being addressed by the Branch. We confirm, to the best of our knowledge, that these exceptions/observations have no material impact on the Financial Statements.

14. Frauds

- We acknowledge the responsibility for the implementation and operations of the accounting and internal control systems designed to prevent and detect fraud and error.
- We have no knowledge of any allegation of fraud or suspected fraud affecting the Bank received through a communication from employees, customers, former employees, analysts, regulators, short sellers, or others.
- We have no knowledge of any fraud or suspected fraud, other than those disclosed to you, affecting the branch involving:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where fraud could have a material effect on the financial statements.
- In particular, we confirm that we are responsible for the following:
 - to set up a vigil mechanism for reporting suspected fraud and administer the mechanism effectively;
 - take appropriate action to detect the fraud and wrongful gain or loss, if any, incurred on account of the fraud;
 - address the control weaknesses which were the root cause for fraud and strengthen the internal control system;

We acknowledge that because of the inherent limitations of audit procedures, together with the inherent limitations of internal controls, there is an unavoidable risk that material misstatements due to fraud or error may occur and not be detected, even though the audit is properly planned and performed by you in accordance with the Standards on auditing.

15. Long Form Audit Report–Branch Response to the Questionnaire

In connection with the Long Form Audit Report, complete information (including all updated Internal Circulars issued till date, Receipt & disposal of Complaints and grievances) as regards each item in the questionnaire, has been made available to you in order to enable you to verify the same for the purpose of your audit.

16. Other Certifications

Duly authenticated, information along with necessary source documents as regards other matters which, as per the bank's letter of appointment, require certification, has been made available to you.

17. Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation, updated internal policies and circulars and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There are no material transactions including known liabilities and losses that have not been properly recorded in the accounting records underlying the financial statements.
- To the best of our knowledge, there have been no communications from regulatory agencies or Government representatives concerning investigations or allegations of non-compliance with laws or regulations in any jurisdiction, or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements
- Any other matters that the auditor may consider necessary.

18. General

There is no enquiry going on or concluded during the year by the Central Bureau of Investigation (CBI), or any other vigilance or investigating agency, on the branch or on its employees and no cases of frauds or of misappropriation of assets of the branch have come to the notice of the Management during the year, other than for amounts for which provisions have already been made in the books of accounts.

19. There have been no events subsequent to the balance sheet date, that require adjustment of, or disclosure in, the financial statements or notes thereto.

20. We have made available to you the latest version of the following reports on the accounts of our branch, and updated compliance by the branch on the observations contained therein:

- a. Previous year's branch audit report and LFAR;
- b. Internal inspection reports;
- c. Report on any other Inspection, audit that has been conducted in the course of the year.

21. Apart from what has been disclosed, the branch has not received any show cause notice, inspection advice, etc., from the Government of India, Reserve Bank of India or any other monitoring or regulatory authority of India that could have a material effect on the financial statements of the branch during the year.

22. The provision for non-performing assets, depreciation, provision for income tax, provision for bonus, gratuity, etc., is made at the Head Office. Therefore, the same has not been provided in the branch accounts. The branch

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has correctly deducted Tax at source and paid the same on time to the relevant authorities.

23. FIMMDA guidelines have been followed, wherever applicable.

24. The branch has complied with all aspects of contractual agreements, that could have a material effect on the financial statements in the event of non-compliance. There has not been non-compliance with requirements of regulating authorities, that could have a material effect on the financial statements in the event of non-compliance.

25. The other particulars required, have already been given to you, and particulars and other representations made to you from time to time are true and correct in all respects.

Thanking you,

Yours faithfully

For & on behalf of _____ branch of _____ bank

Authorised Signatory

APPENDIX VIII

Suggested Abbreviations used in the Banking Industry

Abbreviations have often been found to be used by the banking industry and in the Circulars/ guidelines/directions of the Reserve Bank of India. It is appropriate to understand what these abbreviations are:

<u>Abbreviation</u>	<u>Expanded form</u>
AACS	As Applicable to Co-operative Societies
ABS	Audited Balance Sheet/Asset Backed Security
ACF	Auto-Correlation Function
AD	Authorised Dealer
ADB	Asian Development Bank
ADR	American Depository Receipt
AE	Aggregate exposure
AFS	Annual Financial Statement/ Available For Sale
AGM	Annual General Meeting
AICCCA	Association of Independent Consumer Credit Counselling Agencies
AIFI	All-India Financial Institution
AIRCSC	All India Rural Credit Survey Committee
ALM	Asset-Liability Management
AMC	Asset Management Company
AML	Anti-Money Laundering
AO	Additive Outliers
AR	Auto Regression
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Ltd.
ARIMA	Auto-Regressive Integrated Moving Average
ASBA	Application Supported by Blocked Amount
ASM	Agency for Specialised Monitoring

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<u>Abbreviation</u>	<u>Expanded form</u>
ASSOCHAM	Associated Chambers of Commerce and Industry of India
ATM	Asynchronous Transfer Mode/ Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning
BCSBI	Banking Codes and Standards Board of India
BFS	Board for Financial Supervision
BG	Bank Guarantees
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlements/ Bureau of Indian Standards
B/L	Bill of Lading
BoE	Bill of Exchange
BoP	Balance of Payments
BOS	Banking Ombudsman Scheme
BOT	Build-Operate-Transfer
BPLR	Benchmark Prime Lending Rate
BPM5	Balance of Payments Manual, 5th edition
BPSD	Balance of Payments Division, DESACS, RBI
BPSS	Board for Payment and Settlement Systems
BR Act	Banking Regulation Act
BSC	Balanced Scorecard
BSE	Bombay Stock Exchange Ltd.
BSR	Basic Statistical Return
CAD	Capital Account Deficit
CAG	Controller and Auditor General of India
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and control
CAP	Corrective Action Plan
CBLO	Collateralised Borrowing and Lending Obligation

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
CBS	Core Banking Solutions
CC	Cash Credit
CCCS	Consumer Credit Counselling Service
CDDM	Credit Counselling and Debt Management
CCIL	Clearing Corporation of India Ltd.
CCO	Chief Compliance Officer
CCP	Central Counter Party
CD Ratio	Credit Deposit Ratio
CD	Certificate of Deposit
CDBMS	Central Data-base Management System
CDBS	Committee of Direction on Banking Statistics
CDF	Co-operative Development Fund
CDR	Corporate Debt Restructuring
CDRM	Corporate Debt Restructuring Mechanism
CDS	Credit Default Swap
CDSL	Central Depository Services Limited
CEO	Chief Executive Officer
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
CF	Company Finance
CFMS	Centralised Funds Management System
CFO	Chief Financial Officer
CFR	Central Fraud Registry
CFRA	Combined Finance and Revenue Accounts
CFS	Consolidated Financial Statements
CFT	Combating Financing of Terrorism
CFR	Central Fraud Registry
CGFT	Credit Guarantee Fund Trust
CGRA	Currency and Gold Revaluation Account
CGTSI	Credit Guarantee Trust for Small Industries
CRGFTLIH	Credit Risk Guarantee Fund Trust for Low Income Housing

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
CRMD	Credit Risk Management Department
CGTMSE	Credit Guarantee Fund Trust For Micro And Small Enterprises
CIBIL	Credit Information Bureau of India Limited
CII	Confederation of Indian Industries
CIN	Corporate Identity Number
CKYC	Central KYC
CKYCR	Central KYC Records Registry
CLCC	Central Labour Co-ordination Committee
CLF	Collateralised Lending Facility
CME	Capital Market Exposure
CMP	Conflict Management Policy
CO	Capital Outlay
COBIT	Control Objectives for Information and related Technology
CP	Commercial Paper
CPC	Cheque Processing Centre
CPI	Consumer Price Index
CPI-IW	Consumer Price Index for Industrial Workers
CPOS	Central Point of Supervision
CPPAPS	Committee on Procedures and Performance Audit on Public Services
CPSS	Committee on Payment and Settlement System
CPTC	Collection and Purity Testing Centre
CR	Capital Receipts
CRAR	Capital to Risk-Weighted Asset Ratio
CRCS	Central Registrar of Co-operative Societies
CRE	Commercial Real Estate
CRE – RH	Commercial Real Estate – Residential Housing Sector
CRILC	Central Repository of Information on Large Credits
CRO	Chief Risk Officer
CRR	Cash Reserve Ratio
CSA	Co-operative Societies Act

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
CSD	Customer Service Department
CSGL	Constituent Subsidiary General Ledger
CSIR	Council of Scientific and Industrial Research
CSO	Central Statistical Organisation
CTO	Chief Technology Officer
CTR	Cash Transaction Report
CTS	Cheque Truncation System
CVC	Central Vigilance Commission
D&B	Dun & Bradstreet Information Services India (P) Ltd.
DAPs	Development Action Plans
DBOD	Department of Banking Operations and Development
DBS	Department of Banking Supervision
DCA	Debtor creditor agreement
DCB	Demand Collection and Balance
DCCB	District Central Co-operative Banks
DCCO	Date of Commencement of Commercial Operations
DCM	Department of Currency Management, RBI
DCRR	Department for Co-operative Revival and Reforms
DD	Demand Draft
DDS	Data Dissemination Standards
DEAF	Depositor Education and Awareness Fund
DEIO	Department of External Investments and Operations
DESACS	Department of Statistical Analysis & Computer Services, RBI
DFI	Development Finance Institution
DGBA	Department of Government and Bank Accounts, RBI
DGCI&S	Directorate General of Commercial Intelligence and Statistics
DI	Direct Investment
DICGC	Deposit Insurance and Credit Guarantee Corporation of India
DID	Discharge of Internal Debt

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
DIN	Director Identification Number
DLIC	District Level Implementation and Monitoring Committee
DMA	Direct Marketing Agent
DNSS	Deferred Net Settlement System
DP	Drawing Power
DPN	Demand Promissory Note
DPSS	Department of Payment and Settlement Systems
DRI	Differential Rate of Interest
DRT	Debt Recovery Tribunal
DSA	Direct Sales Agent
DSBB	Dissemination Standards Bulletin Board
DSCR	Debt Service Coverage Ratio
DTL	Demand and Time Liability
DvP	Delivery <i>versus</i> Payment
EBR	Export Bills Rediscounted
ECB	External Commercial Borrowing/ European Central Bank
ECGC	Export Credit and Guarantee Corporation
ECS	Electronic Clearing Service
EDI	Electronic Data Interchange
EDMU	External Debt Management Unit
EDPMS	Export Data Processing and Monitoring System
EEA	Exchange Equalization Account
EEC	European Economic Community
EEFC	Exchange Earners Foreign Currency
EFR	Exchange Fluctuation Reserve
EFT	Electronic Funds Transfer
EME	Emerging Market Economy
EMI	Equated Monthly Installment
EPF	Employees Provident Fund
ESOP	Employee Stock Option Plans
ETF	Empowered Task Force

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
EUR	Euro
EWS	Early Warning System
EXIM Bank	Export Import Bank of India
FAQs	Frequently Asked Questions
FBIL	Financial Benchmarks India Private Limited
FATF	Financial Action Task Force
FCA	Foreign Currency Assets
FCAC	Fuller Capital Account Convertibility
FCCB	Foreign Currency Convertible Bond
FC GPR	Foreign Collaboration- General Permission Route
FCNR (B)	Foreign Currency Non-Resident (Banks)
FCNR	Foreign Currency Non-Resident
FCNRA	Foreign Currency Non-resident Account
FCNRD	Foreign Currency Non-Repatriable Deposit
FC TRS	Foreign Currency Transfer of Shares
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FEDAI	Foreign Exchange Dealers Association of India
FEMA	Foreign Exchange Management Act
FFI	Foreign Financial Institution
FFMC	Full Fledged Money Changer
FI	Financial Institution
FICCI	Federation of Indian Chambers of Commerce and Industry
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FIPB	Foreign Investment Promotion Board
FISIM	Financial Intermediation Services Indirectly Measured
FITL	Funded Interest Term Loan
FIU-IND	Financial Intelligence Unit – India
FLAS	Foreign Liabilities and Assets Survey

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
FMC	Forward Market Commission
FMD	Financial Markets Department
FoB	Free on Board
FOF	Flow Of Funds
FPI	Foreign Portfolio Investment
FRA	Forward Rate Agreement
FRB	Floating Rate Bond
FRBM Act	Fiscal Responsibility and Budget Management Act
FRMS	Fraud Reporting and Monitoring System
FRN	Floating Rate Note
FSAP	Financial Sector Assessment Programme
FSR	Financial Stability Report
FSS	Farmers' Service Societies
FST	Financial Sector Technology
FSWM	Financially Sound and Well Managed
FWG	First Working Group on Money supply
FX	Foreign Exchange (FOREX)
GBP	Great Britain Pound
GCC	General Credit Card
GCS	Gold Card Scheme
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GFD	Gross Fiscal Deficit
GFS	Government Finance Statistics
GIC	General Insurance Corporation
GLEIF	Global Legal Entity Identifier Foundation
GLS	Generalized Least Squares
GNIE	Government Not Included Elsewhere
GoI	Government of India
GPD	Gross Primary Deficit

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
G-Sec	Government Securities
HDFC	Housing Development Finance Corporation
HFT	Held For Trading
HICP	Harmonised Index of Consumer Prices
HO	Head Office
HTM	Held to maturity
HUDCO	Housing & Urban Development Corporation
IBA	Indian Bank's Association
IBRD	International Bank for Reconstruction and Development
IBS	International Banking Statistics
ICA	Inter Creditor Agreement
ICAI	Institute of Chartered Accountants of India
ICAR	Indian Council of Agricultural Research
ICMR	Indian Council of Medical Research
IDB	India Development Bonds
IDD	Industrial Development Department
IDPMS	Import Data Processing and Monitoring System
IDR	Investment Depreciation Reserve
IEC	Independent Evaluation Committee
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFC(W)	International Finance Corporation (Washington)
IFCI	Industrial Finance Corporation of India
IFSC	Indian Financial System Code
IFR	Investment Fluctuation Reserve Account
IFS	International Financial Statistics
IGC	India Gold Coins
IGLS	Iterative Generalized Least Squares
IIBI	Industrial Investment Bank of India
IIP	Index of Industrial Production
IIP/InIP	International Investment Position

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
IMD	India Millennium Deposits
IMF	International Monetary Fund
IMPS	Immediate Payment System
IN	India
INR	Indian Rupee
IOTT	Input-Output Transaction Table
IP	Interest Payment
IRAC (Norms)	Income Recognition, Asset Classification and Provisioning pertaining to Advances
IRBI	Industrial Reconstruction Bank of India
ISCR	Interest Service Coverage Ratio
ISDA	International Swaps and Derivative Association
ISIC	International Standard Industrial Classification
ISO	International Standards Organization
IT	Information Technology
ITGGSM	Internal Technical Group on Government Securities Market
ITGI	IT Governance Institute
ITIL	IT Infrastructure Library
ITRS	International Transaction Reporting System
IWGEDS	International Working Group on External Debt Statistics
JLF	Joint Lenders' Forum
JLG	Joint Liability Groups
JPC	Joint Parliamentary Committee
KCC	Kisan Credit Card
KVIB	Khadi and Village Industries Board
KVIC	Khadi & Village Industries Corporation
KYC	Know your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LAMPS	Large-sized Adivasi Multipurpose Societies
LAS	Loan & Advances by States
LBD	Land Development Bank

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
LBS	Locational Banking Statistics
LC	Letter of credit
LCR	Liquidity Coverage Ratio
LEI	Local Entity Identifier
LEIL	Legal Entity Identifier India Limited
LERMS	Liberalised Exchange Rate Management System
LFAR	Long Form Audit Report
LIBOR	London Inter-Bank Offer Rate
LIC	Life Insurance Corporation of India
LME	London Metal Exchange
LoC	Letters of comfort
LOLR	Lender of Last Resort
LoU	Letter of Undertaking
LS	Level Shift
LT	Long Term
LTCCS	Long-Term Co-operative Credit Structure
LTO	Long Term Operation
M1	Narrow Money
M3	Broad Money
MA	Moving Average
MAP	Monitorable Action Plan
MCA	Ministry of Corporate Affairs
MCAs	Model Concession Agreements
MEDP	Micro Enterprise Development Programme
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro Finance Institution
MIBOR	Mumbai Inter-Bank Offer Rate
MICR	Magnetic Ink Character Recognition
MIGA	Multilateral Investment Guarantee Agency
MIS	Management Information System
MLRO	Money Laundering Reporting Office
MLTGD	Medium and Long Term Government Deposit
MMBCS	Magnetic Media Based Clearing System

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
MMSE	Minimum Mean Squared Errors
MNBC	Miscellaneous Non-Banking Companies
MNSB	Multilateral Net Settlement Batch
MOC	Memorandum of Changes
MOF	Master Office File
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MPLS	Multi-Protocol Layer Switching
MRM	Monitoring and Review Mechanism
MRR	Minimum Retention Requirement
MSF	Marginal Standing Facility
MSS	Market Stabilisation Scheme
MT	Mail Transfer
MTM	Mark-To-Market
NABARD	National Bank for Agriculture and Rural Development
NAC(LTO)	National Agricultural Credit (Long Term Operation)
NAFCUB	National Federation of Co-operative Urban Banks
NAIO	Non Administratively Independent Office
NAS	National Account Statistics
NASSCOM	National Association of Software and Services Companies
NAV	Net Asset Value
NBC	Net Bank Credit
NBC	Non-Banking Companies
NBFC	Non-Banking Financial Company
NBFI	Non-Banking Financial Institutions
NBV	Net Book Value
NCLT	National Company Law Tribunal
NDS	Negotiated Dealing System
NDS-OM	NDS Order Matching
NDTL	Net Demand and Time Liability
NEC	Not Elsewhere Classified
NEDFi	North Eastern Development Finance Corporation Ltd.

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
NEER	Nominal Effective Exchange Rate
NEFT	National Electronic Fund Transfer
NFA	Non-Foreign Exchange Assets
NFCC	National Foundation for Credit Counselling
NFD	Net Fiscal Deficit
NFGBC	Non-food Gross Bank Credit
NFS	National Financial Switch
NGO	Non-Government Organisation
NHB	National Housing Bank
NHC	National Housing Credit
NIA	New India Assurance Company Limited
NIC	National Industrial Credit
NIC	National Industrial Classification
NIF	Note Issuance Facility
NIM	Net Interest Margin
NIMC	National Implementation Monitoring Committee
NNML	Net Non-Monetary Liabilities
NOC	No Objection Certificate
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPD	Net Primary Deficit
NPFA	Non-Performing Financial Assets
NPI	Non-Performing Investment
NPL	Non-Performing Loan
NPRB	Net Primary Revenue Balance
NPV	Net Present Value
NR(E)RA	Non-Resident (External) Rupee Account
NR(NR)RA	Non-Resident (Non-Repatriable) Rupee Account
NRE	Non-Resident External
NRG	Non-Resident Government
NRI	Non-Resident Indian
NRNR	Non Resident Non Repatriable (Account)

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
NRSR	Non Resident Special Rupee (Account)
NSC	National Statistical Commission
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
NSFR	Net Stable Funding Ratio
NSSF	National Small Savings Fund
OBS	Off-balance Sheet
OBU	Off-Shore Banking Unit
OD	Over Draft
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD	Organisation for Economic Co-operation
OFI	Other Financial Institutions
OLRR	On-line Reject Repair
OLTAS	On-line Tax Accounting System
OMO	Open Market Operations
ORFS	On-line Returns Filing System
OSCB	Other Indian Scheduled Commercial Bank
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-site Surveillance System
OTC	Over the Counter
OTS	One Time Settlement
OVD	Official Valid Documents
PACF	Partial Auto-Correlation Function
PACS	Primary Agricultural Credit Society
PAN	Permanent Account Number
PAIS	Personal Accident Insurance Scheme
PCARDB	Primary Co-operative Agriculture and Rural Development Bank
PCR	Provisioning Coverage Ratio
PD	Primary Dealer
PD	Primary Deficit

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
PDAI	Primary Dealers Association of India
PDO	Public Debt Office
PDO-NDS	Public Debt Office-cum-Negotiated Dealing System
PES	Public Enterprises Survey
PF	Provident Fund
PIO	Persons of Indian Origin/ Principal Inspection Officer
PKI	Public Key Infrastructure
PLR	Prime Lending Rate
PMAY	Pradhan Mantri Awas Yojna
PMLA	Prevention of Money Laundering Act
PMRY	Prime Minister Rojgar Yojna
PO	Principal Office
POS	Point of Sale
PPP	Public-Private Partnership
PRB	Primary Revenue Balance
PSB	Public Sector Bank
PSE	Public Sector Enterprise
PTC	Pass-through certificates
PUC	Paid Up Capital
QIS	Quantitative Impact Study
QRR	Quick Review Report
RBI	Reserve Bank of India
RBIA	Risk-Based Internal Audit
RBS	Risk-Based Supervision
RC	Reconstruction Company
RCS	Registrar of Co-operative Societies
RD	Revenue Deficit
RDBMS	Relational Database Management System
RE	Revenue Expenditure
REC	Rural Electrification Corporation
REER	Real Effective Exchange Rate
RERFA	Reserve for Exchange Rate Fluctuations Account
R-GDS	Revamped Gold Deposit Scheme
R-GML	Revamped Gold Metal Loan Scheme

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
RFC	Residents Foreign Currency
RIB	Resurgent India Bonds
RIDF	Rural Infrastructural Development Fund
RLA	Recoveries of Loans & Advances
RLC	Repayment of Loans to Centre
RMB	Renminbi (Chinese)
RNBC	Residuary Non-Banking Company
RO	Regional Office
ROC	Registrar of Companies
RPA	Rupee Payment Area
RPCD	Rural Planning and Credit Department, RBI
RR	Revenue Receipts
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement System
RTP	Reserve Tranche Position
RUF	Revolving Underwriting Facility
RWA	Risk Weighted Asset
SAA	Service Area Approach
SACP	Special Agricultural Credit Plan
SAM	Social Accounting Matrix
SAO	Seasonal Agricultural Operations
SAR	Self-Assessment Report
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SARS	Severe Acute Respiratory Syndrome
SAS	Statistical Analysis System
SB	Savings Bank Account
SBA	Statutory Branch Auditor
SBI	State Bank of India
SBNs	Specified Bank Notes
SC	Securitisation Company
SCA	Statutory Central Auditor
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank/ State Cooperative Bank
SCS	Size Class Strata
SDDS	Special Data Dissemination Standards

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
SDR	Special Drawing Right
SDS	Special Deposit Scheme
SEB	State Electricity Board
SEBI	Securities and Exchange Board of India
SEEUY	Self Employment for Educated Unemployed Youths
SEFCs	Small Enterprises Financial Centres
SEFT	Special Electronic Funds Transfer
SEZ	Special Economic Zones
SFAC	Small Farmers Agri-Business Consortium
SFC	State Financial Corporation
SFMS	Structured Financial Messaging System
SFT	Statement of Financial Transaction
SGL	Subsidiary General Ledger
SHG	Self-Help Group
SHPI	Self-Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation/ Small Industrial Development Corporation
SIPS	Systemically Important Payment System
SI-SPA	Systems Improvement Scheme under Special Project Agriculture
SJGSY	Swarn Jayanti Gram Swarojgar Yojna
SJSRY	Swarna Jayanti Shahari Rojgar Yojna
SLA	Service Level Agreement
SLAF	Second Liquidity Adjustment Facility
SLBCs	State Level Bankers' Committees
SLEPCS	State Level Export Promotion Committees
SLR	Statutory Liquidity Ratio
SLRS	Scheme for Liberalisation and Rehabilitation of Scavengers
SMA	Special Mention Account
SME	Small and Medium Enterprise
SMG	Standing Monitoring Group
SNA	System of National Accounts
SPV	Special Purpose Vehicle
SRWTO	Small Road & Water Transport Operators

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
SSC	Special Sub-Committees
SSI	Small Scale Industry
SSSBes	Small Scale Service & Business Enterprises
ST	Scheduled Tribe
STBD	Short Term Bank Deposit
StCB	State Co-operative Bank
STCCS	Short-Term Co-operative Credit Structure
STP	Straight Through Processing
STR	Suspicious Transaction Report
STRIPS	Separate Trading of Registered Interest and Principal of Securities
SWG	Second Working Group on Money Supply
SWIFT	Society for Worldwide Inter-bank Financial Telecommunication
TAFCUB	Task Force for Urban Co-operative Banks
TBs	Treasury Bills
TC	Temporary Change
TEV	Techno-Economic Viability
TFCI	Tourism Finance Corporation of India
TLI	Term Lending Institutions
TT	Telegraphic Transfer
UBB	Uniform Balance Book
UBD	Urban Banks Department
UCB	Urban Co-operative Bank
UCIC	Unique Customer Identification Code
UCN	Uniform Code Number
UDIN	Unique Document Identification Number
UIA	United India Assurance Company Ltd.
UIDAI	Unique Identification Authority of India
UPI	Unified Payments Interface
US	United States
USD	US Dollars
UTI	Unit Trust of India
UTLBC	Union Territory Level Bankers' Committee

Guidance Note on Audit of Banks (Revised 2026)

<u>Abbreviation</u>	<u>Expanded form</u>
VaR	Value at Risk
VC	Venture Capital
VCF	Venture Capital Fund
VKC	Village Knowledge Centre
VPN	Virtual Private Networks
VRS	Voluntary Retirement Scheme
VSAT	Very Small Aperture Terminal
WADR	Weighted Average Discount Rate
WCDL	Working Capital Demand Loan
WCTL	Working capital term loan
WEO	World Economic Outlook
WGMS	Working Group on Money Supply: Analytics and Methodology of Compilation
WGRFIS	Working Group on Future Role of Financial Institutions
WPI	Wholesale Price Index
WSS	Weekly Statistical Supplement
YTM	Yield to Maturity
ZO	Zonal Office
XBRL	Extensible Business Reporting Language

APPENDIX IX

Illustrative Bank Branch Audit Programme for the Year ended March 31, 2026

Introduction

In the present scenario, besides actual conduct of audit, proper planning becomes most important in bank branch audit engagements. Planning means detailing and requires advance thinking along with knowledge/experience of bank branch business. It is important to have knowledge about business of a particular branch which is under audit. Because of variety of products and diversified bank business, an auditor cannot apply the same yardstick for all branches under audit. The engagement partner and other key members of the engagement team should be involved in planning the audit, including planning and participating in the discussion among engagement team members. Today, the whole process of banking is automated and computerized and most of the important functions and processes are more or less centralized and there is limited verification to be done at the branches. Audit at branches includes physical checking of records, documents relating to operations (advances and liabilities), verification of branch related expenses, existence of assets and other similar areas.

Many of the Banks have implemented a web application for posting & online submission of Branch Audit Report, Long Form Audit Report, Tax Audit Report and various certificates, therefore reviewing the closing instruction of the Bank prior to commencement of the audit is of utmost importance to understand the manner and structure in which reporting is required to be made on online web base application. The reports/certificates in these cases have to be signed digitally.

In the absence of a clear understanding and the pre-requisite information on advances like borrower account number/ Customer ID's details of the facility, security, sector etc. it would not be even possible to verify and report any change in classification and any adverse observations in the main report or in the Long Form Audit Report.

In view of this it is important to understand the reporting structure and the auditors should prepare their comments in the format and manner as required. It is imperative that the branch auditors log the changes effected in the branch financial statements via MOC. Such MOC needs to be signed off by both the audit team and branch management. The branch auditor should have an understanding of the CBS and the type of reports it can generate. This will help in conducting the audit in an effective and efficient manner within the time lines.

The branch audit generally may be bifurcated into following Components:

Type of Report	Coverage
Branch Statutory Audit	<ol style="list-style-type: none"> 1. Audit of Advances and reporting on divergence in assets classification and income recognition, which is generally reported through Memorandum of Changes which form part of Main Audit Report; 2. Audit of all other items of Assets and liabilities and Income and expenditure appearing in the financial statement.
Tax Audit Reports and Long Form Audit Report	<p>These reports are separate from Branch Audit Report:</p> <ol style="list-style-type: none"> 1. As per Section 44AB of Income Tax Act, 1961, the Bank is under statutory obligation to get the Tax Audit conducted by Chartered Accountant; and 2. Long Form Audit Report covers reporting on the operational and control aspects of the Branch working as per RBI requirements.
Certificates	Required to be verified as per respective Banks Closing Instruction keeping in view RBI Guidelines, Guidelines of the respective schemes notified by the Central / State Government.

Following are the Generally Followed Steps for Conducting Branch Audit:

1. Appointment / engagement letter for Branch Statutory audit, with closing circulars.
2. NOC from the previous auditor.
3. Pre-audit discussion with branch.
4. Audit planning, to include understanding of the Branch software and commands for view of borrower accounts and generation of various MIS / Critical / exceptional reports.
5. Execution of the audit as given in the **Annexure I**.
6. Discussion of the draft branch audit report with bank.
7. Preparation of Memorandum of Changes and effect of the same in books of account of bank.
8. Review of the Post Memorandum (Post MOC) trial balance and reconciliation with the pre memorandum (Pre MOC) trial balance to ensure the correct accounting effect of memorandum of changes, wherever applicable.
9. Submission of audit report to branch and copy to central statutory auditors.

Following are the area wise documents to be collected and reviewed for conducting Branch Audit:

1. Trial Balance as on 31st March.
2. Closing circular issued by Bank's head office for conducting branch audit – Every bank issued the closing circular which contain the concern areas and list of certificates required to be certified by the branch auditor.
3. Review of previous years auditor report / LFAR.
4. Latest RBI master directions for "Income recognition and assets classification" & other relevant circulars.
5. List of comments of RBI inspection report towards the branch with their compliances.
6. Latest branch concurrent audit report /Internal inspection report/ Diligence Report / Credit Audit Report with their compliances.
7. List of any fraud or unusual events reported at the branch during the financial year along with the current status during the course of the audit.

8. List of customer complaints reported with respect to the branch during the financial year along with the current status during the course of the audit.
9. Copy of vigilance enquiry or any special investigation reports.
10. Comparative analysis of the trial balance with the last year's audited trail balance.
11. Working papers on actual audit engagement carried out for the year
12. testing of internal controls and other operational issues at the branch
13. Review of Ghosh and Jilani committee Recommendations.
14. Documents related to verification of advances –
 - List of stressed advances (SMA-2) as on 15th March (stressed advances / SMA-2 report indicate the list of advances which are overdue for more than 60 days and if the same is not regularized before year end i.e. 31st march than the advance will become NPA)
 - List of new sanction made during the year
 - List of account referred for restructuring
 - Accounts wherein process under IBC is mandated but not initiated by branch
 - Borrowers wherein process of IBC initiated by any of the creditors including bank
 - Review of Red Flagged Accounts
 - Critical review of accounts flagged under the Early Warning Signals mechanism
 - Review of restructured accounts and under various dispensation provided by RBI
 - List of Bank guarantee and letter of credit
 - Review of reported frauds (advance related and others)
 - List of Bank guarantees invoked and letter of credit devolved during the audit period.
 - List of borrowers where external rating is downgraded during the audit period.
 - List of TODs/ Adhoc sanctions sanctioned by the branch during the audit period.

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- List of borrowers where review/ renewal is done during the audit period.
 - List of borrowers where short review is done by the branch during the audit period.
 - Off Balance Sheet items, including claims against banks not acknowledged as debts, contingent liabilities etc.
15. Documents related to NPA's:
- List of NPA accounts as on 31st March
 - List of accounts upgraded during the financial year
 - List of accounts downgraded during the year
 - List of early mortality cases for the year under audit
 - Details of the NPA classification with secured /unsecured details and NPA provision amount
 - Review of the valuation reports of loan account. Valuation reports older than 3 years cannot be consider as security (1 year in case of stock) and 100 per cent provision needs to provide on the expired secured portion
 - Critical review of the audited financial statements of borrowers.
 - Review of forensic audit reports, wherever applicable.
16. Fixed Assets:
- Fixed Assets register as on 31st March
 - List of new assets purchased during the year
 - List of fixed assets sold during the year
 - Physical verification report of branch fixed assets if conducted during the year
 - Depreciation working as on 31st March
17. Bank reconciliation:
- List of bank account which branch maintained with other banks.
 - Reconciliation statement of all banks account as on 31st march.
18. Inter branch reconciliation:
- Inter branch reconciliation statement.

- Provision for net outstanding debit balance for more than 6 months (refer RBI Circular DBOD No. BP.BC. 73 /21.04.018/2002-03 dated February 26, 2003 on Inter-branch Accounts - Provisioning for net debit balance).
- Review of inter office ledger accounts classified under other assets and other liabilities

19. Cash

- Physical cash balance verification during branch audit period (cash on hand as well as cash at ATM, if applicable).
- Report of the physical cash verification conducted by branch on 31st March.

20. Liabilities

- Verification of current/ savings accounts, term deposits including KYC, PMLA, FEMA and other compliances.

21. Inventory

- Verify and reconcile the closing count of various inventory items like account opening kit, term deposit receipts, cheques, demand drafts, pay orders, etc.

Audit of Advances

Audit of advances is discussed in detail in the Guidance Note on Audit of Banks. However, from the angle of planning following aspects must be kept in mind:

1. **Obtain top exposure accounts:** It may be advisable for a branch auditor to ask the list accounts/ exposures along with all the details such as status, classification, overdue amounts, days past due and security etc. before starting of the audit. As per extant RBI guidelines, large advances are those in respect of which the outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less. For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon. Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.

2. **Obtain the list of stressed accounts:** The banks monitors stressed accounts on daily basis. The account that generally has overdue beyond 60 days or likely to slip to NPA at the quarter end is termed as stressed account (some banks may use different terminology). It is advisable to obtain a list of such stressed accounts at least 15-30 days ahead of the closing date i.e. say stressed account list as on 1st - 15th March. This will provide the auditor a ready list of such accounts. The auditor then can scrutinise each account to know whether the account has slipped into NPA or if not whether it has been kept standard by unusual transaction in the account (that cannot be termed as usual business transactions) - like deposit and withdrawal of cash, just to show the credit turnover during the quarter in cash credit account.
3. **Obtain the list of restructured accounts:** Restructured account portfolio requires separate additional provisioning. It is necessary to obtain the list of such accounts and ensure whether the restructure is as per the RBI directives. As per latest RBI guidelines, all new restructured / CDR account will be classified as NPA. The auditor should get the list of all restructured accounts, including accounts that have taken benefit of moratorium and other RBI dispensations etc.
4. **Obtain the list of accounts covered under revised framework for resolution of stressed assets:** As per latest RBI guidelines, all new restructure / CDR account will be classified as NPA. The accounts which have been covered under revised framework for resolution of stressed assets, the compliance with the terms of the revised framework in accordance with Master Circular on IRAC needs to be verified.
5. **Accounts referred to or directed to be referred under IBC:** Obtain the list of Accounts wherein process under IBC is mandated but not initiated by the branch and / or borrowers wherein the process of IBC has been initiated by any of the creditors including bank. Such accounts need to be reviewed carefully by the auditor and adequate provision needs to be made besides correct classification of such advances and detailed scrutiny of the security available.
6. **Obtain the list of unsecured exposures above Rs. 25 Lacs.:** Unsecured exposure has significant impact on the bank, if it slips to NPA. Many times such accounts are reviewed in the traditional manner. These require close monitoring not only from the perspective of financial parameters of the

prudential guidelines but also non-financial parameters that give signals of the possible ill health. The banking industry has faced severe damages on account of non-identification of such non-financial parameters.

7. **Early mortality cases:** Any advance slippage to NPA within 12 months of its introduction is called as early mortality case. Early mortality cases invoke penalty to the sanctioning authorities. This will have to be checked to understand the reason for such happening to avoid such cases in future and also to find out whether there are any cases classified as performing on some untenable ground to push it beyond early mortality.
8. **Movement of NPA and Upgraded accounts during the Year:** Review of the upgraded accounts is one of the important areas to be checked during audit. As per RBI circular, the account will get upgraded when the total arrears of interest and principal are paid by the borrower. After recovery, the accounts will get upgraded to standard assets. There should not be any overdue in borrower accounts as on date of up-gradation. The recovery in the accounts needs to be reviewed specially in case of cash credit accounts where the borrower rotates the fund just to keep the account as performing assets.
9. **Evergreening of accounts:** Evergreening refers to the practice of giving a fresh loan to repay an old one. Technically, evergreening refers to the practice of managing the balance sheet through means, which may not be violating banking laws in letter, but breaching them in spirit. To illustrate and to make it more clear: say a bank disburse a loan of Rs. 10000 to a borrower and the account become overdue after a year or two, the same bank sanction a loan of Rs. 20000 or Rs. 30000 which enable borrower to repay first loan. Therefore, the source of recovery needs to be review in case of stress accounts.
10. **Automation of NPA:** As per RBI circular on Automation of Income Recognition, Asset Classification and Provisioning processes in banks dated 14 September 2020, the banks are mandated to have asset classification and calculation of provisioning automated in the NPA system. In addition, income recognition/derecognition in case of impaired assets (NPAs/NPIs) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention. Banks should ensure that the asset classification status is updated as part of day end process. Banks should also be able to generate classification status report at

any given point of time with actual date of classification of assets as NPAs/NPIs. The auditor should seek system generated asset classification and provisioning report as at 31 March and compare it with the report submitted by the Bank. Further, the auditor should seek for list of manual intervention / system override in the NPA system done at the branch and check for compliance with Para 2.8 of the said circular.

11. **Other routine checks:** The auditor may engage into other routine check of advances to satisfy himself such as classification of advances, new sanctions during the year, monitoring mechanism and provisioning under prudential norms. It may be pertinent to mention here two broad aspects that are heavily dependent on the branch auditor relating to advances. The auditor should closely verify the red flagged accounts, accounts marked as fraud and EWS accounts. Also, these are one of the most strongest argument, amongst many, why branch audits are necessary even in CBS environment:

- **Checking of documentation:** Documentations for newly sanctioned advances along with their enforceability, review documents and its appropriate reflection in CBS; Documentation verification for advances would generally cover, pre-sanction stage, sanction stage and post sanction and monitoring stage.
- **Security value for provisioning:** After classification, the most important aspect in presenting the true and fair view of the financial statements of a bank is correct provisioning amount. This highly depends on fair assessment of security value. The base documents relating to the valuation are usually available at the branches. Correct depiction thereof in the CBS is a crucial check.

Audit of other Items in Trial Balance

It may not be necessary to elaborate on this point as this has been basic skill of auditing profession. However, following aspects may require specific attention of a branch auditor:

1. **Suspense, Inter Branch reconciliation and any other pending reconciliation item in Trial Balance:** As per the RBI guidelines, any debit entry in these accounts appearing for more than 6 months require 100 per cent provision.

2. **Provisions other than relating to advances:** Year-end accounting provision that do not get generated through CBS require specific attention at the branch level. It may be advisable to do a comparative study of last year end, half year and current year end figures comparison. This throws lot of insights into the branch operations.

Ensuring various compliances

Generally, the branch requires following various compliances in respect of audit:

1. **Concurrent Audit Report:** Any comments or remarks in the concurrent audit report that the branch is required to comply with.
2. **Compliance to RBI Inspection Report:** If RBI has conducted inspection in the branch, the comments in the report need compliance. Any non-compliance under the pretext that the bank has represented to RBI to reconsider the observation should not be accepted. RBI has clearly taken a stand that unless auditor is physically shown a letter of reversal from RBI comments in their report must be adhered to.
3. **Compliance to Internal Audit Report:** If the bank has conducted internal audit, which usually an internal exercise, obtain the report and check for the adverse comments and compliances thereof.
4. **Stock Audit Report:** Generally, an account having exposure of Rs. 5 Cr. and above requires stock audit, the compliance thereof should be commented upon. Also, any adverse comment in the report needs to be dealt with appropriately.
5. **Reports of Special Monitoring Agency:** As per extant RBI guidelines, banks are required to appoint special monitoring agencies for monitoring large working capital limits and provide their reports at monthly/quarterly intervals. Auditors shall review such reports in order to identify signs of incipient sickness/ stress in the accounts.
6. **Forensic Audit Reports:** The auditor should look at all the forensic audit reports conducted on various NPA accounts and based on the conclusion verify the adequacy of classification and provisioning.
7. **Compliance with IS Audit Report:** If the bank has conducted IS audit, which usually an internal exercise, obtain the report and check for the adverse comments and compliances thereof.

8. **Application of interest in CBS:** Generally, bankers always argue that the interest is calculated by the system and requires no cross verification. While this is true, the correct calculation by the system is subject to correct input by the branch staff relating to interest. Hence input of interest rates requires test check. Auditor is required to check whether the interest is charged properly as per Fair Practice Code:
 - a. Interest is charged from actual date of disbursement and not date of sanction.
 - b. Interest is charged only for the period for which loan is outstanding and not the entire month.
 - c. Where instalments are collected in advance, interest should be charged on balance outstanding amount.
9. **Penal charges:** The auditor shall verify that w.e.f. 01 April 2024, for non-compliance of material terms and conditions of loan contract by the borrower, the bank has started levying penal charges and not penal interest in accordance with RBI circular Fair Lending Practice - Penal Charges in Loan Accounts dated 18 August 2023 as well as has complied with the other instructions of the said circular.

Annexure I

Details of the Authorised Persons of the bank	Branch Manager:
Others (Specify):	

Audit Aspects	Covered By Whom	Extent of Check
General		
1. Letter for NOC to previous auditors		
2. Engagement letter to the appointing authority		
3. Meeting and discussion with the bank branch management and understanding the profile of the branch and its business and take a note on the same.		
4. Letter of requirement to the Branch		
5. Review of <ul style="list-style-type: none"> • previous year's audit report/ LFAR; • current period's Internal Audit Report/ Concurrent Audit Report; • Revenue Audit Report; • IS Audit Report • RBI Inspection Report; • compliance of the branch to all of the above; and • any other special review report. 		
6. Physical verification of <ul style="list-style-type: none"> • cash; • Gold;(for Gold loan) • and valuable securities. 		
7. Note down <ul style="list-style-type: none"> • Shortage of cash appearing in Trial Balance; 		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
<ul style="list-style-type: none"> • Difference in physical verification of gold. (Auditors need to consider their responsibilities with respect to reporting of fraud in case of unexplained differences in cash balances or balance of gold bags.) 		
8. Reconciliation of the current account maintained with other banks / Reserve Bank of India		
9. Reconciliation of NOSTRO account with Nostro Mirror Account		
10. Physical verification of Investments, holding statements, (obtain certificate from bank manager for the same). If investments are held /done by the Branch.		
11. Verify reconciliation statement to verify entries originated prior to, but communicated / recorded after the year end in relation to currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency chest attached to such branches.		
12. Understand the system in CBS at Branch <ul style="list-style-type: none"> • Manual intervention to system generated data and process of authentication of such transactions along with existence of audit trail; • verify exceptional reports; • understand the editable & uneditable fields at Branch; • system of downgrading & upgrading of accounts; • interest calculations; 		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
<ul style="list-style-type: none"> • Generation of reports relating to advances classification and Capital Adequacy calculation, etc. 		
13. Compliance of instructions issued by bank's year end closing circulars, other relevant internal instructions/circulars, Master circulars and other notifications issued by RBI, significant accounting policies of the bank Mandatory Accounting Standards/Auditing Standards and other notifications.		
14. Prepare a list of various closing returns to be verified and certified, and then checking of the same during the audit.		
Checking of Balance Sheet Items		
1. Checking of the Advances:		
<ul style="list-style-type: none"> • Take list of all advances along with facility wise limits, outstanding, Name of Lead bank, Credit Rating, Credit summations in the account, last date of submission of stock statement, date of review of account, etc. This shall help to select the accounts for scrutiny in detail. 		
<ul style="list-style-type: none"> • Critical review of all large advances and their reporting as per prescribed norms. 		
<ul style="list-style-type: none"> • Classification of advances as per IRAC norms. 		
<ul style="list-style-type: none"> • Latest valuation of securities in favour of the bank against advances. 		
<ul style="list-style-type: none"> • Provisions on NPA as per IRAC norms. 		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
<ul style="list-style-type: none"> • Review of all major restructured cases along with the compliance of norms as per RBI Guidelines. 		
<ul style="list-style-type: none"> • List of all SMA 2 accounts (and other accounts mandated for reporting) and reporting of the same to concerned authorities (CRILC). 		
Loan Accounts (Performing)		
I. Review of all large advances with balance of lower of 10 per cent or Rs. 10 crore of total advances.		
II. Review of loans sanctioned during the year.		
III. Review of other advances on test check basis.		
IV. Review of adverse comments by Concurrent auditors, RBI/internal inspectors and the reply given and corrective actions taken by the branch.		
V. Review of suit filed and decreed accounts on sample basis with respect to provision thereon and progress of recovery thereof and classification as per IRAC norms.		
VI. Review of accounts upgraded during the year from NPA to standard. and ensure full recovery of total overdues before upgradation.		
VII. Review of all accounts frequently exceeding limits/DP and watch-list accounts.		
VIII. Also verify all the credit card dues which are overdue & debit balances in SB A/c.		
IX. Check Drawing Power calculation in detail as per the norms of the bank.		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
X. RFA & EWS marked accounts need additional attention		
Loan Accounts (Non Performing)		
I. Review the accounts which are classified as NPA during the year w.r.t Security Value, Interest Reversed, Date of NPA, provisioning thereon etc.		
II. Review the annual stock audit report for the NPA with balance of Rs.5 cr. and above & latest valuation report for the immovable properties in case the valuation is older than 3 years.		
III. Review the advances categorized as 'Sub Standard', to ascertain whether there is an erosion in the value of security. As per extant RBI guidelines, if such erosion is 50 per cent or more, such advances need to be categorized straightway under 'Doubtful' with requisite provisioning. Further, if the value of security is less than 10 per cent of balance outstanding the bank needs to classify the account as Loss Asset.		
IV. Accounts under Forensic audit or under IBC proceedings		
NOTE: (i) Following aspects of the advances to be verified:		
<ul style="list-style-type: none"> • Pre sanction: System of credit appraisal and review/renewal. 		
<ul style="list-style-type: none"> • Post sanction: Compliance of terms of sanction, documentation, end use of funds. 		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
<ul style="list-style-type: none"> • Monitoring: Stock and Book statements, drawing power, insurance, inspection of stock/security, operations in the account, etc. 		
(ii) All the accounts verified in categories (i) to (x) should be documented.		
<p>2. Verify controls in respect of the following important items of assets.</p> <ul style="list-style-type: none"> (i) Dual custody of cash; (ii) Custody and issue of /pay orders/other stationery items etc.; (iii) ATM cash as per books and actual balance tallied at year end. (iv) Accounting treatment for excess/shortage of cash in ATM 		
3.Fixed Assets		
<p>I. Checking of additions/deduction/transfers of fixed assets, supported by proper bills/invoices and confirmation of date put to use. Assets transferred to and from other branches. Compliance of Accounting Standards related to fixed assets.</p>		
<p>II. Checking of depreciation on additions, deduction during the year and on existing assets as per the policy of the bank.</p>		
<p>III. Verification of Fixed Assets Schedule for furniture & fixtures and other assets and</p>		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
reconciliation with figures appearing in the Balance Sheet and FA management software used by the bank (if any).		
IV. Review the reports pertaining to physical verification conducted by the management and comment on their adequacy. Ascertain whether the differences arising out of the physical verification are appropriately dealt in the financial statements.		
4. Deposits and Liabilities		
a) Verification of Anti Money Laundering guidelines and compliance with KYC norms on test check basis that overdue deposits and inoperative accounts;		
b) Check TDS compliance on the interest paid and on test check basis checking of Form 15G & 15H and confirm whether those forms are submitted with respective Income Tax Authority;		
c) Movement of deposits vis-à-vis movement in interest expense.		
5. Inter-Office & Suspense A/c:		
1. Reconciliation of accounts with other banks, head office and inter branch adjustment accounts.		
2. Inter Office Reconciliation (IOR) Accounts: I. Verify Inter Branch Items In Transit (IBIT) account for old entries.		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
<p>II. Compare on test check basis, the balance and the entries in IOR Accounts with the copies of the statements submitted to the IOR department/s.</p> <p>III. Old unreconciled entries are being provided/ reported to HO for provision.</p>		
<p>3. Detailed checking of suspense accounts – credit as well as debit schedules. i.e., Nominal ledger.</p>		
<p>Balance Sheet Finalisation</p>		
<p>1. Scrutiny of Balance Sheet, particularly –</p>		
<p>i) that all the balances are shown in proper heads and broadly compare previous year figure to understand material variance;</p> <p>ii) Check for any negative balance in the trial balance (i.e. assets / expenses having credit balances and liability / income having debit balances).</p>		
<p>ii) Check in case of advances that:</p>		
<p>a) interest accrued but not due on loans is not included in advances.</p>		
<p>b) credit balances in O/D, CC inoperative current accounts should not be netted off with advances and the same should be shown under demand deposits.</p>		
<p>c) Adequacy of provisioning, in case it is done at the branch level.</p>		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
2. Checking: (i) Liability under Bank Guarantee/ L/C and effect of expired BGs/LCs. (ii) Reconciliation of General Ledger and Subsidiary Ledger.		
Checking of Profit and Loss Items		
1. Test checking of interest on deposits, (particularly, Interest checking should be done on test basis for the period subsequent to the period of revenue/ concurrent audit). Ensure that interest provision on overdue F.D. has been made as per latest RBI guidelines. Check the system is properly configured to check the interest calculation and the changes in interest rate is changed in system on respective dates.		
2. Test checking of interest/commission on various advances, bills, L.C., Guarantees, etc.		
3. Test checking of discount/ commission on bills discounted and other incomes like commitment charges, processing fees, recovery of insurance/ legal fees etc.		
4. Derive various ratios of items of income with comparable and related assets (like Avg. Interest Income to Average Advances etc.) and verify major movements or variances.		
5. Checking of interest in NOSTRO Accounts debit balances.		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
6. Verification of recovery and accounting for locker rent, other income, staff accommodation, etc., with details of arrears, if any.		
7. Commission income on account of Government business, i.e., collection as well as remittance of Income tax, sales tax, excise duty, etc.,		
8. Details of Prior Period items of Income as well as expenses and complete details of provisions to be made, if any.		
9. Booking of Interest Income on account of partial recovery in NPA's.		
10 Note down the reasons for material variances, if any.		
Others		
1. Checking of statement of frauds adequacy of provision, timely reporting to competent authority, recovery and movement in balances.		
2. Checking of statement of claims against the bank not acknowledged as debt.		
3. Checking of foreign currency forward exchange contracts showing sales and purchase separately. Review of NRE and FCNR accounts, if any.		
4. Checking of Guarantees given on behalf of constituents.		
5. Checking of Acceptance, endorsements and other obligations, i.e., L/C and bills accepted by the bank on behalf of customers.		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
(Particularly check in case of Clause 4 and 5 above, whether the above guarantees and LC issued are within the powers of the authorised person and proper procedures have been followed for issuing the same. Review the position of the above as at the year-end)		
6. Other contingent liability, if any.		
7. Checking of and preparation of Interest Subsidy certificate (as per various RBI & Government schemes), correct accounting & whether the same are given to the eligible, borrowers.		
8. Checking of write off proposal and DICGC claims, sharing of recovery, etc.		
9. Checking of annual returns on protested bills/ recalled debt accounts (PB/RD).		
10. Checking of LFAR schedules and preparation of LFAR (Detailed planning for preparation of LFAR be done at the time of commencement of audit).		
11. Checking of Tax Audit annexures and preparation of Tax Audit Report.		
12. Obtain sample external balance confirmations for outstanding advances and deposit		
Final Audit and Reporting		
1. Preparation of Audit Report as per the format prescribed by ICAI under SA 700 (Revised) and under any other regulatory authority.		
2. Preparation of memorandum of changes for changes to be made in classification of advances and in any item of asset/liability and profit and loss account with other remarks and/ or information which		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
requires further attention at Regional/Zonal Office level.		
3. Preparation of Tax Audit Report.		
4. Preparation of Long Form Audit Report (by giving annexures where ever necessary).		
To collect the following Certificates:		
1. Physical verification of the fixed assets carried out on March 31, 2023/During the year.		
2. Physical verification of Investment is carried out on March 31, 2023/ During the Year. If investment are held or appearing in the Trial Balance.		
3. Physical verification of the cash & other items as on March 31, 2023.		
4. Written Representation Letter.		
To verify and issue the Certificates (as applicable): Illustrative list		
1. Certificate of Ghosh and Jilani committee Recommendations.		
2. Certificate giving details of claims lodged with DICGC / ECGC however, rejected by them.		
3. Risk weighted assets as per the capital adequacy report (BASEL II & III).		
4. Certificate for treating an account as bad or doubtful of recovery as per the requirement of DI and CGC.		
5. Subsidy claim under Prime Minister Rojgar Yojna Or any other scheme of the Central/State Government.		

Guidance Note on Audit of Banks (Revised 2026)

Audit Aspects	Covered By Whom	Extent of Check
6. Certificate for Interest Subvention.		
7. Other additional certificates as may be prescribed.		

Prepared by:

Reviewed by:

APPENDIX X

Typical reasons observed for the divergence in asset classification and provisioning (large accounts) during Supervisory Cycle 2025-26 (FY 2024-25), during Capital Assessment Exercise

1. Waiver/relaxations granted during financial difficulty tantamount to a concession granted to borrower. Hence, such waiver amounts to restructuring as per RBI's circular on 'Prudential Framework for Resolution of Stressed Assets' dated June 07, 2019.
2. While one facility availed by borrower was Non-Performing Asset (NPA), others were classified as Standard in the bank.
3. Realisable value of the security was observed to be less than 10 per cent of the outstanding in the borrowal account. However, the account was not classified as loss asset.
4. The bank had not implemented, as on March 31, 2024, the logic whereby 'default by either the borrower or the co-borrower, either in their individual capacity or joint capacity, leading to classification of at least one of the accounts as non-performing, will lead to asset classification downgrade of all the remaining loan accounts, irrespective of record of recovery in the remaining loan accounts'.

APPENDIX XI

Additional Guidance on Advances (Refer Chapter 11 “Verification and Reporting of Advances”)

Types of Advances

Fund Based and Non-Fund Based Credit Facilities

1. In fund based credit facilities, there is an actual outflow of funds from the bank to the borrower, whereas non-fund based facilities, do not involve outflow of bank's funds. Typical fund based facilities are term loans, cash credits and overdrafts while non-fund based facilities are letters of credit, bank guarantees, letter of comfort/undertaking, etc. Non-fund based facility may turn into a fund based facility on due date, if not paid by the borrower, for e.g. devolvement of bills under LC, invocation of Bank Guarantee, etc.

Fund Based Facilities

Cash Credit

2. Cash credit facility is provided to entities (borrowers) engaged in manufacturing and / or trading activities to enable them meet the gap in their working capital requirements. This facility is repayable on demand. The cash credit facility is generally granted against security of stocks of goods (net of trade creditors), standing crops, bills / book debts representing genuine sales (restricted to pre-defined age of such book debts).

3. A cheque book is issued to the borrower for withdrawal of money against the limit sanctioned. The withdrawals are permitted to the extent, lower of drawing power or sanctioned limit. This is a revolving facility and is, generally, reviewed and renewed annually or on other intervals as per Bank policy. The Bank performs a periodical review of the borrower based on his credit assessment.

4. Cash credit advances are generally on 'floating' interest rate basis. The rate is reset periodically, depending upon changes in the bank's base rate (MCLR – Marginal Cost of fund based Lending Rate) / spread in relation to the borrower class and his risk perception.

Working Capital Demand Loan (WCDL)

5. WCDL is granted for a fixed period on expiry of which it has to be liquidated, renewed or rolled over. WCDL is generally granted to meet the working capital

requirement gap and is considered as a part of working capital facility. Depending on the sanction terms, repayment of WCDL can either be in the form of instalments spread over the loan tenure or an end of tenure bullet payment. It has to be ensured that there is actual repayment at the end of the loan tenure by fund flows and not just a renewal by roll-over which could tantamount to ever-greening.

6. As per RBI Circular dated December 05, 2018 Guidelines on Loan System for Delivery of Bank Credit, in respect of borrowers having aggregate fund based working capital limit (WCL) of Rs. 1500 million and above from the banking system, a minimum level of 'loan component' of 60 per cent is prescribed. Accordingly, for such borrowers, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 60 per cent of the sanctioned fund based working capital limit, including ad hoc limits and TODs. Hence, for such borrowers, drawings up to 60 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility.

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

Guidelines on Loan System for Delivery of Bank Credit

8. The RBI issued Circular RBI/2018-19/87 DBR.BP.BC.No.12/21.04.048/2018-19 dated December 05, 2018, specified minimum level of loan component as follows:

- a. In respect of borrowers having aggregate fund based working capital limit of ₹1500 million and above from the banking system, a minimum level of 'loan component' of 40 per cent shall be effective from April 01, 2019. Accordingly, for such borrowers, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 40 per cent of the sanctioned fund based working capital limit, including ad hoc limits and TODs.
- b. All lenders in the consortium shall be individually and jointly responsible to make sure that at the aggregate level, the 'loan component' meets the above mentioned requirements. Under Multiple Banking Arrangements (MBAs), each bank shall ensure adherence to these guidelines at individual bank level.
- c. The amount and tenor of the loan component may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than seven days. Banks may decide to split the loan component into WCLs with different maturity periods as per the needs of the borrowers.

- d. Banks/consortia/syndicates will have the discretion to stipulate repayment of the WCLs in instalments or by way of a "bullet" repayment, subject to IRAC norms. Banks may consider rollover of the WCLs at the request of the borrower, subject to compliance with the extant IRAC norms.
- e. The guidelines will be effective from April 1, 2019 covering both existing as well as new relationships. The 40 percent loan component will be revised to 60 percent, with effect from July 1, 2019.

Repayment/Renewal/Rollover of Loan Component

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

Risk weights for undrawn portion of cash credit limits

10. Effective from April 1, 2019, the undrawn portion of cash credit/ overdraft limits sanctioned to the aforesaid large borrowers, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20 per cent.

Term Loans

11. Term loans are generally extended for the following purposes:

- setting up of plants, acquisition of fixed assets like land and building, plant and machinery, furniture, vehicles, implements, houses, consumer durables, etc.
- meeting expenses on education/medical treatment of self/dependants.
- meeting other personal expenses.
- travel – vehicle - housing purchase and renovation.
- meeting deficit in net working capital requirements as assessed by the bank, etc.

12. Banks may give general purpose loans also i.e. without stipulating any end-use of funds, on the strength of a suitable security, or even without security based on the borrower's credit worthiness. Bank's policy provides guidance and documentation to be obtained for end use of funds in such cases which has to be ensured.

13. Term loans are repayable in instalments spread over a period of time excluding the moratorium period, if granted. The moratorium period is assessed by the lender based on future cash flows and borrower requirements. If the borrower defaults in compliance with terms and conditions, the bank has the

right to demand repayment of the entire loan outstanding, before due date. In few cases, there are terms for increase in interest rate as stipulated in sanction terms and conditions. The amount, periodicity of repayment, last draw down date and other terms and conditions are fixed at the time of sanction and duly recorded in the loan documents. The amount and periodicity may be uniform throughout the life of the loan, or either or both of them may differ from instalment to instalment. Besides, repayment schedule may either be drawn only for the principal amount in which case periodic interest has to be paid by the borrower separately as and when due, or a schedule may be fixed with 'equated monthly instalments' which also includes amount of interest likely to be applied to the account during its entire tenure at the rate of interest applicable at the time of sanction/documentation/first disbursement. The disbursal may happen in one tranche or more than one tranche as per the borrower requirements.

14. The interest rate for loans may be on 'fixed' terms' in which event, the rate contracted originally holds good during the entire loan currency, or it may be on 'variable' terms; where the rate may undergo changes at unspecified periods on happening of certain events as outlined in the loan agreement. This aspect is a subject matter of negotiation between the bank and the borrower. Interest is charged on reducing balance method at monthly rests.

Foreign Currency Loans (FCL)

15. Banks are authorised to lend in foreign currency. These loans are sanctioned as per guidelines issued by RBI from time to time. FCL may be in nature of Term loans or Working Capital loans. These loans may be issued independently or through conversion of rupee term/working capital loan to FCL for a stipulated period as per RBI guidelines.

Overdrafts

16. The overdraft facility may be either secured or clean (i.e., without security) and does not generally carry a fixed repayment schedule. The most common form of security for an overdraft arrangement is term deposit receipts. Overdrafts may also be granted against other securities like immovable properties, life insurance policies, shares, bonds, NSCs, Kisan Vikas Patra, Indira Vikas Patra, etc. In case of term deposit receipts, care is taken to lien mark the deposit in the system and also on physical fixed deposit receipt (not on fixed deposit advice). Fixed deposits are generally for specific period and need to be renewed on maturity. Care should be taken to ensure that interest rate spread between overdraft and fixed deposit is maintained. The bank has to update lien mark on the new fixed deposit. The bank has to ensure that proper margin i.e. security value and loan amount is kept while sanctioning the overdraft and at all times during the loan pendency.

Bills

17. Finance against bills is meant to finance the actual sale transactions and can be in any of the under mentioned form:

- Purchase of bills if these are payable 'on demand'.
- Discounting of bills if these are usance (or time) bills.
- Advance against bills under collection from the drawee, whether sent for realisation through the bank or sent directly by the drawer to the drawees.

18. Bills may be either 'documentary', i.e., accompanied by original documents of title to goods, or 'clean', i.e., without original documents of title to goods. In case of documentary bills, the bank releases documents of title to the drawee only against payment (in case of demand bills purchased) or against acceptance (in case of usance bills discounted). On release of documents of title after acceptance of usance bills, these assume the nature of clean bills. The bills may be domestic (denominated in rupee for domestic trade) or foreign (denominated in foreign currency for import/export).

19. A unique facility under this head is advances against bills drawn on public sector undertakings / government departments which do not accept bills. In such cases, pre-receipted challans are submitted by the borrower to the bank as an evidence for availing finance there against (a pre-receipted challan establishes genuine movement of goods and ensures usage of bank funds for sanctioned purposes only). This facility is commonly known in the banking sector as 'government bills facility' or 'supply bills facility'. The purchase / discounting of bills may be either under or without a letter of credit. In case of dishonour of bills, banks have the right to recover the amount from the drawer with penalty, additional interest, etc.

20. RBI has issued guidelines for regulation of discounting and rediscounting of bills (Ref. Master Circular No. RBI/DOR/2025-26/154 DOR.CRE.REC.73/07-01-001/2025-26 dated November 28, 2025 Reserve Bank of India (Commerical Banks – Credit Facilities) Directions, 2025.).

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

21. 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.

22. 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

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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.

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28 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.

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

30. 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.

31. 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. 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.

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

Exports

Export Credit

33. Exporters are granted facilities in the form of cash credit and bills only. These facilities are in form of 'pre-shipment credit' and 'post-shipment credit'. All types of advances sanctioned to finance the production cycle – i.e. from procurement of raw materials to bringing them to the port for despatch fall under 'pre-shipment credit' category. It also includes financing of working capital expenses towards rendering of services. The advance is given based on individual order obtained, or sanctioned as an Export Packing Credit (EPC) limit and amounts disbursed on submission of individual orders; in the latter case, EPC becomes a running

account. The exporter usually adjusts the account by drawing bills of exchange on the foreign buyer, which are discounted by the bank under the letter of credit and the proceeds collected from the foreign bank. The post-shipment credit relates to financing of bills raised on the overseas buyer upon shipment of goods/ services. Export credit advance may be granted in Indian Rupees or a designated foreign currency. In the latter case, the loan is disbursed in a foreign currency. Export credit is granted at concessional rates of interest. Pre-shipment credit has to be liquidated out of export proceeds only and cannot be adjusted out of rupee funds (except where raw materials required for processing exceed the FOB contract value, in which case the excess advance has to be repaid maximum within 30 days from the date of advance). Export proceeds have normally to be received within 9 months from the shipment date. This period can be extended in genuine cases, with the bank's approval or RBI approval, as permitted under FEMA Guidelines and operating instructions issued by the RBI from time to time.

34. Pre-shipment credit granted in a foreign currency is called 'Packing Credit in Foreign Currency' (PCFC) advance and has to be repaid out of export bills discounted under the Export Bills Rediscounting (EBR) scheme or out of export proceeds. Each bank designates a few select branches to handle PCFC and EBR transactions. The Rupee Export Credit is also allowed to be shared between export order holders and manufacturer of the goods to be exported. Similarly, banks may extend PCFC to the manufacturer on the basis of disclaimer from the export order holder through his bank. 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. It should be ensured that no double financing is involved in the transaction and the total period of packing credit is limited to actual cycle of production of exported goods (Ref. Para 5.13 of the RBI/DOR/2025-26/154 DOR.CRE.REC.73/07-01-001/2025-26 dated November 28, 2025 Reserve Bank of India (Commercial banks – Credit Facilities) Directions, 2025.). PCFC may be made available to both the supplier of EOU/EPZ/SEZ unit and the receiver of EOU / EPZ / SEZ unit and PCFC for supplier EOU / EPZ / SEZ unit will be for supply of raw material/components of goods which will be further processed and finally exported by receiver EOU / EPZ / SEZ unit. The PCFC extended to the supplier EOU/EPZ/SEZ unit will 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. The stipulation regarding liquidation of PCFC by payment in foreign exchange will 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 will not normally be any post-shipment credit in the transaction from the supplier

EOU/EPZ/ SEZ unit's point of view. In all such cases, it has to be ensured by banks that there is no double financing for the same transaction. The PCFC to receiver EOU/EPZ/SEZ unit will be liquidated by discounting of export bills or by receipt of export proceeds as per Master Circular RBI/DOR/2025-26/154 DOR.CRE.REC.73/07-01-001/2025-26 dated November 28, 2025 Reserve Bank of India (Commercial banks – Credit Facilities) Directions, 2025.

A. Rupee Pre-shipment Credit / Packing Credit

A.1 Period of Advance

35. 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.

36. 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

37. 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.

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

39. 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.

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

A.3 Liquidation of Packing Credit

41. 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

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Foreign Currency A/c (EEFC A/c) as also from Rupee resources of the exporter to the extent exports have actually taken place.

42. Packing credit in excess of export value

(1) Where by-product can be exported

(2) 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.

(3) Where partial domestic sale is involved

(4) 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.

(5) Export of deoiled / defatted cakes

(6) 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.

43. 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

44. 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.

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

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

47. 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

48. 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.

49. 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

50. 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 248 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) EOU/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

51. 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.

52. 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.

53. 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

54. 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.

55. 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.

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

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

58. 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

59. 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.

60. 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

61. 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.

62. 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.

63. 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.

64. 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.

65. 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

66. 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

67. 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

68. 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 (EEFCA/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).

69. 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

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

71. 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 upto 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

72. In respect of export of certain commodities where exporters are required to draw the bills on the overseas buyer upto 90 to 98 percent 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.

73. 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

74. 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.

75. Retention money may also be stipulated against the supply portion of turn-

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key projects or sub-contracts. The bank shall treat retention money as a deferred liability, given its contingent nature.

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

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

78. 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.

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

80. 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

81. 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.

82. 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

83. 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

84. 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.

85. 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

86. 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.

87. 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

88. 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

89. 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.

90. 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.

91. 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

92. 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 (Commercial Banks – Interest Rates on Advances) Directions, 2025.

93. 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 235 of these Directions, the advances shall not be treated as export credit ab initio.

94. 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

95. 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.

96. 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.

97. 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 340 to 364 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.

98. 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

99. 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.

100. 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.

101. 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.

102. 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.

103. 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

104. 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 (Commercial Banks–Interest Rates on Advances) Directions, 2025, or any other applicable direction/circular.

F.4 Period of credit

105. 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.

106. 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

107. 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.

108. 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.

109. 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.

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

111. 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.

112. 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 (Commercial Banks – Financial Statements: Presentation and Disclosures) Directions, 2025.

F.6 Disbursement of PCFC

113. 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.

114. 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.

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115. 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

116. PCFC shall be liquidated out of proceeds of export documents on their submission for discounting / rediscounting under the EBR Scheme as detailed in paragraphs 340 to 364 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.

117. 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.

118. 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

119. 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.

120. 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.

121. 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

122. 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.

123. 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.

124. 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 300(3) of these Directions. 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

125. In terms of paragraph 297 of 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.

126. 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.

127. 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

128. 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.

129. 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. 329. 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

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

131. 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.

132. 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.

133. 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.

134. 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

135. 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

136. 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').

137. 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

138. 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).

139. 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)

140. 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

141. 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.

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

143. 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).

144. 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.

145. 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

146. 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.

147. 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.

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

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

150. 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

151. In the case of demand bills [subject to paragraph 346 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*.

152. 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.

153. 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

154. 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'

155. 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

156. 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.

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157. 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.

158. 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.

159. 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.

160. 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

161. As stated in paragraph 355 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

162. 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

163. 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.

164. 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

165. 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.

166. 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.

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

168. 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.

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

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

171. 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.

172. 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.

173. '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.

174. 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.

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

176. 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.

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

178. 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.

179. 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.

180. 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.

181. 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.

182. 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.

183. 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).

184. 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

185. 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.

186. 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.

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

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

189. 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

190. 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.

191. 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.

192. 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.

193. 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.

194. 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.

195. 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

196. 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.

Imports

Trade Credit – Buyer's Credit

197. This facility is provided by Banks (foreign/overseas branches of Indian banks), financial institutions, foreign equity holder(s) located outside India and financial institutions in IFSCs located in India to importers of capital goods and raw material in India. The same is given against BG/SBLC issued by Indian bank, on

behalf of their Indian importing customers, to enable them to receive such credit. The BG/SBLC issued by the Indian bank is duly recorded as a “contingent liability” in its books.

198. Detailed guidelines for the same are provided in Paragraph 23.09 in the Chapter 23 of ‘Audit of Foreign Exchange Business’ of Section B of the Guidance Note on Audit of Banks (2026 Edition).’

199. Entries of inward and outward remittances are to be recorded in the books of accounts (NOSTRO Mirror Account) of the Indian bank.

Nature of Security

200. Types of securities commonly accepted by banks for granting different kinds of credit facilities are examined in greater details in this section. Security can be in any form i.e. tangible or intangible, movable or immovable. Further, it is classified into two types namely, primary and collateral securities.

Primary and Collateral Securities

201. ‘Primary Security’ refers to the security offered by the borrower for bank finance or the one against which credit is extended by the bank. Primary security is the principal security for an advance. A collateral security is an additional security.

Mode of Creation of Security

202. Depending on the nature of the advance, creation of security may be in the form of a mortgage, pledge, hypothecation, assignment, set-off, or lien.

Mortgage

203. Mortgage is defined under section 58 of the Transfer of Property Act, 1882, as “the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability”.

204. Mortgages are of several kinds but the most important ones are the Registered Mortgage and the Equitable Mortgage. A Registered Mortgage is effected by a registered instrument called the ‘Mortgage Deed’ signed by the mortgagor. It registers the property to the mortgagee as a security. Equitable mortgage, is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof. The Government mandates registration of all types of mortgages with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) which should be strictly followed by banks.

Pledge

205. A pledge is defined under section 172 of the Indian Contract Act, 1872, as “the bailment of goods as security for payment of a debt or performance of a promise.” A pledge involves bailment or delivery of goods by the borrower to the lending bank with the intention of creating a charge thereon as security for the advance. The legal ownership of the goods remains with the pledger while the lending banker gets certain defined interest in the goods. The pledge of goods constitutes a specific (or fixed) charge. In a pledge, the bank has all the liabilities and responsibilities of a bailee of goods. The bank may be held responsible for not carrying out their obligations as bailee.

Hypothecation

206. The term ‘hypothecation’ in commercial parlance refers to the creation of an equitable charge (i.e., a charge created not by an express enactment but by equity and reason), in favour of the lending bank by execution of hypothecation agreement in respect of the moveable securities belonging to the borrower. Neither ownership nor possession is transferred to the bank. However, the borrower holds the physical possession of the goods as an agent/trustee of the bank. The borrower periodically submits statements regarding quantity and value of hypothecated assets (stocks, debtors, etc.) to the lending banker based on which the drawing power of the borrower is fixed.

Assignment

207. Assignment represents a transfer of an existing or future debt, right or property belonging to a person in favour of another person. Only actionable claims (i.e., claim to any debt other than a debt secured by a mortgage of immovable property or by hypothecation or pledge of moveable property) such as book debts and life insurance policies are accepted by banks as security by way of assignment. An assignment gives the assignee absolute right over the moneys/debts assigned to him. The transfer of debt, right or property is subject to all the liabilities and equity to which the transferor was subject on the date of transfer. In other words, the assignee cannot get a better title than that of the assignor.

Set-off

208. Set-off is a statutory right of a creditor to adjust, wholly or partly, the debit balance in the debtor’s account against any credit balance lying in another account of the debtor. A lending bank has the right of set-off in the absence of an agreement, express or implied, to the contrary with the borrower. The right of set-off enables a bank to combine two accounts (a deposit account and a loan account) of the same person provided both the accounts are in the same name

and in the same right (i.e., the capacity of the account holder in both the accounts should be the same). For the purposes of set-off, all bank branches are treated as one single entity. The right of set-off can also be exercised in respect of time-barred debts.

Lien

209. Lien is creation of a legal charge with the owner's consent, which gives the lender a legal right to seize and dispose / liquidate the asset under lien.

Types of Securities

210. The characteristics of a good security from the view point of the lending bank are marketability, easily ascertainable, stability of value, clean title, realisability and transferability/transportability.

The most common types of securities accepted by banks are the following.

Fixed and Floating Charges

211. A fixed charge (also called 'specific charge') is a charge on some specific and ascertained assets. The creator of the charge (i.e., the borrower) cannot deal with the asset without the specific consent of the holder of the charge (i.e., the lender). A floating charge, is an equitable charge on the assets, present and future. A floating charge attaches to assets whose condition varies from time to time in the ordinary course of business (e.g., work-in-process). A floating charge crystallises (i.e., becomes a fixed charge) when money becomes repayable and the holder of the charge (i.e., lender) takes necessary steps for enforcement of the security.

Personal Security of Guarantor

212. The personal security of guarantor comprises a third-party guarantee for payment of loan outstanding, in the event of borrower's default. No charge is created on the guarantor's movable or immovable assets.

Margin

213. Margin on loans is upfront payment by the borrower towards the purpose of sanctioned loan. Banks provide finance after keeping suitable margin, depending on its risk perception. Margin is deducted from the asset value to take care of any downward fluctuations in the asset's market value. Generally, margin is prescribed in every sanction letter in terms of percentage of security value, as per bank's credit policy. For certain loans such as advances against gold ornaments and jewellery, RBI has defined the limits on the loan to value.

Stock Exchange Securities and Other Instruments

214. Stock Exchange securities include shares, debentures and bonds which are traded on stock exchanges. These securities are easily marketable; the market value is readily ascertainable; it is easy to ascertain the title of the depositor; and they are easy to pledge. Banks have policy for shares against which they provide loans and periodically re-assess the eligible share as security for lending. Banks also advance against instruments as gilt-edged securities, National Savings Certificates, Kisan Vikas Patras, Indira Vikas Patras, Gold Bonds, etc. Banks are not allowed to provide loans to companies for buy back of shares / securities. Banks are also not allowed to provide loans against security of its own shares.

215. These securities are usually in the possession of the bank. Wherever the shares are held as security by a bank (as primary or collateral security), banks are required to have them transferred in their own names if the loan amount exceeds the RBI prescribed ceiling). The ceiling is different for shares in dematerialised form and in physical form. In other cases, (i.e., where the loan amount does not exceed the prescribed ceiling), banks accept the aforesaid securities subject to following conditions:

- (a) in the case of physical shares, they are accompanied by blank transfer deeds duly signed by the person in whose name they are registered; in case of shares held in dematerialised form, authorisation slips should be obtained from the borrower and passed on to the relevant depository participant who immediately marks those shares as pledged; or
- (b) the bank holds a general power of attorney from the person in whose name they are registered.

216. If the person in whose name the securities are registered is other than the borrower, the bank has to particularly satisfy itself that the person has a good title to the security. The bank also obtains a letter of renunciation from the person in whose name the securities are registered.

217. In the case of advances against bearer securities (Kisan Vikas Patras/ Indira Vikas Patras), banks obtain independent/direct confirmation of the genuineness of the certificates from the issuing authorities. After obtaining such confirmation, bank possession is sufficient.

218. In case of government paper and inscribed stock, banks should get them registered in their own name while accepting them as security.

219. Before accepting shares as security, the lending bank has to ensure that provisions of section 19(2) of the Banking Regulation Act, 1949 are not

contravened except otherwise specifically permitted by RBI regulations. This section prohibits a banking company from holding shares in any company, whether as pledge, mortgagee or absolute owner, of an amount exceeding thirty per cent of the paid up share capital of that company or thirty per cent of its own paid-up share capital and reserves, whichever is less.

Goods

220. Goods constitute a significant proportion of the securities taken by banks. They are either stock-in-trade of its trading customers or finished products of manufacturers. Raw materials, work-in-process, etc., are also accepted as security. Banks should have a system in place to ensure that the security in terms of stock offered by borrower is as per bank policy.

221. Goods may be either hypothecated to, or pledged with, the bank. As mentioned earlier, in case of hypothecation of goods, banks obtain periodic statements from the borrowers (monthly/quarterly), declaring quantity and value of the goods basis which the borrowers drawing power is fixed. The officers of the lending bank pay regular visits to borrower godowns or factories to inspect and check the correctness of records maintained by the borrowers basis which, the periodic statements are prepared by them. They also check value of the goods in stock with reference to sale bills, market quotations, etc. In the case of large advances, inventory is subject to inspection and verification (stock audit) by external agency at stipulated intervals. The Auditor may go through the same for determining the existence and adequacy of security and also to determine irregularity in the account, if any.

222. Stock registers are maintained by godown keepers of the lending bank in respect of goods pledged with the bank. Godowns are regularly inspected by the inspectors and other bank officers. When goods are brought into the godown, the godown keeper has to satisfy himself, by appropriate test checks, regarding the quantity and quality of goods. Banks have to exercise care to ensure that frauds are not perpetrated against them by pledging packages not containing the specified goods and later on holding them responsible for the goods supposed to have been pledged as per the documents.

223. The goods are insured against fire and other risks involved and the insurance policies are either in the name of, or endorsed in favour of, the bank. In case the borrower is a company, the bank has to ensure registration of charge with the Registrar of Companies.

Documents of Title to Goods

224. A document of title to goods is a negotiable or quasi-negotiable instrument. According to section 2(4) of the Sale of Goods Act, 1930, a document of title is any document used in the ordinary course of business as proof of the possession

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or control of goods, or authorising or purporting to authorise, either by endorsement or by delivery, the possessor of the document to transfer or receive the goods represented thereby.

225. Documents of title include:

- Bill of lading
- Railway receipt
- Transporter's receipt
- Dock warrant
- Warehouse-keeper's certificate
- Wharfinger's receipt
- Warrant or order for delivery of goods

Before being pledged with the bank, these documents have to be appropriately endorsed in bank's favour.

Gold Ornaments

226. Gold ornaments are accepted by banks as security on the basis of assessor's certificate regarding the content, purity, weight and value thereof. Valuation, keeps on changing as a result of market fluctuations. Loans are given only on the basis of gold content of ornaments, without considering gold making charges. RBI, vide Master Circular No. DBR.No.Dir.BC.10/ 13.03.00/2015-16 on Loans and Advances-Statutory and Other Restrictions dated July 1, 2015, directed banks to give preference to hallmarked jewellery for granting advances. RBI vide Circular No. DBOD.BP.BC.No.86/ 21.01.023/2013-14 on "Lending against Gold Jewellery" dated January 20, 2014 read with Master Circular No. DBR.No.Dir.BC.10/ 13.03.00/2015-16 on Loans and Advances-Statutory and Other Restrictions dated July 1, 2015, issued guidance in respect of "Advances against Gold Ornaments and Jewellery for purpose of Medical Expenses and Meeting Unforeseen Liabilities". In this context, attention is invited to RBI's Circular No. DBOD.No.BP.79/21.04.048/2013-14 on "Non-Agriculture Loans against Gold Ornaments and Jewellery" dated December 30, 2013 read with circular no. RBI/2014-15/142 DBOD.No.BP.BC.27/21.04.048/ 2014-15 dated July 22, 2014 on "Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses" dated July 22, 2014 and Master Circular No. DBR.No.Dir.BC.10/ 13.03.00/2015-16 on Loans and Advances-Statutory and Other Restrictions dated July 1, 2015 containing guidelines on bullet repayment of loans extended against pledge of gold ornaments and jewellery for other than agricultural purposes.

While verifying the gold loans sanctioned at the branches, the auditors need to keep in mind the RBI circular RBI/2024-25/77 DoS.CO.PPG.SEC.10/11.01.005/2024-25 Gold loans - Irregular practices observed in grant of loans against pledge of gold ornaments and jewellery issued on 30 September 2024. The auditors need to specifically review and comment on the following:

- Shortcomings in process of sourcing of gold loans including assistance taken from third parties;
- If loans are sourced through Fintechs / BC, whether credit appraisal, valuation done by BC and gold stored in the custody of BC;
- Multiple gold loans issued to same customers thereby resulting in gold loan sanctioned to jewellers or pawn brokers;
- Any instance of gold not valued in the presence of the customers by verification of CCTV footages;
- CCTV not placed correctly thereby not capturing the valuation and customer interaction clearly;
- Weaknesses in monitoring of LTV like LTV monitoring not done periodically, LTV breaches not addressed on time as per requirements of RBI, etc.;
- Inadequate due diligence and lack of end use monitoring of gold loans;
- Practice of rolling over loans at the end of tenor, with only part payment. Instance of rolling over loans done by creating new loan account;
- Non-categorisation of gold loans as NPA in the system, evergreening by renewing overdue loans/issuing a fresh loan;
- With respect to gold loan disbursed in cash, the statutory limit specified under the Income Tax Act, 1961 on cash mode of disbursement was not adhered to in many cases;
- Average realisation from auction of gold on default by the customer was low in certain SEs than the estimated value of gold, reflecting among other things, gaps in valuation process;
- Many loan accounts were closed within a short time from sanction, i.e. within a few days raising doubts over the economic rationale for such action;
- Lack of transparency during auction of gold ornaments and jewellery on default by the customer.

Life Insurance Policies

227. Life insurance policies have to be assigned in bank's favour and such assignment has to be registered with the insurer. The surrender value of the policy is the basis of valuation.

Plantations

228. Advances are made to agriculturists such as tea gardeners to finance their growing crops. When the produce is harvested, processed and sold, the money is repaid to the bank.

229. The basis of calculating the amount of the advance is the estimated crop of the season. This depends upon the area under cultivation, expected yield, etc. Separate advances are made for each season's crop.

230. The crop to be produced is hypothecated to the bank. Generally, fixed assets of the plantation are also mortgaged with the bank as collateral security. Finance is taken from the bank to incur expenditure on the crop. The amount of the advance increases as the crop grows.

Immovable Property

231. Before advancing money on mortgage of immovable property, the lending bank has to satisfy itself that the borrower has a clear and unencumbered title to the property that is marketable and adequately insured. Banks ascertain whether the property in question has already been mortgaged to any other financial institution and if so, details of charges already created on the property. In respect of advances to public companies against mortgage of a block of assets, it is essential that provisions of section 180(1)(a) of the Companies Act, 2013 are duly considered.

Third Party Guarantees

232. Advances covered by third party personal guarantees (except banks and government) in addition to borrower's personal security are not classified as 'secured' advances and are classified as 'unsecured' advances.

233. The guarantee bond executed by the guarantor in favour of the bank may be in bank's own prescribed form or otherwise. Such bonds are generally executed by holding companies, overseas customers, overseas principals, insurance companies, etc. A letter of continuity is also obtained from the guarantor.

Banker's General Lien

234. A lending bank also has a general lien under law. A lien represents the right of retaining the goods/securities unless a debt due by a debtor is paid to the creditor (retainer), provided there is no agreement, express or implied, to the contrary. A lien is a statutory right, which does not require any separate agreement. Under section 171 of the Indian Contract Act, 1872, a banker may, in the absence of an agreement to the contrary, retain as security for a general balance of account, any goods and securities bailed to him. This is called banker's general lien.

235. Two conditions necessary for creating such lien are:

- (a) securities must be placed in a banker's hand by his customers; and
- (b) securities are not specifically appropriated.

236. Securities over which a banker has general lien are credit balance in any other account, bonds and coupons deposited for collection, securities allowed to remain in banker's hands after repayment of a secured advance, etc.

237. Securities on which a banker does not have a general lien are securities deposited for safe custody, money deposited or earmarked for a specific purpose, documents executed for a special purpose, etc. Lien is applicable even in respect of the borrower's obligations as a surety. The banker's right of general lien over the security is not barred by the law of limitation and can be exercised in case of unenforceable or time-barred debts also.

238. 'Negative lien' refers to an undertaking given by the borrower to the bank that no charge such as lien, pledge, hypothecation, or mortgage, over his immovable and moveable properties and assets including uncalled capital will be created without bank's prior permission. Negative lien relates to goods, securities, etc., not in Bank's possession. Negative lien does not require registration with Registrar of Companies or similar authorities.

Statutory Restrictions

Advances against Bank's own Shares

239. In terms of Section 20(1) of the Banking Regulation Act 1949, a bank cannot grant any loan or advance against the security of its own shares.

Advances to Bank's Directors

240. Section 20(1) of Banking Regulation Act, 1949 lays down restrictions on loans and advances to directors and firms in which they hold substantial interest. Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is reckoned as 'loans and advances' for purposes of Section 20 of the Banking Regulation Act, 1949.

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

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is a partner or guarantor. Certain exemptions are given in the aforesaid Master Circular in this regard.

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

- (a) Loans or advances against Government securities, life insurance policies or fixed deposit.
- (b) Loans or advances to Agricultural Finance Corporation Ltd.
- (c) Such loans or advances as can be made by a banking company to any of its directors (who immediately prior to becoming a director, was an employee of the banking company) in his capacity as an employee of that banking company and on terms and conditions as would have been applicable to him as an employee of that banking company, if he had not become a director of the banking company. Banking company includes every bank to which provisions of Section 20 of Banking Regulation Act, 1949 apply.
- (d) Such loans or advances granted by the banking company to its Chairman and Chief Executive Officer, who was not an employee of the banking company immediately prior to his appointment as Chairman/Managing Director/CEO, for the purpose of purchasing a car, personal computer, furniture or constructing/ acquiring a house for his personal use and festival advance, with prior approval of RBI and on such stipulated terms and conditions.
- (e) Such loans or advances granted by a banking company to its whole time director for the purpose of purchasing furniture, car, personal computer or constructing/acquiring house for personal use, festival advance with RBI prior approval and on such stipulated terms and conditions.
- (f) Call loans made by banking companies to one another.
- (g) Facilities like bills purchased/discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance/co-acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.
- (h) Line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd.(NSCCL)/ Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement.
- (i) Credit limit granted under credit card facility provided by a bank to its directors to the extent the credit limit so granted is determined applying the same criteria as applied by it in normal conduct of credit card business.

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

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

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

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

In case, such contingencies arise as at (b) & (c) 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.

Restrictions on Power to Remit Debts

244. Section 20A of the Banking Regulation Act, 1949 stipulates that notwithstanding anything to the contrary contained in Section 180 of the Companies Act, 2013, a banking company shall not, except with RBI's prior approval, remit, in whole or in part, any debt due to it by -

- any of its directors, or
- any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
- any individual, if any of its directors is his partner or guarantor.

Any remission made in contravention of the above provisions shall be void and shall have no effect.

Restriction on Holding Shares in Companies

245. As per Section 19(2) of Banking Regulation Act, 1949, banks should not hold shares in any company except as provided in sub-section (1) whether as pledgee,

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mortgagee or absolute owner, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less, except otherwise specifically permitted by RBI regulations.

246. In terms of Section 19(3) of the Banking Regulation Act, 1949, banks should not hold shares whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or manager of the bank is in any manner concerned or interested.

247. While granting loans and advances against shares, provisions of Sections 19(2) and 19(3) should be strictly observed, except otherwise specifically permitted by RBI regulations.

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

248. As per Section 68 of the Companies Act, 2013, companies are permitted to purchase their own shares or other specified securities out of their:

- free reserves.
- securities premium account.
- the proceeds of the issue of any shares or other specified securities.

subject to compliance of various conditions specified in sub-section (2) of section 68 of Companies Act, 2013. Therefore, banks should not provide loans to companies for buy-back of shares/securities.

Regulatory Restrictions

Granting Loans and Advances to relatives of Directors

249. Without prior approval of the Board or its knowledge, no loans and advances should be granted to relatives of bank's Chairman/Managing Director or other Directors, Directors (including Chairman/Managing Director) of other banks and their relatives, Directors of Scheduled Co-operative Banks and their relatives, Directors of Subsidiaries/Trustees of Mutual Funds/Venture Capital Funds set up by the financing banks or other banks. However, banks may grant loan or advance to or on behalf of spouses of their Directors in cases where the spouse has his/her own independent source of income arising out of his/her employment or profession and the facility so granted is based on standard procedures and norms for assessing the borrower creditworthiness. Such facility should be extended on commercial terms. Accordingly, Banks should not grant loans and advances without approval of the Board of Directors/Management Committee aggregating Rupees twenty five lakhs and above to –

- a. Directors (including the Chairman/Managing Director) of other banks.
- b. Any firm in which any of the directors of other banks is interested as a partner or guarantor.
- c. Any company in which any of the directors of other banks holds substantial interest or is interested as a director or as a guarantor.
- d. Any relative other than spouse and minor/dependent children of their own Chairmen/Managing Directors or other Directors.
- e. Any relative other than spouse and minor/dependent children of the Chairman/Managing Director or other directors of other banks.
- f. Any firm in which any of the relatives other than spouse and minor/dependent children as mentioned in (d) & (e) above is interested as a partner or guarantor.
- g. Any company in which any of the relatives other than spouse and minor / dependent children as mentioned in (d) & (e) above hold substantial interest or is interested as a director or as a guarantor.

Restrictions on Grant of Loans and Advances to Officers and the Relatives of Senior Officers of Banks

250. No officer or any Committee comprising, *inter alia*, an officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to his/her relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to senior officers of the financing bank should be reported to the Board. Loans and advances and award of contracts to relatives of senior officers of the bank or proposals for credit facilities to the relatives of senior officers of the bank sanctioned by the appropriate authority should be reported to the Board. Further, when a credit facility is sanctioned by an authority, other than the Board, to:

- any firm in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a partner or guarantor; or
- any company in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a director or as a guarantor, such transaction should also be reported to the Board.

Credit facility will not include loans and advances such as housing loans, car advances, consumption loans, etc., granted to an officer of the bank under any scheme applicable generally to bank employees.

Restriction on Advances against Sensitive Commodities under Selective Credit Control (SCC)

251. To prevent speculative holding of essential commodities with the help of bank credit and the resultant rise in their prices, in exercise of powers conferred by Sections 21 & 35A of the Banking Regulation Act, 1949, RBI, issues, from time to time, directives to all commercial banks, stipulating specific restrictions on bank advances against specified sensitive commodities.

The Auditor should be updated as to which commodities are under selection credit control during the audit period under review.

Restriction on payment of commission to staff members including officers

252. Section 10(1)(b)(ii) of Banking Regulation Act, 1949, stipulates that a banking company shall not employ or continue employment of any person whose remuneration or part of whose remuneration takes the form of commission or a share in the profits of the company. Clause (b) of Section 10(1)(b)(ii) permits payment of commission to any person who is employed only otherwise than as a regular staff. Therefore, banks should not pay commission to staff members and officers for recovery of loans.

Restrictions on offering incentives on any banking products

253. Banks are not permitted to offer any banking products, including online remittance schemes etc., with prizes /lottery/free trips (in India and/or abroad), etc. or any other incentives having an element of chance, except inexpensive gifts costing less than Rs. 250/-, as such products involve non-transparency in the pricing mechanism. Such products, if offered, by banks are considered as violation of extant guidelines and banks concerned are liable for penal action.

Restrictions on Other Loans and Advances

Loans and Advances against Shares, Debentures and Bonds

254. Banks are required to strictly observe regulatory restrictions on grant of loans and advances against shares, debentures and bonds as detailed in Master Circular no. RBI/DOR/2025-26/154 DOR.CRE.REC.73/07-01-001/2025-26 dated November 28, 2025 Reserve Bank of India (Commercial Banks – Credit Facilities) Directions, 2025. The restrictions on loans and advances against shares and debentures, are:

- (a) No loans to be granted against partly paid shares.
- (b) No loans to be granted to partnership/proprietorship concerns against the primary security of shares and debentures.

255. RBI's Master Circular No. RBI/DOR/2025-26/157 DOR.CRE.REC.76/07-02-001/2025-26 dated November 28, 2025 Reserve Bank of India (Commercial Banks – Credit Risk Management) Directions, 2025 contains guidelines for granting Loan and Advances against Shares, Debentures and Bonds as follows:

Advances to individuals

256. Banks may grant advances against security of shares, debentures or bonds to individuals subject to following conditions:

- (i) **Amount of advance:** Loans against security of shares, debentures and bonds should not exceed Rs. 10 lakhs per individual if the securities are held in physical form and Rs. 20 lakhs per individual if securities are held in dematerialised form. Such loans are meant for genuine individual investors, and banks should 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 scrip or stock-broking activities of the connected firms. Such finance should be reckoned as an exposure to capital market. Auditors should note updated limits from time to time.
- (ii) **Margin:** Banks should maintain a minimum margin of 50 percent of the market value of equity shares / convertible debentures held in physical form. In case of shares / convertible debentures held in dematerialised form, a minimum margin of 25 percent should be maintained. These are minimum margin stipulations and banks may stipulate higher margins for shares whether held in physical or dematerialized form. Margin requirements for advances against preference shares / nonconvertible debentures and bonds may be determined by banks themselves.
- (iii) **Lending policy:** Each bank should formulate with their Board of Directors, approval, a Loan Policy for grant of advances to individuals against shares / debentures / bonds keeping in view RBI guidelines. Banks should obtain a declaration from the borrower indicating the extent of loans availed of by him from other banks as input for credit evaluation. It would also be necessary to ensure that such accommodation from different banks is not obtained against shares of a single company or a group of companies. As a prudential measure, each bank may also consider laying down appropriate aggregate sub-limits of such advances.

257. Advances to Share and Stock Brokers/ Commodity Brokers

- (i) Banks and their subsidiaries are not permitted to finance 'Badla' transactions. Share and stock brokers/commodity brokers may 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 should be made taking into account the financial position of the borrower, operations on his 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 his business operations. Large scale investment in shares and debentures on own account by stock and share brokers with bank finance, should not be encouraged. The securities lodged as collateral should be easily marketable. The ceiling of Rupees ten lakhs / Rupees twenty lakhs for advances against shares/debentures to individuals will not be applicable in the case of share and stock brokers / commodity brokers and the advances would be need based. Banks can grant advances only to SEBI registered share and stock brokers complying with capital adequacy norms prescribed by SEBI / Stock Exchanges. This would be towards 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 should be made taking into account the borrower's financial position, operations on his own account and on behalf of clients, income earned, average turnover period of stocks and shares and the extent to which broker's funds are required to be involved in business operations. Banks may also grant working capital facilities to such stock brokers to meet cash flow gap between delivery and payment for DVP transactions undertaken on behalf of institutional clients viz. FIs, FII, mutual funds and banks, duration of such a facility will be short and based on an assessment of financing requirements keeping in view cash flow gaps, the broker's funds required to be deployed for the transaction and overall financial position of the broker. Utilization has to be monitored based on individual transactions.

Banks may institute adequate safeguards and monitoring mechanisms. A uniform margin of 50 per cent is required to be applied on all advances/ financing of IPOs/ issue of guarantees on behalf of share and stockbrokers. A minimum cash margin of 25 per cent (within the 50% margin) shall be maintained in respect of guarantees issued by banks for capital market operations. The above minimum margin will also apply to guarantees issued by banks on behalf of commodity brokers in favour of commodity exchanges viz. National Commodity and Derivatives Exchange (NCDEX), Multi Commodity Exchange of India Ltd. (MCX) and National Multi Commodity Exchange of India Ltd. (NMCEIL), in lieu of margin requirements as per commodity exchange regulations. These margin requirements will also be applicable in respect of bank finance to stock brokers by way of temporary overdrafts for DVP transactions. Banks may issue guarantees on behalf of share and stock brokers/commodity brokers in favour of stock exchanges in lieu of security deposit to the extent it is acceptable in form of bank guarantee

as laid down by stock exchanges. Banks may also issue guarantees in lieu of margin requirements as per stock exchange regulations.

- (ii) The requirement relating to transfer of shares in bank's name in respect of shares held in physical form mentioned at Sl. No. (ix) of Paragraph 2.3.1.14 of Master Circular on Loans and Advances would not apply in respect of advances granted to share and stock brokers provided such shares are held as security for a period not exceeding nine months. In case of dematerialised shares, the depository system provides a facility for pledging and banks may avail this facility. In such cases, there will not be a need to transfer the shares in the bank's name irrespective of the period of holding. The share and stock brokers are free to substitute shares pledged by them as and when necessary. In case of a default in the account, the bank should exercise the option to get the shares transferred in its name.

Bank finance for market makers

258. Necessary guidelines for the same as stated in the Master Circular to be noted wherever applicable cases exist in the Branch.

Financing of Initial Public Offerings (IPOs)

259. Banks should ensure that no advances exceed Rs. 10 lakhs to any individual against security of shares, convertible bonds, convertible debentures, units of equity oriented mutual funds and PSU bonds for subscribing to IPOs. Banks should not extend any credit or financing to Corporates for investment in other companies' IPOs and to NBFCs for further lending to individuals for IPOs.

260. Bank Finance to assist employees to buy shares of their own companies

- (i) Banks may 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 to the extent of 90 per cent of the purchase price of the shares or Rs. 20 Lakhs, whichever is less. Banks are not allowed to extend advances including advances to their employees/ Employees' Trusts set up by them for purposes of purchasing their own banks' share under ESOPs/IPOs or from the secondary market irrespective of whether the advances are secured or unsecured. Follow-on Public Offers (FPOs) will also be included under IPO.
- (ii) Banks should obtain declaration from the borrower indicating details of loan/advances availed against shares and other securities specified above, from any other bank/s to ensure compliance with the prescribed ceilings.

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

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- (i) 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 except for secured loans granted towards working capital or for other productive purposes other than NBFCs. In such cases, Banks should accept shares only in dematerialised form. Banks may accept shares of promoters only in dematerialized form wherever demat facility is available.
- (ii) Banks may obtain collateral security of shares and debentures by way of margin for a temporary period of one year from borrowers other than NBFCs in the course of setting up of new projects or expansion of existing business or for purposes of raising additional working capital. Banks have to satisfy themselves regarding the capacity of the borrower to raise the required funds and to repay the advance within the stipulated period.

Bank Loans for Financing Promoters Contribution

262. The promoters' contribution towards the equity capital of a company should come from their own resources and bank's should not normally grant advances to take up shares of other companies. However, banks are permitted to extend loans to corporate against security of shares (as far as possible in dematerialised form) held by them to meet promoters' contribution to equity of new companies in anticipation of raising resources subject to terms and conditions detailed in the loan policy of the bank, in addition to general guidelines given in para 2.3.1.14 of the Master Circular no. RBI/DOR/2025-26/154 DOR.CRE.REC.73/07-01-001/2025-26 dated November 28, 2025 Reserve Bank of India (Commercial Banks – Credit Facilities) Directions, 2025.

- i) Margin and loan repayment period may be determined by the banks.
- ii) Loans sanctioned to a corporate against security of shares (as far as possible, demat shares) for meeting promoters' contribution to the equity of new companies in anticipation of raising resources, should be treated as bank's investments in shares coming under the ceiling of 40 percent of the bank's net worth as on March 31 of the previous year prescribed for the bank's total exposure including both fund and non-fund based exposure to capital market in all forms. These loans will be subject to individual/group of borrowers exposure norms and statutory limit on shareholding in companies, detailed in Master Circular no. RBI/2015-16/70 DBR.No.Dir.BC.12/13.03.00/2015-16 dated July 1, 2015 on Exposure Norms.
- iii) Banks may extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment, in terms of a

Board approved policy, duly incorporated in the bank's loan policy. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. The finance would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

- iv) Restriction on grant of bank advances for financing promoters' contribution towards equity capital would also extend to bank finance to activities related to acquisitions like payment of non-compete fee, etc. These restrictions would also apply to bank finance to such activities by overseas branches / subsidiaries of Indian banks.
- v) With the approval of the Board of Directors, banks should formulate internal guidelines with appropriate safeguards for this purpose.
- vi) Under refinance scheme of Export-Import Bank of India, banks may sanction term loans on merits to eligible Indian promoters for acquisition of equity in overseas joint ventures / wholly owned subsidiaries, provided the term loans are approved by EXIM Bank for refinance.

Advances against Units of Mutual Funds

263. While granting advances against units of mutual funds, banks should adhere to the following guidelines:

- i) Units should be listed in Stock Exchanges or repurchase facility for the Units of mutual fund should be available at the time of lending.
- ii) Units should have completed the minimum lock-in-period stipulated in the relevant scheme.
- iii) Amount of advance should be linked to the Net Asset Value (NAV) / repurchase price or market value, whichever is less and not to face value.
- iv) Advance against units of mutual funds (except units of exclusively debt oriented funds) would attract quantum and margin requirements as applicable to advance against shares and debentures. However, the quantum and margin requirement for loans/ advances to individuals against units of exclusively debt-oriented mutual funds may be decided by individual banks themselves in accordance with their loan policy.
- v) Advances should be purpose oriented, taking into account the credit requirement of the investor. Advances should not be granted for subscribing to or boosting up the sales of another scheme of mutual funds or for purchase of shares/ debentures/ bonds etc.

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264. For exposure norms w.r.t. advances against units of Mutual Funds, refer Para 4.6 of the Master Circular No. RBI/2015-16/70 DBR.No.Dir.BC.12/ 13.03.00/2015-16 dated July 1, 2015 on "Exposure Norms".

Margin Trading

265. Banks may extend finance to stockbrokers for margin trading. The Board of each bank should formulate detailed guidelines for lending for margin trading, subject to the following parameters:

- (a) Finance extended for margin trading should be within the overall ceiling of 40 per cent of net worth prescribed for capital market exposure.
- (b) Minimum margin of 50 per cent to be maintained on the funds lent for margin trading.
- (c) Shares purchased with margin trading to be in dematerialised mode under pledge to the lending bank. Bank to put in place an appropriate system for monitoring and maintaining the margin of 50 per cent on an ongoing basis.
- (d) Bank's Board should 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.

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

Financing for Acquisition of Equity in Overseas Companies

267. Banks may extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment, in terms of a Board approved policy, duly incorporated in the bank's loan policy. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. While the Board may frame its own guidelines and safeguards for such lending, such acquisition(s) should be beneficial to the company and the country. The finance would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

Refinance Scheme of Export Import Bank of India

268. Under the refinance scheme of Export Import Bank of India (EXIM Bank), banks may sanction term loans on merits to eligible Indian promoters for

acquisition of equity in overseas joint ventures / wholly owned subsidiaries, provided that term loans are approved by the EXIM Bank for refinance.

Arbitrage Operations

269. Banks should not undertake arbitrage operations themselves or extend credit facilities directly or indirectly to stockbrokers for arbitrage operations in Stock Exchanges. While banks are permitted to acquire shares from the secondary market, they should ensure that no sale transaction is undertaken without holding the shares in their investment accounts.

General guidelines applicable to advances against shares / debentures / bonds

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

271. While considering grant of advances against shares / debentures banks must follow normal procedures for sanction, appraisal and post sanction follow-up.

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

273. Banks should satisfy themselves about the marketability/ reliability of the shares / debentures and the net worth and working of the company whose shares / debentures / bonds are offered as security.

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

275. Banks should exercise particular care when advances are sought against large blocks of shares by a borrower or a group of borrowers. It should 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.

276. No advance shall be granted against partly paid shares.

277. No loans to be granted to partnership/ proprietorship concerns against primary security of shares and debentures.

278. Whenever the limit/limits of advances granted to a borrower exceed Rupees Ten lakhs, it should 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 should be taken into account.

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279. Where securities are held in dematerialised form, the requirement relating to transfer of shares in bank's name will not apply and banks may take their own decision in this regard.

280. Banks should, 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 get transferred in the bank's name immediately.

281. Banks may take their own decision in regard to exercise of voting rights and may prescribe procedures for this purpose.

282. Banks should ensure that the scrip lodged with them as security are not stolen / duplicate / fake / benami. Any irregularities coming to their notice should be reported immediately to the RBI.

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

284. Banks operating in India should 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 borrowers to make investments in shares and debentures / bonds of Indian companies.

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

Advances against Fixed Deposit Receipts issued by Other Banks

286. Instances have come to light where fake term deposit receipts, purported to have been issued by some banks, were used for obtaining advances from other banks. RBI has hence, advised banks to desist from sanctioning advances against FDRs, or other term deposits of other banks. Restrictions on advances against NR(E)RA and FCNR (B) Deposits - Quantum of loans.

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

Advances to Agents/Intermediaries Based on Consideration of Deposit Mobilisation

287. Banks should desist being part to unethical practices of raising of resources through agents/intermediaries to meet credit needs of existing/prospective borrowers or from granting loans to intermediaries, based on consideration of deposit mobilisation, who may not require funds for genuine business requirements.

Loans Against Certificate of Deposits (CDs)

288. Banks cannot grant loans against CDs. Banks are also not permitted to buy-back their own CDs before maturity. However, these restrictions on lending and buy back in respect of CDs held by mutual funds have been relaxed.

289. While granting such loans to mutual funds, banks should keep in view provisions of Paragraph 44(2) of the SEBI (Mutual Funds) Regulations, 1996. Further, such finance, if extended to equity-oriented mutual funds, will form part of banks' capital market exposure.

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

290. Banks are not permitted to grant any loan / advance for subscription to Indian Depository Receipts (IDRs). No loans/ advances can be granted against security / collateral of IDRs issued in India.

Bank Finance to Non-Banking Financial Companies (NBFCs)

291. RBI, vide Master Circular No. RBI/2023-24/09 DOR.CRE.REC.No.07/21.04.172/2023-24 on Bank Finance to Non-Banking Financial Companies (NBFCs) dated April 03, 2023 states:

- a) Ceiling on bank credit linked to Net Owned Fund (NOF) of NBFCs has been withdrawn in respect of all NBFCs statutorily registered with RBI and engaged in principal business of asset financing, loan, factoring and investment activities. Accordingly, banks may extend need based working capital facilities and term loans to all NBFCs registered with RBI and engaged in infrastructure financing, equipment leasing, hire-purchase, loan, factoring and investment activities.
- b) Banks may finance NBFCs against second hand assets financed by them.
- c) Banks may formulate suitable loan policy with the approval of their Boards of Directors within RBI prudential guidelines and exposure norms to extend various kinds of credit facilities to NBFCs subject to the condition that the activities as indicated in the Master Circular are not financed by them.

292. In terms of RBI Master Direction on "Exemptions from the provisions of

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RBI Act, 1934” dated August 25, 2016 (Updated as on April 01, 2022), few categories of non-banking financial companies are exempted from certain provisions of the Reserve Bank of India Act, 1934 (the RBI Act, 1934), including the need for registration with the Reserve Bank. For such NBFCs not needing registration with the RBI, banks may take their 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.

293. Banks are prohibited from providing credit for the following NBFC activities:

- (i) Bills discounted/rediscounted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from sale of –
 - (a) commercial vehicles (including light commercial vehicles), and
 - (b) two-wheeler and three-wheeler vehicles, subject to following conditions:
 - bills should have been drawn by the manufacturers on dealers only.
 - bills should represent genuine sale transactions as may be ascertained from the chassis/engine numbers.
 - before rediscounting the bills, banks should satisfy themselves about the *bona fides* and track record of the NBFCs discounting the bills.
- (ii) Investments of NBFCs both of current and long term nature, in any company/entity by way of shares, debentures, etc. However, Stock Broking Companies may 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'.
- (iii) Unsecured loans/inter-corporate deposits by NBFCs to/in any company.
- (iv) All types of loans/advances by NBFCs to their subsidiaries, group companies/entities.
- (v) Finance to NBFCs for further lending to individuals for subscribing to Initial Public Offerings (IPOs) and for purchase of shares from secondary market.

Other Prohibition on Bank Finance to NBFCs

Bridge loans / interim finance to NBFCs

294. Banks should not grant bridge loans of any nature, or interim finance against capital / debenture issues and / or in 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 Non-Banking Financial Companies, i.e., equipment leasing and hire-purchase finance companies, loan and investment companies and also Residuary Non-Banking Companies (RNBCs).

295. Banks should 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, 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 surplus generated by use of the asset(s).

Advances against collateral security of shares to NBFCs

296. Shares and debentures cannot be accepted as collateral securities for secured loans granted to NBFCs borrowers for any purpose.

Restriction on Guarantees for placement of funds with NBFCs

297. Banks should not execute guarantees covering inter-company deposits / loans thereby guaranteeing refund of deposits / loans accepted by NBFCs / firms from other NBFCs / firms. The restriction would cover all types of deposits / loans irrespective of their source, including deposits / loans received by NBFCs from trusts and other institutions. Guarantees should not be issued for purposes of indirectly enabling placement of deposits with NBFCs.

Bank Finance to Equipment Leasing Companies

298. Banks should not enter into lease agreements departmentally with equipment leasing companies as well as other Non-Banking Financial Companies engaged in equipment leasing.

Bank Finance to Factoring Companies

299. Necessary guidelines given in the master circular should be noted in applicable cases if any in branches.

Restrictions regarding investments made by banks in securities/ instruments issued by NBFCs

300. Banks should not invest in Zero Coupon Bonds (ZCBs) issued by NBFCs unless the issuer NBFC builds up sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).

301. Banks are permitted to invest in Non-Convertible Debentures (NCDs) with original or initial maturity up to one year issued by NBFCs. While investing in such instruments banks should be guided by the extant prudential guidelines in force, ensure that the issuer has disclosed the purpose for which the NCDs are being issued in the disclosure document and such purposes are eligible for bank finance.

Advances Against NR(E) and FCNR(B) Deposits

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

Advances Against Bullion/Primary Gold

303. Banks are prohibited from granting any advance against bullion/ primary gold. However, specially minted gold coins sold by banks are not treated as “bullion” or “primary gold” and hence are acceptable as security upto 50 gms per customer. Such loans may be covered under the policy framed by the bank’s Board, in terms of Para 2.3.10 of Master Circular- Loans and Advances – Statutory and Other Restrictions. Where advances have been granted against gold coins it should be ensured that end use of funds is for approved, non-speculative purposes. Banks should desist from granting advances to silver bullion dealers which are likely to be utilised for speculative purposes.

Loans for Acquisition of KVPs

304. Banks should ensure that no loans are sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.

Advances against Gold Ornaments and Jewellery

305. RBI vide Master Circular No. RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015 on “Loans and Advances – Statutory and Other Restrictions” states that hallmarking of gold jewellery ensures quality of gold used in the jewellery as to carat fineness and purity. Hence, granting of advances against security of such hallmarked jewellery is safer and easier. Preferential treatment is given to loans against hallmarked jewellery as it is also in the long-term interest of consumer, lenders and industry. Based on gold purity and content, bank decides on margin and rates of interest.

Loan to Value Ratio for Loan against Gold Ornaments and Jewellery

306. RBI vide Master Circular No. RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015 on “Loans and Advances – Statutory and Other Restrictions” provides that 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. The RBI issued Circular DoR.No.BP.BC/6/21.04.048/ 2020-21 dated August 06, 2020 on “Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses”, wherein the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes was increased from 75 per cent to 90 per cent, to enable the borrowers to tide over their temporary liquidity mismatches on account of COVID 19. The said enhanced

LTV is applicable upto March 31, 2021 and fresh loans which are sanctioned subsequently, i.e., from April 01, 2021 onwards shall attract LTV ratio of 75 per cent.

307. 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 Jewelers Association Ltd. [Formerly known as the Bombay Bullion Association Ltd. (BBA)]. If the gold is of purity less than 22 carats, bank should translate the collateral into 22 carat and value the exact grams of the collateral.

308. Loans extended against pledge of gold ornaments and jewellery other than for agricultural purposes, where both interest and principal are due for payment at maturity of the loan will be subject to following conditions:

- (i) Banks, as per their Board approved policy, may decide upon the ceiling with regard to the quantum of loan that may be granted against pledge of gold jewellery and ornaments for non-agricultural end uses.
- (ii) Period of the loan shall not exceed 12 months from sanction date.
- (iii) Interest will be charged at monthly rests and recognized on accrual basis if the account is a 'standard' account. This will also apply to existing loans.
- (iv) Such loans shall also be governed by other extant norms pertaining to income recognition, asset classification and provisioning which shall be applicable once the principal and interest become overdue.

Gold (Metal) Loans

A. General provisions for extending GML

309. 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.

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- (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 32 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)

310. 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.

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(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 34 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

311. 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.

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.

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

312. 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.

313. 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 / cooperative banks / non-authorised banks.

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

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

316. 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.

Loans and advances to Micro and Small Enterprises (MSEs)

317. RBI has issued Master Directions on Lending to Micro, Small and Medium Enterprises (MSME) sector vide Master Directions no. FIDD.MSME and NFS.12/06.02.31/2017-18 dated July 24, 2017 (Updated as on July 29, 2022), in which definition of MSME and common guidelines/instructions for lending to MSME section are given.

Working Capital Finance to Information Technology and Software Industry

318. Following the recommendations of the “National Taskforce on Information Technology and Software Development”, the RBI has framed guidelines for extending working capital to the said industry. Banks are free to modify the

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guidelines based on their own experience without reference to the RBI to achieve the purpose of the guidelines in letter and spirit.

319. Salient features of these guidelines are as under:

- (i) Banks may consider sanction of working capital limits based on track record of the promoter's group affiliation, composition of the management team, their work experience and infrastructure.
- (ii) For borrowers with working capital limits of up to Rs. 2 crore, assessment may be made at 20 per cent of the projected turnover. In other cases, banks may consider assessment of MPBF based on monthly cash budget system. For borrowers enjoying working capital limits of Rs. 10 crore and above from the banking system, guidelines regarding the loan system would be applicable.
- (iii) Banks may obtain collateral security wherever available. First/ second charge on current assets, if available, may be obtained.
- (iv) Rate of interest as prescribed for general category of borrowers may be levied. Concessional rate of interest as applicable to pre-shipment/post-shipment credit may be levied.
- (v) Banks may evolve tailor-made follow up system for such advances. Banks could obtain quarterly statements of cash flows to monitor operations. In case the sanction was not made based on cash budgets, they can devise a reporting system, deemed fit.

Guidelines for bank finance for PSU disinvestments of Government of India

320. In terms of RBI Circular DBOD No. Dir.BC.90/13.07.05/98 dated August 28, 1998, the promoters' contribution towards equity capital of a company should come from their own resources and bank should not normally grant advances to take up shares of other companies.

321. Banks should ensure 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 investment.

322. The instructions of the 1998 circular would not apply in the case of bank finance to the successful bidders under the PSU disinvestment program of the Government, subject to the following:

- Banks' proposals for financing the successful bidders in PSU disinvestment programme should be approved by their Board of Directors.

- Bank finance should be for acquisition of shares of PSU under a disinvestment programme approved by Government of India, including the secondary stage mandatory open offer, wherever applicable and not for subsequent acquisition of PSU shares. Bank finance should be made available only for prospective disinvestments by Government of India.
- Companies, including promoters, to which bank finance is to be extended, should have adequate net worth and an excellent track record of servicing loans availed from the banking system.
- Amount of bank finance provided should be reasonable with reference to the banks' size, its net worth, business and risk profile.

323. In case the advances against PSU disinvestment is secured by shares of the disinvested PSUs or any other shares, banks should follow RBI's extant guidelines on capital market exposures on margin, ceiling on overall exposure to the capital market, risk management and internal control systems, surveillance and monitoring by the Audit Committee of the Board, valuation and disclosure, etc. In this regard, banks may be guided by the Master Circular no. RBI /2015-16/70 DBR.No.Dir.BC.12 /13.03.00/2015-16 dated July 1, 2015 on "Exposure Norms".

Stipulation of lock-in period for shares

324. Banks may extend finance to the successful bidders even though the shares of the disinvested company acquired/ to be acquired by the successful bidder are subjected to a lock-in period/ other such restrictions which affect their liquidity, subject to fulfilment of following conditions:

- (a) Documentation between Government of India and the successful bidder should contain a specific provision permitting the pledgee to liquidate the shares during lock-in period that may be prescribed in respect of such disinvestments, in case of shortfall in margin requirements or default by the borrower.
- (b) If the documentation does not contain such a specific provision, the borrower (successful bidder) should obtain waiver from the Government for disposal of shares acquired under PSU disinvestment program during the lock-in period.

325. As per the terms and conditions of PSU disinvestments by Government of India, the pledgee bank will not be allowed to invoke the pledge during the first year of lock-in period. During the second and third year of the lock-in period, in case of inability of the borrower to restore the margin prescribed for the purpose by way of additional security or non-performance of the payment obligations as per the repayment schedule agreed upon between the bank and the borrower, the bank would have the right to invoke the pledge. The pledgee bank's right to invoke

the pledge during the second and third years of the lock-in period, would be subject to documentation terms and conditions between Government and the successful bidder, which cast certain responsibilities on the pledgee banks.

326. The RBI has clarified that the concerned bank must make a proper appraisal and exercise due caution about credit worthiness of the borrower and the financial viability of the proposal. The bank must satisfy itself that the proposed documentation, relating to the disposal of shares pledged with the bank, are fully acceptable and do not involve unacceptable risks.

327. In terms of IECD Circular No. 10/ 08.12.01/ 2000- 2001 dated 8th January 2001, banks are precluded from financing investments of NBFCs in other companies and inter-corporate loans / deposits to/ in other companies.

328. Special Purpose Vehicles (SPVs) which comply with the following conditions would not be treated as investment companies and hence not as NBFCs:

- a) They function as holding companies, special purpose vehicles, etc., with not less than 90 per cent of their total assets as investment in securities held for the purpose of holding ownership stake.
- b) They do not trade in these securities except for block sale.
- c) They do not undertake any other financial activities.
- d) They do not hold/accept public deposits.

Credit Facilities to Real Estate Sector

A. Loans and advances to Real Estate Sector

329. 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

330. 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

331. 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

332. 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 maybe 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.

333. 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

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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

334. 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.

335. 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.

336. 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

337. 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

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

B.5.1. Financing of Land Acquisition

339. 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 apart 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.

340. 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 (Commercial banks - Credit Risk Management), Directions, 2025.

341. 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

342. 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 XIV of these Directions.

B.5.3. Lending to Housing Boards and Other Agencies

343. 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

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

345. 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.

346. 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.

347. 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.

348. 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

349. 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.

350. 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.

351. Lending to housing intermediary agencies shall be subject to the instructions on Commercial Real Estate exposure, as outlined in paragraphs 125 to 133 of these Directions.

B.6 Quantum of Loan

352. 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

Provided that

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CRE-RH has been defined at paragraph

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	≤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

353. 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

354. 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

355. 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.

356. 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.

357. 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.

358. 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.

359. 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

360. 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.

Approvals from Statutory / Regulatory Authorities:

361. 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.

Housing Loans Under Priority Sector

362. 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.

National Building Code (NBC)

363. 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.

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

365. 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 (Commercial Banks – Responsible Business Conduct) Directions, 2025

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

366. 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.

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(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.

367. 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 (Commercial 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

368. 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.

369. 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 (Commercial 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.

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

371. 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) Exposures which shall not be classified as CRE

(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

372. 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.

373. 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 (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025 and Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 respectively.

374. The bank's exposures to third dwelling unit onwards to an individual will also be treated as CRE exposures, as indicated in paragraph 130(1)(ii) of these Directions.

Retail loans

375. Banks generally provide various retail advances namely:

- Home loans and loans against property.
- Vehicle loans.
- Personal loans.
- Consumer durable loans.
- Credit cards
- Microfinance loans.

376. Loans are either sourced through direct selling agents or bank's own branches. Banks have a credit policy which defines process to be followed for sanction and disbursement of loan and various documents required.

377. The credit assessment process is not as detailed and followed in corporate loans. Bank generally collects following documents:

- Completely filled loan application form with customers' signature.

- Income proof like salary slip, financial statement, Income tax returns, Bank statement.
- Photograph.
- Business continuity proof (e.g. Shops and Establishment Act, any other govt. certificate for doing business).
- Residence proof.
- Identification proof.
- Contact point – Mobile No. of applicants is mandatory.
- Age proof.
- PAN Card.

378. Banks generally have a system in which various information collected are keyed into the system and the system automatically runs a credit filter report. The credit Filter report is based on pre-defined criteria as per credit policy like minimum income criteria, Aadhaar, employment details, age, telephone etc. and the score is system generated.

379. As a part of loan sanction process, bank runs CIBIL score and only if CIBIL score is above a specific number, the bank considers further sanction. Bank also conducts field investigations on the proposed customer which generally involve residential and office visits. Few banks also have a process of Fraud Containment Unit (FCU) screening of selected sample files. At the FCU, an official screens through the genuineness and authenticity of the documents for traces of fraud.

380. Post the above verification by FCU, the bank also initiates a Positive De dupe check for positive database, wherein if the customer is an existing customer of the bank, the system gets the popup of such links on his screen.

381. The credit officer initiates a negative de dupe check on the negative database through system, Negative De dupe check is against RBI defaulters list, Terrorist list and declined applications. Such list is uploaded in the system by the bank's central team. If the customer is traced under such negative listing then loan application is rejected by the credit officer. Once, all the processes are completed and based on favorable results, bank sanctions the loan.

382. With respect to microfinance loans, the auditor shall ensure the bank's compliance with RBI Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 as updated as well as MFIN guidelines as applicable. Apart from others, the auditor may specifically review the bank's assessment of the household income, Limit on Loan Repayment

Obligations of a Household as well as pricing of such loans and highlight any discrepancies as per its professional judgments.

383. In order to enhance transparency and reduce information asymmetry on financial products being offered by different regulated entities and thereby empowering borrowers for making an informed financial decision, RBI issued circular on Key Facts Statement (KFS) for Loans & Advances on 15 April 2024. The instructions in this circular shall be applicable in cases of all retail and MSME term loan products extended by all regulated entities (REs). Accordingly, while reviewing retail and MSME loans, the auditor is required to verify whether the bank has adhered to instructions given in the aforementioned circular and validate the mathematical accuracy of the APR computation.

Infrastructure Financing

A. Criteria for Financing

384. 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

385. 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.

386. 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.

387. 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.

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(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.

388. Lending to InvITs

The bank shall lend to InvITs subject to the following conditions:

(1) A bank shall put in place a Board approved policy on exposures to InvITs which shall *inter alia* cover the appraisal mechanism, sanctioning conditions, internal limits, monitoring mechanism, etc.

(2) Without prejudice to generality, a bank shall undertake assessment of all critical parameters including sufficiency of cash flows at InvIT level to ensure timely debt servicing. The overall leverage of the InvITs and the underlying SPVs put together shall be within the permissible leverage as per the Board approved policy of the bank. A bank shall also monitor performance of the underlying SPVs on an ongoing basis as ability of the InvITs to meet their debt obligation will largely depend on the performance of these SPVs. As InvITs are trusts, a bank shall keep in mind the legal provisions in respect of these entities especially those regarding enforcement of security.

(3) A bank shall lend to only those InvITs where none of the underlying SPVs, which have existing bank loans, is facing 'financial difficulty' as defined in the Reserve Bank of India (Commercial Banks–Resolution of Stressed Assets) Directions, 2025.

(4) Bank finance to InvITs for acquiring equity of other entities shall be subject to the conditions given in paragraph 137.

(5) The Audit Committee of the Board of the bank shall review the compliance to the above conditions on a half yearly basis.

C. Appraisal

389. 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.

390. 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

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

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

393. 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.

394. 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.

Project Finance

395. 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.

396. 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 the guidelines under the Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Directions, 2025.

A. Phases of Projects

397. 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

398. 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.

399. For all projects financed by the 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.

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

401. In under-construction projects where the aggregate exposure of the lenders is upto ₹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 (Commercial 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 (Commercial Banks–Transfer and Distribution of Credit Risk) Directions, 2025), provided the share of individual bank is in adherence to the above limits.

402. 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.

403. 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

404. 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

405. 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 XVI of these Directions.

406. 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.

407. The 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.

408. 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 (Commercial banks - Income Recognition, Asset Classification and Provisioning) Directions, 2025.

D. Other Provisions

409. 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.

410. The 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 three months of the effective date.

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

Framework for Compromise Settlements and Technical Write - Offs

412. The auditors shall verify the bank's compliance with respect to RBI framework for Compromise Settlements and Technical Write-offs dated 8 June 2023 specifically with respect to adherence to Para 7, 8, 10, 11 and 12 of the said framework.

Microfinance

A. Definition of Microfinance

413. 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.

414. 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

415. 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

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may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

416. 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.

417. 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

418. 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.

419. 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.

420. 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.

421. 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

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

423. The bank providing microfinance loans shall refer to: (1) Reserve Bank of

India (Commercial Banks – Interest Rates on Advances) Directions, 2025 for pricing of loans.

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

Bank Finance to Government owned entities

424. While extending finance to Government owned entities, banks shall specifically ensure adherence with paragraphs 96, 134, 138 and 450 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.

Bridge Loans against Receivable from Government

425. 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.

System of Base Rate and Interest Rate/Marginal Cost of Funds based Lending Rate (MCLR)

426. The RBI *vide* Master Direction no. RBI/DBR/2025-26/161 DBR.CRE.REC.80/13.03.000/ 2025-26 dated November 28, 2025 on “Reserve Bank of India (Interest Rate on Advances) Directions, 2025” has required banks to freely determine lending rates on the advances as per their Board approved

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policy subject to the guidelines contained in the circular. The Base Rate system was operational between July 1, 2010 and March 31, 2016 aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy.

- All floating rate rupee loans sanctioned and credit limits renewed w.e.f. April 1, 2016 will be priced with reference to Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark for such purposes. The Auditor should verify whether new loans sanctioned and credit limits renewed post April 1, 2016 are under the new MCLR regime.
- MCLR will comprise of marginal cost of funds, negative carry on account of CRR, Operating costs and Tenor premium.
- All new floating rate personal or retail loans and floating rate loans extended by banks to Micro and Small Enterprises from October 01, 2019 and floating rate loans to Medium Enterprises from April 01, 2020 shall be benchmarked to one of the following:
 - RBI policy repo rate
 - GOI 3 months Treasury bill yields published by FBIL
 - GOI 6 months Treasury bill yields published by the FBIL
 - Any other benchmark market interest rate published by the FBIL.
- Banks may offer such external benchmarked loans to other types of borrowers as well.
- Banks to adopt uniform external benchmark within a loan category.

427. Spread

- (i) Banks should have a Board approved policy delineating components of spread charged to a customer. Price differentiation should be consistent with bank's credit pricing policy.
- (ii) Bank's internal pricing policy must spell the rationale for, and range of, the spread in case of a given category of borrower, as also, delegation of powers in respect of loan pricing. Rationale of the policy should be available for supervisory review.
- (iii) The spread charged to an existing borrower should not be increased except on account of deterioration in the credit risk profile of the customer or change in the tenor premium. Any such decision regarding change in spread on account of change in credit risk profile should be supported by a full-fledged risk profile review of the customer. Change in tenor premium

should not be 'borrower specific' or 'loan class specific' and should be uniform for all types of loans for a given residual tenor.

- (iv) Guidelines contained in sub-paragraph (iii) above are not applicable to loans under consortium/ multiple banking arrangements.

Accounting and Auditing Aspects

Balance Sheet Disclosure

428. The Third Schedule to the Banking Regulation Act, 1949 requires classification of advances made by a bank from three different angles, viz., nature of advance, nature and extent of security, and place of making advance (i.e., whether in India or outside India). Accordingly, advances are classified in Schedule 9 to the balance sheet as follows:

- A. (i) Bills purchased and discounted
- (ii) Cash Credits, Overdrafts and Loans repayable on demand
- (iii) Term loans
- B. (i) Secured by tangible assets
- (ii) Covered by bank/government guarantees
- (iii) Unsecured
- C. I. Advances in India
 - (i) Priority sectors
 - (ii) Public sector
 - (iii) Banks
 - (iv) Others
- II. Advances outside India
 - (i) Due from banks
 - (ii) Due from others
 - (iii) Bills purchased and discounted
 - (iv) Syndicated loans
 - (v) Others

Classification Based on Nature of Advance

429. Different classifications are as follows:

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- (a) In classification under section 'A', all outstandings – in India as well as outside India – less provisions made, will be classified under three heads.
- (b) Outstandings in credit card operations should be shown as part of advances under the head 'cash credits, overdrafts and loans repayable on demand'.
- (c) Term loans will be loans not repayable on demand and would include overdue instalments.
- (d) All interest bearing loans and advances granted by the bank to its employees should be shown as part of advances.

Classification Based on Nature and Extent of Security

430. Different classifications are as follows:

- (a) All advances or part of advances, which are secured by tangible assets, whether in India or outside India, should be shown under the heading 'Secured by tangible assets'. Advances against book debts may be included under the head 'Secured by Tangible Assets', and presented in Schedule 9 (Advances) as follows:
"B Secured by Tangible Assets" (includes advances against book debt).
- (b) Advances in India and outside India to the extent they are covered by guarantees of Indian and foreign governments and Indian and foreign banks and DICGC and ECGC are to be included under the head 'advances – covered by bank/government guarantees'.
- (c) Unsecured advances will include advances not classified under (i) & (ii) of section B.

431. Classification based on Place of Making Advances

- a) Advances to sectors, classified as priority sectors according to the instructions of the RBI, are to be classified under the head 'priority sectors'. Such advances should be excluded from, 'Advances to Public Sector'.
- b) Advances to Central and State Governments and other Government undertakings including government companies and corporations which are, according to the statutes, to be treated as public sector companies, are to be included in the category 'Public Sector'.
- c) All advances to the banking sector including co-operative banks will come under the head 'Banks'.
- d) All remaining advances will be included under the residual head 'Others';

typically this category will include non-priority advances to the private, joint and co-operative sectors.

Consideration of Drawing Power/Limits in respect of stocks hypothecated

432. In respect of credit facilities against hypothecation of stocks (inventories) being the primary security, Bank's system of appraisal for determining the maximum permissible finance to borrowers and fixing of limits, *inter alia*, should take into consideration the level of sundry creditors. The sanction is expected to be in tune with the appraisal so made. While sanctioning such credit facility, the bank is expected to stipulate in the documents, that for computing the Drawing Power, the value of declared stocks is to be considered only net of the stipulated margin; and that declared stocks shall not cover the borrower's liability outstanding in form of sundry creditors for goods or covered by LCs/ guarantees/ co-acceptances or Buyer's Credit availed for procurement of material. The bank should also insist on such information from borrowers. In case of consortium accounts, drawing power calculation and allocation made by the Lead Bank is binding on all Member Banks.

433. The RBI has issued guidelines on treatment of unpaid stocks while arriving at the drawing power available in borrower accounts. The thrust of the guidelines is avoidance of double financing on unpaid stocks, if such stocks are taken as eligible for computation of drawing power.

434. The matter having been re-examined by RBI vide directive No. IEC.D.No.32/08.10.01/92-93 dated 28th April 1993, banks were advised as regards the treatment of unpaid stocks while arriving at the drawing power available in the borrower accounts, wherein the thrust is avoidance of the double finance on the unpaid stock, if such stocks are taken as eligible for computation of drawing power. Thus, it would be unrealistic to assume that the composition of the stock items, the level of stock held and the portion of unpaid stock considered at the time of appraisal would be static and should be presumed to be at the same level for subsequent period. For the said reason, the drawing power needs to be recomputed based on variations, not only in composition and level of stock but also in the unpaid portion of stocks before the stipulated margin is applied as per the sanction terms of working capital finance.

435. The Auditor should review the bank policy for any inherent weakness in the credit system, where the stringency in appraisal, is relaxed while sanctioning the advances, having consequential effect on monitoring and supervision, and may have effect on the classification status of the borrower, where the drawing power falls short of the outstanding.

436. Banks usually consider credit facilities by way of hypothecation of stocks and

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a charge on the sundry debtors. The Drawing Power is required to be computed net of the stipulated margin, based on and applied to the total eligible current assets comprising of:

- Net Value of Stock as stated above; and
- Net Value of Debtors (i.e., eligible Trade Debtors Less Bills Discounted with Bank). The bank usually prescribes conditions as to what comprise of “eligible trade debtors”, and stipulates the period for debts being considered as current and good on which the margin is computed.

437. For purposes of classification of advances, computation of drawing power based on realistic value of hypothecated stocks (net of unpaid for stocks, whether covered by Buyer's Credit, LCs/ Guarantees/ Co-acceptances or otherwise) and margin as stipulated, is vital, particularly in cases of default, and in border-line cases where health status of borrowers may be in question, to gauge slippages.

438. Due care is required to be exercised by the auditor in case of

- Documents retained in original at centralised offices where these are not available at the branches that are advised of drawing power limits; and
- consortium advances, where bank, not being the leader, gets related figures of drawing power from the leader bank, without related evidence of computation or appropriateness of drawing power.

439. The Auditor needs to look into this aspect to verify that there is no slippage of the account into NPA classification.

440. These days most of the banks have their 'advances' statements generated through the system. The Auditor should ensure that the fields which system copies from last year are the same and he should take extra care in relation with the date of NPA and date of becoming doubtful asset as these facts have great bearing on the provisioning. The auditor should obtain audit trail from the bank to verify whether there are any changes or not.

441. The RBI has issued guidelines on treatment of unpaid stocks while arriving at the drawing power available in borrower accounts. The thrust of the guidelines is avoidance of double financing on unpaid stocks, if such stocks are taken as eligible for computation of drawing power.

442. The Auditor should review the bank's policy for any inherent weakness in the credit system, where the stringency in appraisal, is relaxed while sanctioning the advances, having consequential effect on monitoring and supervision, and may have effect on the classification status of the borrower, where the drawing power falls short of the outstanding.

443. Banks usually consider credit facilities by way of hypothecation of stocks and a charge on the sundry debtors. The Drawing Power is required to be computed net of the stipulated margin, based on and applied to the total eligible current assets comprising of:

- Net Value of Stock as stated above; and
- Net Value of Debtors (i.e., eligible Trade Debtors Less Bills Discounted with Bank). The bank usually prescribes conditions as to what comprise of “eligible trade debtors”, and stipulates the period for debts being considered as current and good on which the margin is computed.

Non fund based facilities

444. Letter of credit: A Letter of Credit (LC) is a promise by a banker to honour the payments to be made by its customer (the buyer or importer) to the seller or exporter. This type of payment facility is generally used in international trade. In this type of facility, at the request of the buyer, his banker opens an LC, which is sent to the seller. Based on such LC, the seller despatches the goods and then sends the bills and other documents through his banker to the buyer’s banker, which has opened the LC, to make payment of the bill. The buyer then makes the payment and routes it through his banker to the seller’s banker. In case, the buyer fails to make the payment (also known as devolvement of LC), the buyer’s banker which has opened the LC is liable to make the payment to the seller. RBI has mandated banks not to discount bills drawn under LCs or otherwise for beneficiaries, who are not their regular clients.

445. Bank Guarantee: A bank guarantee is a written contract given by a bank on behalf of customer. By issuing this guarantee, a bank takes responsibility for payment of a sum of money in case, it is not paid by the customer on whose behalf the guarantee has been issued. In return, a bank gets some commission for issuing the guarantee. Anyone can apply for a bank guarantee, if his or her company has obligations towards a third party for which funds needs to be blocked in order to guarantee that his or her company fulfils its obligation (For example carrying out certain works, payment of debt, etc.) In case of any change or cancellation during the transaction process, the bank guarantee remains valid until the customer duly releases the bank from its liability. In the situations where customer fails to pay the money, the bank must pay the amount within 3 working days. This payment can also be refused by bank if the claim is found unlawful. Guarantees are of two types—financial guarantee, wherein the guarantor (the bank) promises to pay the stated amount to the beneficiary, if the person for whom the guarantee is given, fails to pay the same (also referred to as invoking the guarantee); in performance guarantee, the guarantor promises to pay the

beneficiary a stated sum of amount, if the person for whom the guarantee is given, fails to perform, as expected, in a given period of time. Banks are generally discouraged from issuing performance guarantees. Guarantee transaction usually comprises two independent but related components — one is the guarantee issued by the banker (of the buyer) to the beneficiary (i.e., seller) and the other is a counter guarantee given by the buyer to his banker, who has issued the guarantee.

446. Generally, guarantees should not be issued on behalf of customers, who do not enjoy credit facilities with the bank. Since guarantees invoked could get converted into funded advance to a borrower, banks should not encourage borrowers to over extend their commitments solely on the basis of guarantees. Guarantees could be for specific transaction (called specific guarantee) or it could be for multiple transactions within a specific time frame (called continuing guarantees). Guarantees should generally be for short durations; in any case, it should not have a maturity period of more than 10 years. Unsecured Guarantees to a particular borrower should generally not exceed 10 per cent of the total exposure. Banks should also not concentrate its unsecured guarantees to a particular borrower or a group. The Ghosh Committee has recommended certain precautions to be taken by banks while issuing guarantees. Guarantees are generally issued by keeping margins, either in the form of cash/term deposit or some other security. In case of guarantees issued on behalf of share and stock brokers, the RBI has advised that banks should obtain a minimum margin of 50 per cent (with 25 per cent being cash margin). RBI has laid restrictions on guarantees of inter-company deposits/loans and inter institutional guarantees. In the above mentioned circular, the RBI has also given extensive guidelines on issue of guarantees on behalf of exporters and importers.

447. *Co-Acceptance of Bills*: In this type of facility, the seller despatches the goods and raises the bill on the buyer. The buyer accepts the bill and then it is co-accepted by buyer's banker. The seller's banker then discounts this bill. This type of facility is often used by customers to float accommodation bills (i.e., bills which are not supported by genuine sale and purchase of goods) and hence auditors should be careful while examining such bills.

Procedure for Sanction, Documentation, Disbursement, and Supervision

448. Each bank has its own procedures for sanctioning, disbursal, documentation, supervision and renewal of advances. The procedures are stated in the Credit policy which is generally updated at annual intervals. The auditor should obtain the last updated credit policy and circulars issued post the credit policy. The Auditor should ensure that the credit policy is in sync with RBI

Master Circulars especially the one on “Loan and Advances – Statutory and Other Restrictions”.

Sanction

Loan Application

449. Initiation of process of sanction of advance is on receipt of a formal request from the applicant. The request may be in the form of a standard format (Loan Application Form) of the bank or in the form of a letter in which case the Bank requests the intending borrower to furnish the standard format duly filled in. All applications are entered in a “loan applications received register” (the exact nomenclature may vary from bank to bank). The required supporting documents are to be furnished along with the application. The Bank should ensure that the documents are obtained from respective borrowers as per the Loan policy of the Bank.

Credit Appraisal

450. The proposal is evaluated in the context of the directions of the RBI including prudential exposure limits and the bank’s own credit policy and risk management guidelines. The primary purpose is to ascertain the cash flows and the repayment capacity of the borrower to repay the loan within the stipulated timelines that would be prescribed. The proposal is mainly appraised to find the default risk or the possibility of the borrower not repaying the loan amount that would be sanctioned or disbursed, either in full or in part. This process entails conducting a detailed SWOT – (Strengths – Weakness – Opportunity Threat) analysis of the borrower. Besides, the proposal is appraised on the following parameters to ensure technical feasibility, economic viability and commercial acceptability (the degree of scrutiny depends largely on the amount of the advance):

- Performance of the unit *vis-a-vis* other similar units.
- Conduct of its accounts with the lenders.
- Experience, competence and profile of the management of the unit.
- Guarantees and collateral securities offered.
- Trend and ratio analysis to see that the unit’s growth is healthy, financials are sound, liquidity is comfortable and the promoters have a reasonable stake in the unit.
- Availability of inputs for production – right time and price.
- Market condition – fast changing tastes and preferences.

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- Technology in use – factoring in obsolescence in technology.
- Unit's capability to achieve the projected operating and performance levels and to service the debt.
- Applicability of norms/benchmarks relating to scale of finance, e.g., Nayak Committee recommendations for SSI units, scale of finance fixed by the bank for agricultural finance to be extended in the local area, etc.
- CIBIL, RBI List of defaulter, Credit and confidential reports from other banks. These are to be checked from respective websites.
- Various disclosure/notices issued by the government/government authorities such as with regard to shell companies, defunct companies, directors of these types of companies, etc.
- Latest Government Policy about particular industry / locational restriction, etc.
- In the current complex scenario both internally and externally – VUCA world as some describe it for an environment characterized by Volatility, Uncertainty, Complexity and Ambiguity, assessment of cash flows over longer term period is a challenge. The auditor should exercise greater diligence while reviewing the appraisal process for such long tenor advances.
- Diligence will be higher if the units are resorting to funding for the first time ever or with the bank. In case of existing facilities for renewal – review, there is a past performance or availability of data to base credit decisions. For new units, validating the projections or estimated will need deeper scrutiny.

451. Banks generally have a Turn Around Time (TAT) for disposing off loan applications – i.e., the time from receipt of loan application to its rejection or sanction. Causes for rejection also have to be noted in a Loan Rejection Register or similarly named Register. The cases of appraisals have to be within TAT. Deviations from TAT are monitored for process efficiency. Further, any deviations from the Bank's credit policy should be reviewed by professional skepticism and approvals sought for such deviations should be in accordance with the approved deviation matrix of the Bank.

Sanctioning Authority

452. If the official concerned finds the proposal acceptable, a detailed appraisal note is submitted along with necessary supporting documents with recommendations to the authority having powers to sanction it. Each official who has been vested with powers to sanction advances has a monetary ceiling up to

which he/she can sanction advances to the specified kind of borrowers (like individuals, partnerships, companies, etc.) and/or for the specified activities (like agriculture, industry, professional education, business, etc.) and / or for the type of facility (term loan, overdraft, cash credit, etc.). Such powers are properly documented and circulated by the bank to all its offices by way of delegation of powers. The officials at the branch can sanction only those advances, which fall within their delegated powers. For advances, which require to be sanctioned by higher authorities, the branch has to carry out the appraisal and send the proposal along with its recommendations to its controlling office for necessary sanction. As and when the advance is sanctioned by the competent authority (which could be an official, a committee of officials or the Board of Directors of the bank, depending on the amount involved), the fact of sanction along with detailed terms and conditions of the sanction are communicated by the controlling office to the branch.

453. The auditor should ensure that all issues noted in the credit appraisal process have been duly factored while preparing the Sanction Note and the sanction letter and no significant issue is missed out. Clarifications on any issues noted in the appraisal process should be duly documented. The Auditor has to ensure that the sanctioning is done within the powers of the competent authority. Any deviation noted will have to be reported appropriately. Further, the auditor should verify that any deviations sanctioned by the approving authority is in accordance with the deviation matrix approved by the Bank.

454. Processing fees as applicable should be collected as per the bank's policy before the disbursement. Banks have a practice of debiting Cash Credit accounts for processing fees. While this is in order for existing accounts, for new facilities sanctioned, the same should be collected separately up-front rather than being a part of disbursement.

Documentation and Disbursement

455. After the sanction of the advance, the branch communicates the terms and conditions of the sanction to the applicant and obtains its consent for the arrangement. Thereafter, the documents as prescribed by the bank are obtained, charges created and, the bank's charge over the unit's assets noted with the authorities concerned, e.g., Registrar of Companies, Road Transport Authority, Insurance Company, Land Records Authority, CERSAI, etc. In the case of an advance to a partnership firm, while the account is opened in the trade name of the firm, the security documents are got executed from the partners in both their individual capacity (i.e., without mentioning the name of the firm or affixing the stamp of the firm) and in their capacity as partners of the firm. This is to ensure that the advance may be recovered from the assets of the

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firm as well as from the individual assets of the partners. The bank generally records the sanction details and stipulation in the system. In many cases, the system is updated for pre-sanction, pre-disbursement documents for each loan. The document discrepancy report then acts as a check for documents received and pending for monitoring purposes.

456. After the above formalities have been completed, the advance is released in the following manner:

457. Term loans (granted generally for acquisition of fixed assets, etc.) are disbursed on the basis of quotations/ proforma invoices obtained by the borrower from the vendors and submitted to the bank either along with the application or later. In case of large projects, the schedule and status of completion of projects have also to be seen. Banks generally stipulate a stated percentage of the cost to be met by the borrower from his own funds. Once the borrower provides his contribution to the bank, the branch debits the Term Loan account with the balance amount and pays the amount to the vendor directly along with a letter stating the purpose of the funds. The term loan may be released in one or more instalments. As and when the asset is received by the borrower, the bank officials inspect it, record the particulars in their books, and obtain copies of the final invoices for their record from the borrower.

- There may be instances where, on business considerations, the borrower has already acquired the asset. In such a case, he submits the documentary evidence to the branch and seeks reimbursement to the extent permissible. The branch officials inspect the asset and verify the books of account of the borrower and, if satisfied, credit the eligible amount to the borrower's account (current / cash credit, as desired by the borrower) by debiting his term loan account.
- Cash credit advances are released on the basis of drawing power calculated as per the stock statements submitted by the borrower as per the periodicity laid down in the terms of sanction. The branch officials verify the stock statements and calculate the 'drawing power' based on the security held by the borrower and the margin prescribed in the sanction. In case of consortium accounts, the drawing power calculation and allocation is made by the Lead Bank and is binding on the Member Banks (Circular No. C&I/Circular/2014-15/689 dated 29 September 2014 issued by the Indian Banks Association). This 'drawing power' is noted in the system in respect of Cash Credit accounts and is a guide to the official concerned while authorising debits to the account.
- The procedures of many banks require the branch manager to periodically submit a certificate to the controlling authority (i.e., regional or zonal office)

that all disbursements during the relevant period have been made only after completion of the necessary formalities.

- Banks also require obtaining End-Use certificates from Chartered Accountant. Some banks have a format in which the same is to be issued. It should be ensured that certificates are issued in the prescribed format. In all other cases, it should be ensured that the certificate is as per the requirements of the ICAI guidelines on special purpose certification.
- Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) - The Auditor needs to keep abreast of the mandatory requirements related to registration of mortgages and compliance thereof by the lender bank, as applicable to the various forms of securities offered as security for the advances.
- The Auditor has to ensure that all sanction terms and conditions have been complied with. Pending sanction terms should be waived off by the appropriate sanctioning authority or a time frame, post disbursal for their obtention, be approved. In no case, the disbursal should take place without a formally approved waiver.
- Banks should maintain an updated tracker of all sanction terms still not complied with. If the due dates for their obtention are breached, causes for the same should be noted for closure.

Monitoring and Supervision

458. The primary purpose of monitoring and supervision is to ensure that there is no diversion or siphoning of funds. Any adverse feature has to be pro-actively tracked using technology to the fullest. RBI Master Direction No. RBI/DOS/2024-25/118 DOS.CO.FMG.SEC.No.5/23.04.001/2024-25 dated July 15, 2024 on "Master Directions on Fraud Risk Management in Commercial Banks (including Regional Rural Banks) and All India Financial Institutions" gives guidance on Early Warning Signals (EWS) which have to be followed up for possible Red Flagging.

459. Banks have to ensure that EWS are tracked through system, pro-actively so that early signs of liquidity problems are known and followed up with the borrower for possible re-structuring or rehabilitation to preserve the economic value of the account and avoid it to slip into a NPA.

460. The following are the procedures usually adopted by banks for monitoring and supervision of advances after disbursement:

- Regular inspection of the borrower's assets and books. The main purposes of inspection are as follows:

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- To ensure that the amounts disbursed have been utilised for purposes for which the advance was sought.
- To check that the borrower has not acquired / disposed of any asset without the consent / knowledge of the bank, depending upon the terms of the advance. Acquisition of fixed assets from working capital funds may amount to diversion of short-term funds which, from the viewpoint of the bankers, is not a sign of financial prudence.
- To cross-check the figures declared in the stock statements with the books maintained by the borrower (including excise and other statutory records, as applicable) as well as to physically verify the stock items, to the extent possible.
- To check that the unit has been working on projected levels particularly in the areas of sales and production and the general working of the unit is satisfactory.
- To ensure that the borrower has not availed of finance against stocks for which it has itself not made the payment.
- To ensure that the borrower has not availed of unauthorised finance from any other lender.
- To ensure that the borrower has not defaulted on payment of Statutory Liabilities.
- To ensure that the borrower has not made any investment in, or advances to, its associates without the bank's approval, if such approval is required as per the terms of the loan or otherwise diverted the funds.
- To check that there is a regular turnover of stocks and the unit does not carry any obsolete, unusable stocks. Generally, banks place a limit on the age of stocks which are eligible for bank finance; the items older than such limit are not financed. Similarly, in the case of book debts, debts outstanding beyond a specified period are also not eligible for bank finance. Also to check sundry creditors for goods.
- To ensure that the borrower continues to be engaged in the activity for which the loan has been granted.
- Periodic review of the progress in implementation of the project (to note whether project timelines given at the time of processing loan are being adhered to. If there are delays, it may hamper the project completion and may affect servicing of loan). Generally, in large and complex projects, banks appoint lead engineering agency to who provide the status of the project periodically.

- Review of the conduct of the account.
- Obtaining and scrutinising stock statements.
- Obtaining other relevant financial data periodically and analysis of the data. Banks obtain information at monthly / quarterly / half yearly / yearly intervals about on the levels of sales, production, profit, cash accruals, break up of assets and liabilities, cash flows etc. The analysis covers the following points:
 - Comparison of the data with the projections contained in the appraisal note to find out the deviations, the reasons thereof, and the corrective action to be taken, wherever necessary.
 - Comparison of the unit's performance, on an on-going basis, with other similar units.
 - Ratio analysis based on the provisional data submitted by the unit to find out the liquidity and solvency position and any diversion of short-term resources towards long term uses.

Observing the credits to the account

461. Whenever the above analysis indicates weaknesses in operations, or the need for additional documentation or security, a dialogue is held with the borrower, with consequent follow-up.

462. RBI, *vide* its Circular no. DBS.CO.PPD.BC.No. 5 /11.01.005/2010-11 dated January 14, 2011 on "End Use of Funds - Monitoring", has advised banks to evaluate and strengthen the efficacy of the existing machinery in the banks for post-sanction inspection by the bank officers, supervision and follow-up of advances. There needs to be a proper process of stock audit of the borrowers. Effective monitoring of the end use of funds lent is of critical importance in safeguarding a bank's interest. Further, this would also act as a deterrent for borrowers to misuse the credit facilities sanctioned, and in the process, help build a healthy credit culture in the Indian banking system.

Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair recovery of lenders – Framework for revitalisation of distressed assets

463. The RBI has issued guidelines for classification of standard assets into three sub-categories, *viz.*, SMA-0, SMA-1 and SMA2 in order to recognise the financial distress in any performing asset at an early stage, besides regulatory compliances like reporting to CRILC, etc. for specified categories of Special Mention Accounts (SMA). In case the bank does not follow the said regulatory compliances, such accounts are subjected to accelerated provisions.